**THE IMPACT OF RISK MANAGEMENT IN NIGERIAN INSURANCE INDUSTRY (A CASE STUDY OF ANCHOR INSURANCE PLC, UYO)**

**CHAPTER ONE**

**INTRODUCTION**

* 1. **BACKGROUND OF THE STUDY**

Risk occurs where it is not known that the future outcome will be but where the various possible outcomes may be expected with some degree of confidence form knowledge of past or existing events. In other words probabilities of alternative outcomes can be estimated (Akinsulire, 2010). Risk management is the process of identifying, qualifying, and managing the risk that an organization faces. Risk management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate event to minimize the realization of opportunities (Hubbard, 2009). Risk management in insurance industry is to assure uncertainty does not deviate the endeavour from the business goals. As the outcomes of business activities are uncertain, they are said to have some element of risk. Risks can come from different ways e.g. strategic failures, operational failure, financial failure, market disruptions, legal liabilities, credit risk, accidents, natural causes and disasters, regulatory violations as well as deliberate attack from an adversary, or events of uncertain or unpredictable root-cause.

Risk management by insurance industry involves the process of identification, analysis and either acceptance or mitigation of uncertainly in investment decision-making. Essentially risk management occurs anytime an investor or fund manage analyzes and attempts to quality the potential for losses in an investment and then takes the appropriate action (or in action) given their investment objectives and risk tolerance. Inadequate risk management in insurance industry can result in severe consequences for companies as well as individuals. For example, the global recession that began in 2008 was largely caused by loose credit risk management of financial firms. Simply put, risk management is a two-steps process-determining what risks exist in an investment and then handling those risks in a way best-suited to investment objectives. Risk management occurs everywhere in the financial world. It occurs when an investor buys low risk government bonds over more risky corporate debt, when a fund manager ledges their currency exposure with currency derivatives and when a bank performs a credit check on an individual before issuing them o personal line of credit (Peter and David, 2012).

According to Darfman (2007) risk management involves identifying the types of risk exposure within the company, measuring those potential risks, proposing means to ledge, insure or mitigate some of the risks and estimating the impact of various risks on the future earnings of the company. while it is impossible that companies remove all risk from the organization, it is important that they properly understand and manage the risks that they are willing to accept in the contest of the overall cooperate strategy. Rather, insurance industry is primarily responsible for risk management and they are playing a critical role. Risk can be managed in a number of ways: by the buying of insurance, by using sharing risks with others, or by avoiding risky positions altogether.

Therefore, insurance is co-operative device to speared the loss caused by a particular risk over a number of persons who are exposed to it and who agree to insure themselves against the risk (Mishaiva, 2006). Thus, the insurance is

1. A co-operative device to spread the risk.
2. The system to spread the risk over a number of persons who are insured against the risk.
3. The principle to share the loss of each member of the society on the basis of profitability of loss to their risk; and
4. The method to provide security against losses to the insured, insurance industry continue to play a crucial role in helping companies to manage risk by transferring it. But also serves as a vital risk management tool traditionally and non-traditional uses in which risk transfer is, at best, a minor consideration.

It is against this backdrop on the impact of risk management in insurance industry that motivated the researcher to know whether insurance industry still maintain her traditional role in financing and management of risk.

* 1. **STATEMENT OF THE PROBLEM**

It is noted that, although insurance industry had been saddled with responsibility of managing risk, risk is the possibility that an event will occur and adversely affect the achievement of a company’s objectives thereby, decreasing value of the company’s stakeholders. However, inadequate risk management in insurance industry results is server consequences for companies as well as individual which invariably affects the societal well beings. Rather, many businesses and young companies are often under insured. As noted, this is for two reasons: First, they may not have the capital to acquire all the insurance they need to cover their bases. Second, they are unaware of what they need to insure and does not take stock of their in coverage.

The impact of risk management in Nigerian insurance industry still remain unclear even at this stage, due to regulatory uncertainty. The need to operate economically and efficiently; comply with new and existing regulations and standards, meet competitive pressures, and take advantage of opportunities to grow are all exerting considerable pressure on insurers. Perhaps, due to high level of corruption in the polity, inexperienced insures, poor financial base and lack of adherence to insurance principles; risk management in the industry nowadays is being regarded as a “sheer dream”. And policy inconsistency has marred the integrity of insurance industry. The risk in the have received relatively little attention from academics and regulators, and is causing a severe problem. The combination of a low interest rate environment and poor risk management generated large losses, even during the global financial crisis. A fundamental problem with the insurance industry is that no one knows the market value of liabilities.

* 1. **OBJECTIVES OF THE STUDY**

The specific objective of the study therefore, are to

1. Examine the impact of risk management in Nigeria insurance industry.
2. Examine the relationship between insurance industry and risk management
3. Assess the area of risk undertaken by insurance industry in Nigeria
4. Know the measures adopted by insurance industry in managing risk.
5. Determine whether insurance regulations facilitate management of risk in insurance industry.
6. Identify problems bedeviling efficient management of risk in the Nigeria’s insurance industry.
   1. **RESEARCH QUESTIONS**
7. Does insurance industry in Nigeria creates any impact in the management of risk?
8. Is there any relationship between risk management and insurance industry in Nigeria?
9. What are the areas of risk management undertaken by insurance industry in Nigeria?
10. What are the measures adopted by insurance industry in the management of risk?
11. Do insurance regulations hamper the management of risk in insurance industry?
12. What are the problems militating against the efficient management of risk in Nigerian’s insurance industry?
    1. **RESEARCH HYPOTHESES**

**Ho**: Insurance regulations does not facilitate the efficient management of risk by insurance in industry

**Hi**: Insurance regulations facilitate efficient management of risk by insurance in industry.

**Ho**: Risk management does not impact positively in insurance industry

**Hi**: Risk management impact positively in insurance industry

* 1. **SIGNIFICANCE OF THE STUDY**

The significance of this study cannot be overemphasized, and it rests on the fact that it will help the insurance industry to have a cutting-edge in the management of risk and to prevent uncertainties or undue crises. The study holds a lot of benefits to ensure the continuous existence and survival of the business despite the level of perils occurred. It will therefore, be beneficial to organizations. Individuals and society as a whole in the following ways:

* Protection from financial loss-for businesses, a multitude of unforeseen events can happen, form natural disasters to theft and burglary. Risk management from insurance industry can be a key tool in preventing financial losses.
* Improve liability- general liability insurance protects businesses against unforeseen everyday’s threats.
* Business- efficiency increased when the owner of the business is free from the botheration of loses due to risk management, he will certainly devote much time to the business.
* Business continuation. Risk management through insurance policy will provide adequate funds for businesses to continue if it suffers any loss.
* it will help to provide safety and security to individual against the loss on a particular event
* Through efficient management of risk, wealth of the society will be guaranteed and protected with the insurance industry.
* It will boost economic growth through protection against the loss of property and adequate capital produce more wealth in the real sector of the economy.
* This research, due to adequate review of various up-to-date literature is a source of material to undergraduate students and as well as researchers who may intend to undergo a study on the subject matter or allied topics in future.
* Finally, to those in academic and risk managers, the study will serve as a springboard for further investigation.
  1. **SCOPE OF THE STUDY**

This research work is undertaken to analyze “The Impact of Risk Management in Nigerian Insurance Industry”. The study area of this research is Anchor Insurance Company of Nigeria, located along Aka a Road in Uyo, Akwa Ibom State. This therefore shows that the study does not cover insurance industries in every state of the federation.

* 1. **LIMITATION OF THE STUDY**

A research work of this nature is always associated with numerous problems that seek to limit the researcher’s ability especially, in our contest where organizations do not disclose the true information about their “modus operandi” to the public. The researcher found it difficult to access meaningful data concerning the areas/extent of risk management undertaken by industry in Nigeria, but had to use the limited information available.

Also, a number of constraints were met. They ranged from:

* Inadequate financial resources to move around for data collection, typing and photocopying and the search for materials.
* Lack of Time: time constraints affect this study in terms of duration. For instance; given the time line within which to submit this work.
* Materials paucity- inadequate materials also affects this work. Due to the sensitivity of the topic, no adequate blue-print on the exact subject matter.

Nevertheless, these did not affect the quality of the outcome of the study.

* 1. **DEFINITION OF TERMS AND ACRONYMS**

**Risk**: Risk is defined as the possibility of loss, damage, injury or peril. It may also be defined in terms of the variability of possible outcomes from a given investment (Mpamugo, 2003).

**Risk Management:** It involves understanding, balancing and controlling the risks inherent in an insurance company. the process of identification, analysis and either acceptance or mitigation of uncertainly in investment decision making (David, et al. 2000).

**Insurance**: Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk (Mishra, 2006).

**Uncertainty**: Uncertainty occurs where the future outcome cannot be predicated with any degree of confidence form knowledge of past or existing events, sot that no probability estimates are available (Akinsulire, 2010).

**Diversification**: Diversification is a strategy usually adopted by rational investors by spreading and committing their funds in several investments in such a way that if a given line goes bad such an investor has other business lines to fall back on (Akinsurlire, 2010).

**Management**: The process, through which efforts of members of the organization are co-ordinated, directed and guided towards the achievement of organizational goals (Mullins, 2007).

**Corporate Strategy**: Corporate strategy formalizes the objectives and policy of a organization and serves to describe its sense of purpose together with its direction and scope over the long-term (Mullins, 2007).

**Organization**: It can be seen as a process of coordinating individual efforts to accomplish a common objective (Nwachukwu, 2007).

**Investment**: An asset or item that is purchased with the hope that it will generate income or appreciate the future (Pandey, 2003).