

THE EFFECT OF INCOME DISTRIBUTION ON INSURANCE MARKET IN NIGERIA

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Abstract

The study seeks to determine the effect of the poverty on insurance market in Nigeria. Secondary data were obtained mainly from online sources and were supported with primary data of the author's personal observations. The study shows that poverty although affects the size of insurance market in Nigeria as poor people are dominantly motivated by basic human needs of food, shelter etc. it is however not the only factor affecting insurance market as evidence from the study reveals further that only few of those who can afford insurance policy are actually buying it. The study recommends that insurance should consolidate on developing micro insurance product, build public confidence and create public awareness of the benefits associated with insurance policy to grow the market.

Keywords: Insurance, Risk, Welfare, Market

Introduction

Insurance is a component of social security device that helps individuals and businesses to mitigate risks. It simply promises to bear the burden of the business and life's risk in financial terms. The insurance indemnifies other parties by bringing them to their position prior to occurrence of the risk. It is a contract between two or more parties where the risk of one party is transferred to another subject to the payment of consideration generally called 'premium'.

There is no doubt that life and businesses are

full of risks. Risks are dangers and perils that threaten the existence of life and business. They are risks because they are not certain to occur, - they may occur and they may not and when they occur, the extent of the damage or severity or the amount cannot be accurately predetermined. The consequences of risks on life and business can be so severe. The suffering for the spouse and children from unexpected death can be unbearable. Likewise, business exposure to a risk may lead to total close down of operations of the business, lost of job and pain inflicted on the dependents. Risk is a probability that the unexpected and undesirable will occur. Insurance is one of the major devices to manage risk. Insurance keeps business and life going after major insured risk has been suffered by the insured through the financial reinstatement by the insurance. With the role of insurance on person's life and business, the market for insurance in Nigeria does not seem to reflect this importance.

Generally, the size of market is usually influenced by two major determinants. The first determinant is the population size. Nigeria population is reasonably large to constitute a good market for the insurance industry in the country. The second major determinant is the standard of living of the people. Every member of a society is a potential buyer and member of the market for any product in the society. But income of the people constitutes a major constraint. Considering the second determinant, evidence from available study indicated that the living standard in Nigeria is low. For instance,

statistics shows that more than 40% of the population of Nigeria lives below poverty line. The National Bureau of Statistics (NBS) reported that 40.1% of the total population of Nigeria lives below ₦137,430 (\$381.75) per year which is poverty line and are therefore considered as poor. The motivation of these poor Nigerians may be limited to their basic human needs of food, clothes, shelter etc and they may therefore consider insurance as a luxury. This study therefore seeks to evaluate the effect of poverty on insurance market in Nigeria.

Research Questions

The questions the study seeks to provide answers for include the followings:

- i. Does poverty affect insurance market in Nigeria?
- ii. What are the other factors that affect the insurance market in Nigeria?

Objectives of the Study

Despite the role of insurance in Nigeria, the market for insurance remains relatively small. The main objective of the study is to find the effect of income distribution on insurance market in Nigeria. The specific objectives are stated as follows:

- to determine the effect of poverty on insurance market in Nigeria;
- to determine other factors that affects insurance in Nigeria.

Conceptual Framework

This section of study reviews certain concepts that are relevant to the study. The review is presented as follow.

Insurance

The concept of insurance is used for a contract between two or more parties where one party accept to indemnify the other party in case certain risk occur provided the other pays a specified amount of premium which serves as a consideration for the contract. Uncertainty is traded for certainty in insurance contract. A risk of a large loss with uncertainty is transferred to the insurance for

a small loss with certainty by the insured. The premium paid at the beginning of the contract is the small loss while the financial value of the expected risk is the large loss which may not occur

Hopkin (2010) defined insurance as “well established mechanism for transferring the financial consequence of loses arising from hazard risks”. The party that is exposed to the risks transfers the financial consequences of the risk to the insurance and the insurance will reinstate the party if the risk occurs by bringing the party to their financial position before the occurrence of the risk.

Also Ivanovna, Vladimirovna and Turgaeva (2018), referred to Ozhegor and Tu, showed that insurance accepts to reimburse losses from occurrence of risk of defined cases. Insurance will only pay for the risk that are covered by the contract and not all risks are covered by the insurance. Insurance provides cover for only pure risk against speculative risk. In other words, insurance usually cover for risk is limited to those risks that have no chance of making gain.

Risk Management

Risk is the chances that an unexpected will occur. Hopkin (2010) citing from the oxford English Dictionary defined risk as a chance or possibility of danger. Hence risk is used for negative consequence

Risk management is the process of elimination or at worst minimizing the effects of risk to the bearest minimum. Hopkin (2010) noted that one of the importance of risk management is increasing in operations efficiency of business.

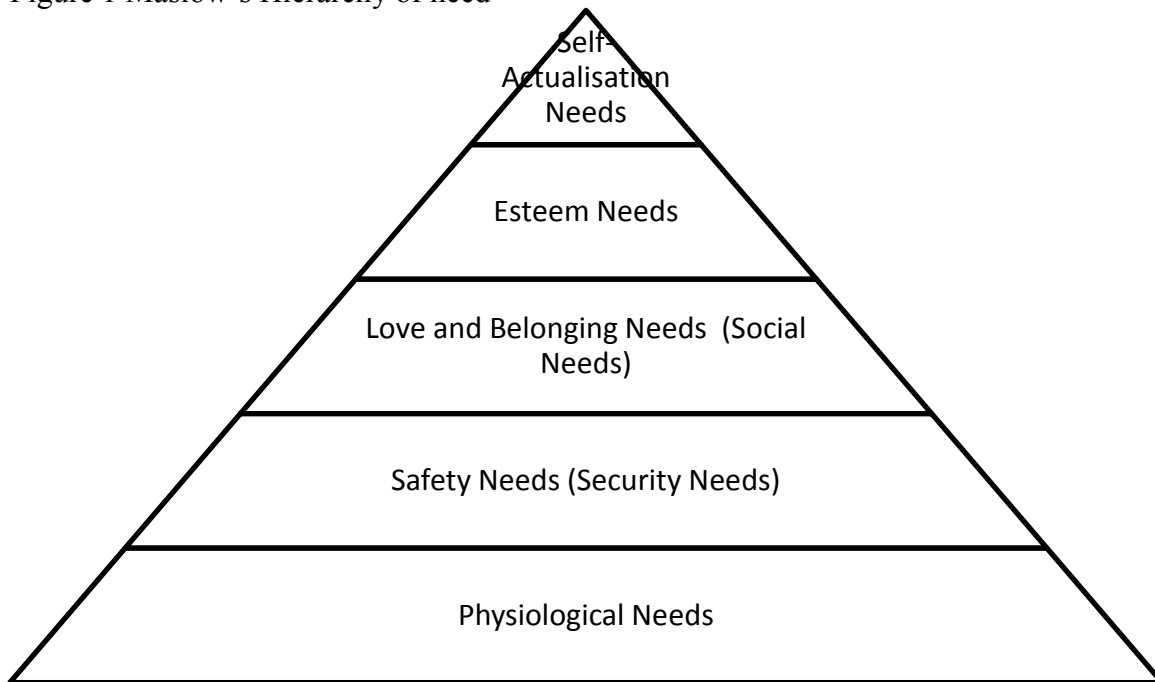
Theoretical Framework

Abraham Maslow’s Hierarchy of Needs Theory has been adopted by this study for the theoretical framework. Hierarchy of needs theory of motivation was developed by a famous Psychologist Abraham Maslow (Aruma & Hanachor, 2017). Maslow introduced the theory based on his personal judgement. (Kaur, 2013). According to the

theory, people will not function well in an environment where their needs are not met. Maslow grouped human needs into five types of needs and that they are activated in sequence. That means unless the lower level needs are sufficiently met the next level of needs will not be activated to drive action.

The five Hierarchy of needs are Physiological Needs, Safety Needs, Social Needs, Esteem Needs and Self Actualization Needs. The theory is presented diagrammatically with figure 1 below

Figure 1 Maslow's Hierarchy of need



Source: McLeod, 2018

The five Hierarchy of Needs are explained below

Physiological Needs: These needs are referred to as human basic needs (Aruma & Hanachor, 2017). Specifically, food, water, shelter, sleep etc were included among the basic needs that consist of the physiological needs. The lives of the people depends on the basic human needs. In others words the survival of the people is a function of meeting the basic human need and without those needs met they cannot survive. Similarly Todaro and Smith (2009) identified those basic human needs of food, shelter, health as life-Sustaining needs

Safety Needs (Security Needs): These human needs deals with needs for protection and security from undesirable events or situation such as social disorder or other

dangers. Dangers such as flood disasters, fire disasters, earthquake, accident, lost of source of living are examples of needs to be protected against

Love and Belonging Needs or Social Needs. Once the first two hierarchy of needs of physiological need and safety needs have been reasonably satisfied, social needs become prominently active in driving human behavior. Among these needs are needs for love, acceptance, friendship etc.

Esteem Needs: These needs specifically include but not limited to needs for dignity, achievement, mastery, independence, status and prestige (McLeod, 2018).

Self-Actualization Needs: These are human needs for realizing personal potential, seeking personal growth etc.

The Hierarchy of Needs were presented in pyramid as shown figure 1 with five different levels of human needs. McLeod (2018) emphasized that the needs down in the Hierarchy must be satisfied before individuals can attend to needs higher up.

Since the theory holds that until the needs down the hierarchy are reasonable satisfied, higher hierarchy needs do not likely to drive human behavior, it will not be wrong, based on the theory, to say an individual who is struggling for food and other basic needs of life may not be looking for security of which class insurance belongs.

Poverty Level and Insurance Market in Nigeria

Available records show that large number of individuals and family live below poverty level in Nigeria. For instance, National Bureau of Statistics (NBS) was cited in Akwagyiram (2020) that the number of people in Nigeria excluding Bornu State that lived below its poverty line of ₦137,430 (\$381.75) is about 40% of the population of the country. The percentage of the poor is put at 40.1% between September 2018 and October 2019. Similarly the World Bank put poverty rate in Nigeria in 2018 as 39.1% of the country population. The international poverty line of \$1.90 in 2018 was used. This means that about 39.1% of the Nigerians in 2018 earn less than \$1.90 per day and are poor based on the World Bank statistics.

In addition to the evidence obtained from the secondary data on number of poor in Nigeria, primary data obtained from most private primary and secondary schools in Nigeria show that the monthly wages are between ₦15,000 to ₦20,000 for graduates and about ₦10,000 or even less for lower qualifications such as NCE, OND, GCE etc. Some of these school workers have spouses and children. The annual income of such families ranges between (₦15,000 x 12) = ₦180,000 to (₦12,000x12) ₦240,000 per annum for graduates and (₦10,000 x 12) = ₦120,000 per annum for non-graduates. In many cases

these families consist of two or more members. This large numbers of Nigerian earned far below the estimated ₦137,430 per annum for poverty line in Nigeria at average of 2 members in a family.

Similarly, the wage rate from non-formal sector shows that independent carpenters, bricklayers etc earn ₦3,000 to ₦4,000 per full day work while the apprentice and labourer are paid between (₦1,500 and ₦2,000). Their annual income assuming they work 300 days a year. The total amount per annum for labour is between (I. e. ₦1500 x 300) = ₦450,000 and (₦2,000 x 300) = ₦600,000. This category of people usually have more wives and children who depends on this amount. This makes every member of the families lives below poverty line. This group of people are not likely to be able to afford the luxury of insurance premium in the name of securing the future of the members of their family incase of risk of death, disability etc. The desire of providing for themselves with the basic human needs of feeding, clothing, shelter etc is likely to be dominant with this group of people. This level of income cannot meet the basic needs for the members of their families satisfactorily. Hence, insurance is no go area for this group of people.

Insurance Market in Nigeria

Insurance market in Nigeria has been influenced by three factors which include (i) the population size, (ii) disposable income, and, (iii) consumer confidence. BMI (2020) observed that the recent improvement in the insurance (non-life insurance in particular) in Nigeria was enhanced by the growing population, rising disposable income and improving consumer confidence. Idris (2020) found that only 1.9% of the Nigerian adult population of about 99.6 million have insurance coverage while about 40% of the same group have access to financial sector services.

Similarly, Hougaard et al (2018) found that less than 2% of adult population in Nigeria have insurance coverage. This shows that

insurance attractiveness is very low in Nigeria.

Other Factors Affecting Insurance Market in Nigeria

Conventionally, only products that are at the maturity stage in their life cycle are known to be growing with the growth in population as there is no more new potential buyers. Insurance on the contrary is noted to be growing with the growth in population despite the fact that only about 40.1% of the Nigeria are said to be living below poverty line. For instance BMI (2020) indicated that even those in the middle class who are able to afford insurance avoid it.

Factors identified as affecting the rate of insurance growth in Nigeria are listed to include negative public perception, poor regulation, poor pricing of insurance products, poor service delivery, delay in claim settlement etc (The Revealer).

Osinuga Damilola provided further explanation on public perception that the insurers have poor attitude towards payment of claims, hence the Nigerians attitude to insurance is negative. Osinuga (2016) identified the key barrier to the retail market is the same lack of trust. There is no doubt that confidence building in insurance will help to expand the market size and enhance the economic growth.

Conclusions and Recommendations

There is no doubt that insurance market in Nigeria has been inflicted with slow rate of growth. The study has shown that the rate of poverty in Nigeria is high and poor people limit themselves to seek for how to meet their basic survival needs and may not be able to afford the luxury of insurance. The study also revealed that the insurance buyers are far fewer than the proportion of the population that can afford it. The evidence from the study shows that over 50% (i. e. 59.9%) of the adult population are living above poverty line while only less than two percent of the adults have insurance coverage as at 2018 (

Hougaard et al, 2018). The study concludes that while poverty plays a significance role in the size of insurance market in Nigeria, public perception play more dominant role as people in the middle class also avoid insurance market.

The recommendations of the study are: micro insurance should be encouraged among the poor with premium that is poor friendly; insurance should deliberately maintains an attractive public attitude such as swift response to claim with regular reporting of their performance; and, massive effort should be expended on creation of awareness of insurance benedicts.

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