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Management of Claims Practices and Financial Performance: Evidence from Nigerian Insurers' Firms

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Abstract
The aim of this research is to verify the effectiveness of claims management practices and financial performance on Nigerian insurance companies. All insurance companies are used as the study's population, while five (5) selected insurance companies are adopted as sample size. The use of simple random and ex-post facto adopted are used as a sampling and a research design technique respectively based on ready-made information gathered from the reports of insurers' financial statements for ten years. The reports are tested through the multivariable regression technique. The results of the study reveal that the non-dependent parameters (net claims incurred, net claims ratio, and underwriting expense ratio) have a directly significant association with the assets' return. The recommendations of the research are that the Nigerian insurance industry should effectively and efficiently investigate the potential genuine claims settlements from policyholders in order to appropriately settle the genuine claims as well as reduce underwriting expenses so that the positive improvement of performance of insurance organisation can be improved through the effectiveness and efficiency of cost reduction and control mechanisms. The risk management mechanism used in managing genuine claims should be prudently executed, which will not lead to poor claims settlements, in order to improve general public confidence and customer loyalty. The compulsory and association regulatory bodies should enforce strict compliance on risk management and corporate governance relating to the claims management practices of Nigerian insurance industry.

Keywords: Claims Management Practice, Insurance, Performance, Risk Management
JEL Classification Codes: O44, G52, L25, G32

1. Introduction

In an industrially competitive market, insurance as a risk management technique has directly and indirectly been benefitting the developing and developed countries around the world (International Association of Insurance Supervisors [IAIS], 2012), and the insurance companies' survival has strongly relied on their financial performance (Falade & Oyedokun, 2021). Optimally, gross domestic products are now vitally favourable to the insurance industry (Fadun, 2023). Also, frequent adverse occurrences affect the anticipated outcome, which reinforces the demand for the insurer's policy (Oladunni & Okonkwo, 2022).

The primary promises agreed are made between insurer and insured to genuinely compensate for future claims, if upfront premiums are adequately paid (Ogunlami, 2021) in order to put the existing purchasers, in the policy documents, back to their pre-loss and post-lost financial status on the basis of the fortuitous and accidental loss and damage suffered (Afolabi, 2018). Based on this, insurers' earning volatilities have been decreased by reinsurance companies because damage absorption has almost been transferred from the insurers books (IAIS, 2012). Apparently, the most highly endowed managers drive the technical affairs of risk management adequacy for service delivery, and specialized roles of the insurance industry (Sterling Assurance Limited, 2019).

In the insurance industry, claims management practices would be analysed through some genuine theories in order to firm up the risk sharing and transferring mechanisms (Oluwaleye, Shoyemi, & Edewusi, 2020). The management of claims is a yardstick to engage prospective and current customers in order to embrace customer relationship satisfaction and insightful business policies offered on insurance companies' sustainability and performance (Capgemini, 2011). Based on this, the study's specific aim is to investigate the relationship between management of claims practices and financial performance on Nigerian insurance companies through return on assets (ROA) and net claims incurred (NCI), net claims ratio (NCR) and underwriting expenses (UER) from their financial reports.

Many scholars and authors have analysed insurance companies' financial performance proxy in order to investigate different parameters or indicators that affect financial performance (Fadun, 2023; Oladunni & Okonkwo, 2022; Falade & Oyedokun, 2021; Ogunlami, 2021), in which the main restriction of profitability analytic thinking is the large discourse that cannot feature the worth of the enterprise's performance in order to create a performance component model. Based on this, the study is looking at the relevance of claims performance parameters on financial performance so that Incurred-claims but not received (IBNR) will not affect the return on assets. Also, claims incurred and underwriting expenses should be well-managed by the insurers so that return on assets would not be affected as a result of fraudulent claims payments and overloaded underwriting expenses. Likewise, the study is investigating on net claims incurred, net claims ratio and underwriting expenses affect the return on assets of insurance companies in Nigeria which this is different from previous researchers.

2. Literature Review

The major players in the insurance business have improved their performance through claims services handling, which ultimately addressed the key issues and insurers' reputations among clients through genuine claims on promise delivery as the main heart of the insurance contract (Association of Insurance Risk Managers and Commerce [AIRMIC], 2009).

2.1 Conceptual Review

According to Asokere and Nwankwo (2010); Krishman (2010) define claim based on the benefit payment received through the insurer on behalf of the insured as a demand made. Also, a claim is the demand for loss or damage benefits by seeking recovery from insurance companies by the insured (Khambita & Bagdi, 2020; Al-Tamimi & Mazroou, 2019). The claims processing involves the handling of major future claims in terms of loss procedure control, customer understanding, the rightly chosen business claims model, the development of naturally beneficial associations with other providers of services and gainful core advantages information (Ogunlami, 2021). The effective and efficient improvement in claims management is the leverage of a modern claim system in order to align the robust business intelligent document and management system contents (Santomero, 2019), in which the insurance companies are genuinely now recognized for the claims management processing (Ogunlami, 2021; Wetmore, 2019).

The modern system for managing claims is a component of genuine claims management, alongside the acquisition of skills and innovative technocratic knowledge by measuring, computing, as well as processing the large reoccurring payments (Michael, 2008). Also, claims management practice is significantly enhanced by insurance companies to promptly adopt the changing issues that align with the profound amenities of claims processing, along with the insurance company objectives for operational fees, customer delivery services and management of risk objectives (Krishn & Sunita, 2017). The performance drive stands as the effective claims management system that entitles precautions of loss reduction and prevention through reduction of risk presence and return of investment improvement (Fernandez, 2009). Likewise, (Baranoff, Sager and Shively (2009) argue that the optimal claims management system is the accurate assessment of reserves related to claims mechanisms through futuristic financial obligations and long and short liabilities for insurance companies.

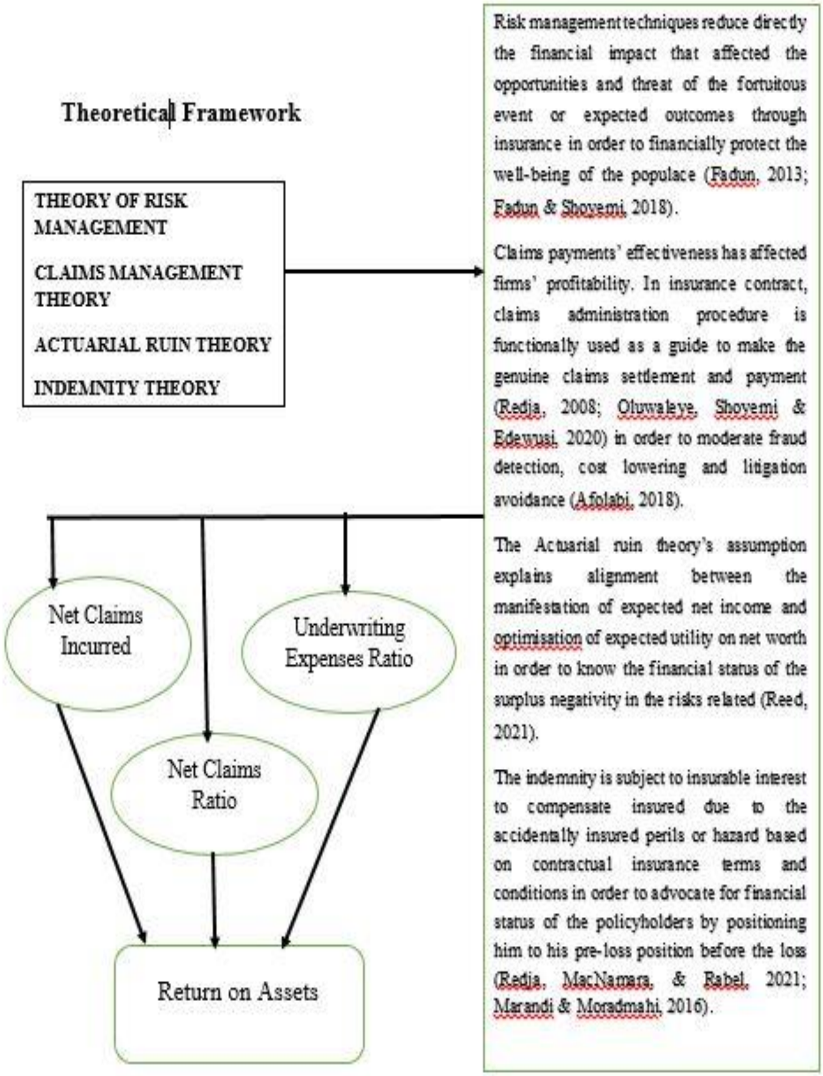

Figure 1: Theoretical Framework Model Studied
Source: Authors' Framework, 2023.

2.2 Empirical Review

Fadun (2023) asserted the analysis of the impacts of insurance claims settlement on economic growth in Nigeria. The study investigated Nigerian insurer firms' claims settlements impact and economic growth. The results revealed insurer claims settlement is indirectly non-significant effectiveness on the growth of economies. Based on this, many variable factors have served as dependable association between insurers' claims settlement and economic growth. The recommendation of this study was that the insurance practitioners were to improve the image of the Nigerian insurance industry and other developing nations.

Falade and Oyedokun (2022) studied claims payment and financial performance of listed insurance companies in Nigeria. The study opined the effectiveness of claims payment on financial performance of Nigerian quoted insurer's firms. The results reveal that there is effective significant association between net claims and premium, ratio of expenses and capital risk-based on Nigerian insurers' financial performance. The recommendation of the research is that the claims managing operators have to integrate their departmental innovative capacity within others especially claims department.

Igbinovia and Kekere (2022) studied insurance risk and claims management of insurance firms in Nigeria. The study pinpointed that association within insurers' risks on claims settlement effectiveness in Nigerian firms, which investigates their relationship. The findings show that there is direct but insignificant association between insurer risks and settlements of claims in Nigeria. It was recommended that the adequate minimization and measurement of risk policies for insurance firms, enhancement of premium and cash-flow policies through sound strategic and stabilized macroeconomic environment should be embraced.

Oladunni and Okonkwo (2022) studied the impact of risk retention on claims management of insurance companies in Nigeria. The study examined the impactful retention risk and management of claims of Nigerian insurer's companies. The findings reveal that the study has quantitatively significant effective association between insurers' retention risk ratio and claims management in Nigeria. The results of the research recommended that insurers should embrace evaluation of automatic innovative actuarial skills in order to leverage the technological computation for aiding managers' decision making through technical and operational staff appraisal, monitoring for having underwriting management and claims settlements effectiveness.

Ogunlami (2021) studied the effect of claims settlement on profit maximization in the insurance industry. The study examined the effectiveness between claims settlement and insurer's industry profit maximization. The study determined whether claims handling is effective through insures' firm maximization of profit in order to know maybe claims informative system are usually and adequately designed for identifying existing insurance policies. The findings indicated that there is significant effectiveness between insurers' claims handling and maximization of profit and claims informative system are always adequately designed for identifying existing insurance policies by insurers. The recommendation of this study was that there should be effectiveness and efficiency of claims managers so that claims process will be effective on gross premium earned. Insurers' managerial and underwriting cost should be well-managed so that profit margin and return will not be affected.

Oluwaleye, Shoyemi, and Edewusi (2020) studied the effect of claims management on profitability of insurance companies in Nigeria. The study reviewed and examined the claim, expense ratio and loss ratio effectiveness and quoted insurer' firms return on asset. The study's finding revealed that there was positive and negatively significant and non-significant effective association between net claims and expense and loss ratio respectively on return on asset of quoted insurance firms in Nigeria. The study recommended that insurers' bidding profitability shall not be forgetful for their parent reasonable existence so that genuine claims payment will affect pre-loss position of the insured.

Afolabi (2018) studied claims payment effectiveness and insurance companies' profitability in the Nigerian insurance industry. The study investigated claims payment effectiveness and insurance companies' profitability in Nigeria. The results showed that return on return has negative and positive association by loss ratio and net claims, expense ratio respectively. The recommendation of this research is that Nigerian insurers should efficiently maintain the claims procedural steps so that claims process will be effective on gross premium earned.

Yusuf, Ajemunigbohun, and Alli (2017) studied a critical review of insurance claims management in selected insurance in Nigeria. The study investigated that the management of insurer' claims should be critically reviewed on randomly selected Nigerian insurer's companies. Findings indicate that there is significant effectiveness of different procedures for handling claims in claims management processes of insurance firms in Nigeria. This study recommended to the managers of claims management process by forwarding strategies towards aiding managers' decision making through technical and operational staff appraisal, monitoring for having underwriting management and claims settlements effectiveness.

3. Methodology

The population of the study adopts all insurance companies, and chooses five (5) selected insurance companies as the sample size. The simple random selection and ex-post facto adopted are used as a sampling technique and a research design technique respectively based on ready-made information gathered from the reports of insurers' financial statements for ten years. The reports are tested through the multivariable regression technique. The objectivity of the research has been to investigate effectiveness of managing claims and Nigerian insurance companies' financial performance by assessing five randomly selected insurance companies' financial reports for ten years (2011-2020), in order to objectively investigate association between claims management practices and financial performance of insurance company in Nigeria through return on assets and net claims incurred, net claims ratio and underwriting expenses ratio of the selected insurance companies by using multivariate regression analysis method.

3.1 Specification of Model

Model adapted is multiple regression technique, which is employed for analysing the association of net claims incurred, net claims ratio and underwriting expenses ratio, and dependent variable as ROA (Oluwaleye, Shoyemi & Edewusi, 2020) for better clarification and justification.
Multivariate ordinary theory adopted below:

$$\mathrm{ROA} = \mathrm{f(NCI, NCR, UER)} -------------------1$$

$$\mathrm{ROA} = \beta 0 + \beta 1\mathrm{NCI} + \beta 2\mathrm{NCR} + \beta 3\mathrm{UER} ------------2$$

Where:
ROA = Return on Assets
B_0 = Autonomous Parameter
NCI = Net Claims Incurred
NCR = Net Claims Ratio
UER = Underwriting Expenses Ratio
ξ = Unexplained Variable

3.2 Measurement of Variables

Table 1: Specification of Independent and Dependent Variables

S/N	Variables	Proxy	Measurement	Authority of the Measurement Source

1	Return on Assets	ROA	NPAT/Total Assets	Falade & Oyedokun (2022); Oluwaleye, Shoyemi & Edewusi (2020); Afolab (2018)
2	Net Claims Incurred	NCI	Total net claims incurred during a certain period	Falade & Oyedokun (2022)
3	Net claims Ratio	NCR	Net claim paid to Net premium earned Ratio	Oluwaleye, Shoyemi & Edewusi (2020); Afolabi (2018)
4	Underwriting Expense Ratio	UER	Underwriting expense paid to Net premium earned	Oluwaleye, Shoyemi and Edewusi (2020)

Source: Authors' Computation, 2023

4. Results and Discussion

4.1 Descriptive Statistics

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std Deviation
Return on Assets	10	0.02220	0.04649	0.0361426	0.00783
Net Claims Incurred	10	7785262	55646966	30991603.30	15862392.98
Net Claims Ratio	10	0.23064	0.60079	0.4423354	0.11447455
Underwriting Expenses Ratio	10	0.16555	0.39160	0.2418386	.07534468
Valid N (listwise)	10				

Source: Authors' Computation, 2023

The table 2 showed that the return on assets was used to measured financial performance of the insurance companies. As it was indicated, the overall mean of the return on assets was 0.04k with a minimum of 0.02k and a maximum of 0.05k. With regarding to the standard deviation of the return on assets for 0.00783 that indicates as the variation of the mean from return on assets of 0.783%. The net claims incurred had the mean of 30991603.30, which this indicates as the 30991603.30 of net claims incurred has affected the net premium per annum. The minimum and maximum values of the net claims are 7785262 and 55646966. While the mean value of the net claims incurred was overall deviate from it mean to both sides by 15862392.98. This indicates that there is low underwriting performance on risks assumed, which this will have effect on gross underwriting premium income in Nigeria

The net claims ratio had the mean of 0.4423354, which this indicates as 44.23% of net claims incurred has affected the net premium per annum.

The minimum and maximum values of the net claims are 0.23k and 0.60k respectively. While the mean value of the net claims ratio was overall deviate from it mean to both sides with 11.45% variation. This indicates that there is low underwriting performance on risks assumed, which this will have effect on gross underwriting premium income in Nigeria. The underwriting expenses ratio had the mean of 0.2418386, which this indicates as 24.23% of net claims incurred has affected the net premium per annum. The minimum and maximum values of the net claims are 0.17k and 0.39k respectively. While the mean value of the underwriting expenses ratio was overall deviate from it mean to both sides with 7.53% variation. This indicates that 7.53% will be paid as expenses for insuring any risk to be assumed.

4.2 Multiple Regression Analysis Model

The model explains the regression analysis summary, ANOVA statistics and regression coefficients so that independent and dependent variables are tested.

Table 3: Summary of the Model

					Change Statistics		
Model	R	R Square	Adjusted R Change	Std. Error of Estimate	R Square Change	F Change	Significance F Change
I	0.868	0.754	0.631	0.005	0.754	6.129	0.029

Source: Authors' Computation, 2023

The summary of the model reveals that multivariate ordinary regression show NCI, NCR, UER and ROA, which shows the R, $R^2$and Adjusted R values to be 0.868, 0.754 and 0.631 respectively. The insurer's performance determinants is directly strong and significant by R= 0.868 and F= 0.029 respectively. Multivariate ordinary regression reveals 63.1%on ROA is explained on NCI, NCR, UER as shown by R Square value, but 36.9% explains as unexplained factors that are not captured from the model.

Table 4: ANOVA[a] Statistics

Model		Sum of Squares	Df	Mean Square	F	Significance
1.	Regression	0.000	3	0.000	6.126	0.029[b]

	Residual	0.001	6	0.000		
	Total	0.001	9			

Source: Authors' Computation, 2023

The findings show the value of 0.29 at freedom degrees of (3, 6). The result reveals how the practice of claims management is effectively affecting the financial performance of insurers' firms in Nigeria. The ANOVA model is statistically significant and positive with parameters.

Table 5: Regression Coefficients Model

Model		Unstandardized Coefficients		Standardized Coefficients	T	Significance
		B	Std. Error	Beta		
1	(Constant)	0.059	0.011		5.530	0.001
	Net Claims Incurred	-0.000	0.000	-0.963	-2.485	0.047
	Net Claims Ratio	0.055	0.019	0.800	2.890	0.028
	Underwriting Expenses Ratio	-0.135	0.035	-1.299	-3.840	0.009

Source: Authors' Computation, 2023

From the coefficient multivariate regression results interpret the model equation below:

$$\mathrm{ROA} = 0.059 + (-0.000)\mathrm{NCI} + (0.055)\mathrm{NCR} + (-0.135)\mathrm{UER} + 0.369 - -3$$

The table 4 shows ROA, and NCI, NCR and UER are the dependent variable and independent variables, in which Y-intercept is 0.059 as constant parameter of performance, which has no effected affected on non-dependent variables. The NCI indirectly and significantly affects performance by -0.000 and 0.047 respectively, which justifies that the decrease in net claims incurred should have positively improved the return on assets, but the outcome of it is indirectly significant to performance. Based on this, Oluwaleye, Shoyemi and Edewusi (2020) indicated that net claim incurred was indirectly insignificant on the listed insurance companies' performance in Nigeria.

The NCR directly and significantly affects the return on assets at 0.055 and 0.028 respectively, in which net claims ratio has directly and significantly improved the return on assets. As Oluwaleye, Shoyemi and Edewusi (2020); Afolabi (2018); and Oladunni and Okonkwo (2022) opined that net claims ratio has positively significant with performance of Nigerian insurance companies. However, ratio of underwriting expenses indirectly and significantly affects return on assets by -0.135 and 0.009 respectively, which explains for any 1% increment in underwriting expenses ratio, there is 13.5% decrement in return of assets. While, Oluwaleye, Shoyemi and

Edewusi, (2020) studied that expense ratio was revealed to be indirectly insignificant on return on assets, which this has proved that underwriting expenses will partly depend on net premium earnings as well as the profit income. Though, Falade and Oyedokun (2022) revealed that there was positively significant between the expense ratio and financial performance of Nigerian insurance companies.

5. Conclusion and Recommendations

The results have quantitatively established that management of claims practices is positively important on financial productivity of Nigerian insurer's firms in order to identify the responsibility and benefits of the insurers by giving useful and vital information to all insurance operators. Also, results of the research show that NCI, NCR and UER are a statistically significant association with return on assets (ROA) respectively because the p-value (0.029) in the ANOVA table is lesser than 0.05. Where the insurer firm's claims are vast, the claims incurred will be enormously apportioned which affects reduction of its asset returns. The significant relationship between ROA and NCR is positively not strong relationship with ROA of insurer firms in Nigeria. This means that there is higher incurred claims on gross underwriting premium earned by primary offices, which number prospective policyholders insured with the insurance companies in order to put insured back to pre-loss and post-loss position which leads to improve the and Nigerian insurers' performance companies.

The recommendations for this study are stated below;

i. The Nigerian Insurers should have effectively and efficiently investigated the potential genuine claims settlements from policyholders in order to appropriately settle the genuine claims as well as reducing underwriting expenses so that positive improvement of performance of insurance organization through effectiveness and efficiency of cost reduction and control mechanisms.

ii. The risk management mechanism used in managing genuine claims should be prudently executed which will not lead to poor claims settlements in order to improve the general public confidence as customer loyalty.

iii. The compulsory and association regulatory bodies should enforce strict compliance on risk management practice and corporate governance relating to claims management practices of Nigerian insurance industry.

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