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Claims Management Practices and Firm Profitability of Listed Insurance Companies in Nigeria

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Abstract

The insurance sector provides financial protection for policyholders by pooling and investing premiums from which those who experience unforeseen losses are compensated. As a result, an efficient and timely claims settlement by insurance companies has been identified as a measure with the potential to boost the industry's growth and profitability. However, many insurance companies struggle to consistently improve their claims operations due to a poor claims process and unrecognized claims department staff, which Chief executive officers hinder their performance. This study examined the effect of Claim management practices and firm profitability of listed insurance companies in Nigeria. Survey research design was adopted. The target population of the study are the full-time top management employees of the listed insurance companies in Nigeria with a total population of 2183. Sample size of 776 was determined using Kerjcie and Morgan (1970). Proportionate stratified sampling technique was adopted. A validated questionnaire was used to collect data. Cronbach's alpha reliability coefficients for the constructs ranged from 0.772 to 0.857. The response rate was 86.5%. Data were statistically analysed using descriptive and inferential statistics. Findings revealed that claims management practices have significant effect on profitability of the selected insurance companies in Lagos State Nigeria ($Adj.R^2 = 0.840$; $F(5, 655) = 695.900$, $p<0.05$). 17.928, $p < 0.05$). The study concluded that Claims management practices dimensions have significant effect on firm profitability of listed insurance companies in Lagos State, Nigeria. The management of insurance companies in Nigeria should develop a policy to link claims management ancillaries and departments in order to make the sector profitable and sustainable in the long run. Such a policy would be the anchor of actions adopted by or proposed by the firms in matters pertaining to market dominance.

Keywords: *Claims management practices, Claims planning, Claims payment, Claims complaint, Claims control, Firm profitability*

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Background to the Study

Insurance positive claims experience could lead to a long-term client and advocate for the insurance program. However, many Insurance Companies struggle to consistently improve their claims operations due to a poor claims process and unrecognized claims department staff, which hinders their performance in terms of poor profitability, Therefore, there is a need for Insurance Companies to adopt strategies that are very competitive in order to meet the growing demand for improved services from customers and the returns on investment by investors.

In the United States America, delivering consistent and individualized services to match the higher expectations of customer experience has long been a challenge for the insurance sector. In 2020, claims accounted for over 70% of all premiums in the USA, making them the single largest expense category for property and casualty insurers (Cline & Kamalapurkar, 2022). The Insurance Companies' ability to pay out claims could be jeopardized by poor claim management practices. Poor claims management practices is an operational risk that can result in legal risk, which can increase claim costs and pose a liquidity risk to insurance providers if customers complain (Tseng, 2017). In many European countries such as Germany, the United Kingdom (UK), Italy, France, Ukraine, and Switzerland, **claims** settlement is becoming increasingly challenging due to unprecedented claims inflation (Behm et 2022al.,).

Claims organizations in Germany encounter a range of challenges on a daily basis, such as legacy IT systems, incoherent claims processes, a lack of clear roles and duties, and more, despite often having strong technical claims management skills (Almagor-Barda & David, 2022). These challenges have led to poor portfolio performance, high loss ratios, a rise in client unhappiness, and a drop in operational excellence in claims (Munich Re Claim Consulting Report, 2022). Poor claims experiences may put $170 billion in global insurance premiums at risk by 2027 (Ancell, 2022). According to an analysis by Accenture (2022), up to $170 billion in insurance premiums could be at risk over the next five years due to poor claims experiences, while process inefficiencies in underwriting could cost the sector an additional $160 billion over the same time frame. Customer dissatisfaction with the claims process is a major factor in their decision to switch insurers. Nearly one-third (30%) of disgruntled claimants stated that they had switched insurance providers over the preceding two years, and another 47% stated that they were considering doing so. In total, unsatisfied consumers might account for up to $34 billion in premiums yearly or up to $170 billion over the following five years.

The African insurance sector is the second fastest-growing insurance market behind Latin America in the world (Norman, 2021). Steady economic growth in most countries combined with a largely underdeveloped insurance sector has positioned the continent as the second-fastest-growing region for insurance globally after Latin America. Prior to the outbreak of COVID-19, it was anticipated that the insurance industry would grow at compound annual growth rates (CAGRs) of 7% per year between 2020 and 2025, about twice as fast as North America, over three times that of Europe, and faster than Asia's 6%. A study by Bagus et al. (2020), establish that the level of insurance maturity in African regions (North Africa, East

Africa, Francophone Africa, Southern Africa, West Africa, and Angola) is low in comparison to the developed countries such as United Kingdom, Unites States, and Germany to mention but few, as evaluated by insurance density (premium per capita).

In Ghana, despite regulatory and structural reforms, Ghana's insurance sector remains underdeveloped compared to other countries in Africa (National Insurance Commission, 2018). Citizens' lack of insurance knowledge is adduced to this underdevelopment. Further, Ghana's insurance industry suffers from low client awareness and patronage due to long-held misperceptions and suspicions about insurance operations. The Ghana National Insurance Commission (2019) reports that non-life insurance complaints outnumber life insurance complaints annually. According to Bunyaminu et al. (2022), complaints center on claims denial, lengthy delays of claims, and misunderstandings over amounts payable to claimants.

The insurance business in Nigeria has seen an upsurge in policyholder claims. Claims expenses for 22 of the largest and most famous Insurance Companies were reported to be more than N40 billion at the end of June 2017, an increase from N34.1 billion the previous year. This 17.3 percent increase is concerning in light of the 8.76 percent increase in premium income seen during the same time period. Mrs. Zainadine Shamsung Ahmed, Minister of Finance Planning and Budget, recently claimed that underwriters' insufficient reaction to claim settlement had largely contributed to the current poor public perception and lack of trust and confidence in the insurance market (THISDAY magazine, 2022). She urged the National Insurance Commission (NAICOM) to put in place mechanisms to ensure insurers pay claims on time, stressing that this is the primary job of insurance companies. Organisational Performance is viewed as a measure of a firm's actual output or results as assessed against its intended outputs and is thus related to its overall health over a given period of time (Angima & Jebiwott, 2022). This performance is usually measured by profitability which is the dependent variable of this study is the ultimate goal of any organisation.

Insurance Companies in Nigeria struggle greatly with the difficulty of managing claims in a way that makes customers happy, inspires their trust, and motivates them to buy again and share their positive experiences with others (Ajemunigbohun et al., 2022). According to Nwani and Omankhanlen (2019), payment of claims is a challenge for many Insurance Companies in Nigeria as claims from the past continue to surface, making the insurance industry extremely demanding and performance challenging. Some studies among academic insurance experts in Nigeria have made a number of findings about insurance fraud, the claims processing process, claim costs, and insurer profitability, among other things (Ojikutu et al., 2011; Yusuf & Dansu, 2014). However, Michael (2008) cited in Yusuf and Dansu (2014) previously said that the fundamental components of a contemporary claim management system that can handle all claim types should include: a case management component as well as the capability to calculate and process complex recurring payments.

Following the aforementioned, this study examined the effect of claims management practices on firm profitability of selected Insurance Companies in Lagos State, Nigeria. To achieve this objective, research question and hypothesis are asked and formulated as follows:

Research Question

What effect do claims management practices have on profitability of selected Insurance Companies in Lagos State, Nigeria?

Research Hypothesis

H_0: Claims management practices have no significant effect on firm profitability of selected Insurance Companies in Lagos State, Nigeria.

Literature Review

This section conceptually, empirically and theoretically reviews the study variables both dependent and independent variables as it relates to ideas, taught, and general views of previous authors.

Claim Management Practices

Claims management is the process of employing and coordinating resources to process a claim from identification and analysis through preparation, and presentation, before it proceeds to negotiation and settlement (Yusuf et al., 2017). The word "claim" according to Ayuba et al., (2020) emanated from the Latin word, *"Clamare"* which means to "*call out*". The key objective of the claim management process is to resolve certain problems in an effective and efficient manner. Avoiding litigation and arbitration in claim settlement is one good practice that successful contractor must keep in mind (Kululanga et al., 2011). Yadav (2014), defines claims settlement is an integral part of the insurance business. In his view, growth in insurance business is depended on the people, the customers and consumers of service. The scholar concluded that insurance is an arrangement by which the losses incurred by a small number of insured are divided over many exposed to same type of risks. In characteristics, it is generally believed that claim management process consists of four important aspects: settling claims, detecting fraud, lowering costs and avoiding litigation (Lalithchanadra & Kumari, 2015).

Claim Planning

Ajayi et al. (2019), conceptually asserted that a claim planning is the process by which an insurer set out its obligation on how to receive, investigate and act on a claim filed by an insured**.** According to Ernest and Young (2012), for insurers to attain operational efficiency and effectiveness in claim process, they must look directly at implementing modern claims system; leveraging advanced fraud detection technologies and creating innovation around their self-service claim processing activities. Claim planning relates to focusing on preference involvement on a client's project to set up an environment, which minimises the likelihood of claims occurring Krishman (2010) argued that an insurance claim is a formal request by a policyholder to an insurance company for coverage or payment for a covered loss or policy event. The insurance company usually carry out administrative to process to validates the claim (or denies the claim).

Claims Control

Sturge and Zaozirny (2020), defined claims control as facultative reinsurances where the reinsured, that is, the direct insurer, has a small or nil retention. The purpose of claim control is to give the reinsurer control over investigating and settling claims. According to Oyedokun and Gabriel (2018) claims control is the process which involves settling losses under assurance contracts and adjusting any difference that arises between the company's policyholder and possibly a third party. They opined further that claims settlement on its own means not just money or compensation extended to the policyholder who suffered a loss but refers to the whole process involved in receiving the processing and documentation of claims form to decide if payment is to be made or not. The reason is because the process takes time and involved some monetary cost, and this add to the overall cost of settlement which in the early state much attention was given to claims administration as a dominant of purchasing claims by the members of the public, this was because it was assumed that the public is aware of the claims that would afflation and those that would not.

Claims Monitoring and Evaluation

Ntwali (2020), stated that claims handling procedures is a tool that allows analysis and predictions of the handling of procedures. Accordingly, Krishnan (2010), points out what the underlying claims management procedure involved. The first stage starts with the verification of the occurrence of loss. The second stage is the verification of proof of loss to make sure that the loss occurred accidentally and was insured. The third process is the negotiation stage to find out. The funding viewpoints, the volume and the allocation of claims are assessed. Whereas, the operational deals with the operating features of a Claims settlement Procedure, like processing capacity, claims quantity and outstanding claims register, are assessed. The helpfulness of this analysis for efficient and effective organization and management of the claim's handling function is obvious. Hasibuan et al., (2020), monitoring and evaluation as the routine collection and analysis of information to track progress against set plans and check compliance to established standards. It is really just a process of checking as you go along, making sure you are not late or off track or potentially even doing harm. Rasheed and Kemal (2018) asserted monitoring and evaluation are an assessment, as systematic and objective as possible, of an on-going or completed project, programme or policy, its design, implementation and results.

Claims Payment

According to Butler and Francis (2019), claims payment conceptually represents the largest single cost to insurers and 80.0 per cent of all premiums are spent on claims payment and associated handling charges. Hence, Redja (2018), opined that claim management includes all managerial decisions and processes concerning the settlement and payment of claims in accordance with the terms of insurance contract. Afolabi (2018) view claims payment as the benefit calculated by claim administrator, plus any related Surcharges, upon submission of a Claim, in accordance with the benefits specified in the Plan for which Claim Administrator has agreed to provide administrative services. According to Lalithchanadra and Kumari (2015), claim management includes claims processing and pay-out, which should be a core element of insurance practices, so as to ensure smooth operations. Yusuf and Dansu (2014), submitted that claims from previous years usually surface in succeeding years, which makes the insurance businesses challenging and the attainment of profitability, very difficult. According to Butler and Francis (2010), claims payment represents the largest single cost to insurers and 80.0 per cent of all premiums are spent on claims payment and associated handling charges.

Claims Complaints

Radhika et al., (2017), defined a claims complaint as a grievance written expression (even in electronic mode) of dissatisfaction made by the complainant against an entity—such as an insurer, agent, or broker—about an action or lack of action regarding the standard of service or deficiency of service. The handling of claims complaints is an important component of providing superior customer performance. Three important aspects of the complaint process involve acknowledging customer complaints, identifying customer complaints, and handling customer complaints (Aslan Çetin, 2018). According to Capgemini (2011), claims processing is the mirror to the customer that enables the insurers' drive at improving customers' acquisition, expectation, retention and business insight for product enhancement and the company's profitability. Therefore, the drive, accuracy, efficiency and effectiveness of claims managerial procedures is key for cost control, risk management and meeting expectation needed for proper portfolio underwriting.

Firm Profitability

The long-term viability of a business depends on its ability to be profitable, which assesses that ability (Santos & Brito, 2012). The expansion of a company's bottom line should be its g5ultimate long-term objective. Profitability is the capacity of a particular investment to generate a return from its use, according to Uhuegbulem et al., (2020). The ability to turn a profit from all of an organization's business endeavours is referred to as profitability. Therefore, each company must have a unique strategy to meet the rapidly shifting business environment in order to increase profitability. According to Tulsian (2014), firm profitability is made up of the phrase's "profit" and "ability." The definition of "profit" was provided above, while "ability" refers to a company's capacity to generate profits. The ability of a company also refers to its revenue potential or operational efficiency. According to Otekunrin et al., (2020), the concept of profitability is the difference between a company's revenue and its operational costs. In order to sustain a positive net income, also known as a profit, Yanti and Darmayanti (2019), emphasized that all businesses should try to drastically reduce their operational expenses and aim to increase their incomes.

Claims Management Practices and firm Profitability

Fali et al., (2020) examined Insurance Specific Risk and Profitability: Evidence from Nigerian Insurance Firms using ex post facto (2009- 2018) The results of the fixed effect regression model showed that the technical provision and the underwriting ricks had a negative and significant impact on profitability, while the re-insurance risk had a negative and insignificant impact on profitability. In a related study, Nurudeen et al., (2020) investigated the impact of board characteristics and risk management on financial performance of listed insurance firms in Nigeria using a period of (2012 to 2017). The study revealed that solvency and underwriting risk has a negative and significant relationship with performance.

Resource-Based View

The resource-based view (RBV) is an approach to achieving competitive advantage that emerged in the 1980s and 1990s, after the major works published by Wernerfelt ("The Resource-Based View of the Firm"), Prahalad and Hamel ("The Core Competence of The Corporation"), Barney, J. ("Firm resources and sustained competitive advantage") and others. The strength of RBV as argued by its proponents is that it is more feasible to exploit external opportunities/prospects using existing (internal) resources in a new way rather than trying to acquire new skills for each different opportunity. In other words, organisations should look inside the company to find the sources of competitive advantage instead of looking at the competitive environment for it. In RBV, resources (Tangible and Intangible) are given the major role in helping companies to achieve higher organizational profitability as long as it possesses.

However, some scholars have criticised the assumption of RBV for example in a paper presented by Priem and Butler in 2001, titled, Is the resource-based "view" a useful perspective for strategic management research? the scholars argued that RBV might be limited in explaining a firm's competitive advantages in changing environments, since it is a rather static theory. In a systematic review of the RVB literature, by Kraaijenbrink et al., (2010), sufficiency critics argued that RBV is insufficient as a theory of the firm (Foss, 1996a, Mahoney, 2001; Priem & Butler, 2001).

The supporters of RBV (Shinkle & Mccann 2014; Fidel et al. 2015; Zhang & Hartley, 2018; Kim et al., 2016; Sulaimon et al., 2021) are in agreement with the assumption of the theory. Advantages of RBV as posited by Monday et al. (2015) is that a firm's unique resources and capabilities are critical for achieving a competitive advantage. This approach helps companies identify and focus on their distinctive strengths, rather than trying to emulate competitors. By leveraging their unique resources, firms can create barriers to entry, differentiate themselves from competitors, and achieve superior performance. The RBV framework guides the examination of the ways in which insurance businesses can strengthen their position in the market, perform better, set goals, cut operating expenses, engage in value-added exchange experiences, and accomplish outcomes that have a positive impact on their profitability.

Methodology

Survey research design was adopted for the study. The target population of the study are the full-time top management employees of the listed insurance companies in Nigeria with a total population of 2183. Sample size of 776 was determined using Kerjcie and Morgan (1970). Proportionate stratified sampling technique was adopted for the determination of number of respondents per selected insurance firm. A primary source of data collection was employed through a structured validated research instrument. Cronbach's alpha reliability coefficients for the constructs ranged from 0.772 to 0.850. The response rate was 86.5%. Data were statistically analysed using descriptive and inferential statistics.

Restatement of Research Question and Hypothesis

What effect do claims management practices have on profitability of selected Insurance Companies in Lagos State, Nigeria?

Descriptive Statistics Table analyses were carried out with related questions covering the study construct for both dependent and independent variables classified in percentages, mean and standard deviation. Interpretations were done and at the end hypothesis was tested as stated below.

H_0: Claims management practices have no significant effect on firm profitability.

Multiple regression analysis was used to test the hypothesis. The independent sub-variables are Claims management practices (claims planning, claims control, claims monitoring and evaluation, claims payment and claims complaint), while the dependent variable was Firm profitability. In the analysis, data for Claims management practices were created by adding together responses of all the items under the various dimensions to generate independent scores for each dimension. Data for Firm profitability was generated by adding together responses of all items under the variable to create index of Firm profitability. The results of the analysis and parameter estimates obtained are presented in Table 1.

Table 1: Summary of multiple regression analysis for effect of Claims management practices on Firm profitability of Selected insurance companies in Lagos State, Nigeria

N	Model	*B*	Sig.	T	ANOVA (Sig.)	R	Adjusted R^2	F (5,655)
664	(Constant)	.758	.023	2.287	0.000[b]	0.917[a]	0.840	695.900
	Claims Planning	.121	.000	3.530				
	Claims Control	.180	.000	4.606				
	Claims Monitoring and Evaluation	.279	.000	7.517				
	Claims Payment	.218	.000	6.086				
	Claims Complaint	.167	.000	4.405				
	a. Dependent Variable: Firm Profitability							
	b. Predictors: (Constant), Claims Complaint, Claims Planning, Claims Payment, Claims Monitoring and Evaluation, Claims Control							

Source: Researchers' Findings 2023

Table 1 shows the multiple regression analysis results for the claim management practices on Firm profitability of Selected Insurance Companies in Lagos State, Nigeria as a case study. The results showed that claim planning (β = 0.121, t = 3.530, $p<0.05$), claims control (β = 0.180, t = 4.606, $p<0.05$), claims monitoring and evaluation (β = 0.279, t = 7.517, $p<0.05$), claims payment (β = 0.218, t = 6.086, $p<0.05$) and claims complaint (β = 0.167, t = 4.405, $p<0.05$) all have positive and significant effect on firm profitability of Selected Insurance Companies in Lagos State, Nigeria. The results of the analysis revealed that all the dimensions of claim management practices (claims planning, claims control, claims monitoring and evaluation, claims payment and claims complaint) have significant effect on firm profitability of Selected Insurance Companies in Lagos State, Nigeria. This implies that, claims planning, claims control, claims monitoring and evaluation, claims payment and claims complaint are important factors among the surveyed Selected Insurance Companies in Lagos State, Nigeria that influence firm profitability.

The *R* value of 0.917 supports this result and it indicates that claim management practices have a fairly strong and positive relationship with the firm profitability of Selected Insurance Companies in Lagos State, Nigeria. The coefficient of multiple determination *Adj.* $R^2 = 0.840$ indicates that about 84% variation that occurs in the firm profitability of Selected Insurance Companies in Nigeria can be accounted for by the components of claim management practices while the remaining 16% changes that occurs is accounted for by other variables not captured in the model. This is also supported by Cohen (2007) who pointed out that multiple correlation coefficients above 0.65 can be considered adequate to inform statistical predictions and decision making. The predictive and prescriptive multiple regression models are thus expressed:

$FP = 0.758+0.121CP+0.180CC+0.279CME+0.218CSP+0.167CSC+U_i$ ---------------Eqn i (Predictive Model)

$FP = 0.758+0.121CP+0.180CC+0.279CME+0.218CSP+0.167CSC+U_i$ ---------Eqn ii (Prescriptive Model)

Where:

CP = Claims Planning
CC = Claims Control
CME = Claims Monitoring and Evaluation
CSP = Claims Payment
CSC = Claims Complaint
FP = Firm Profitability

The regression model shows that holding claim management practices to a constant zero, firm profitability would be 0.758 which is positive. The predictive model is the same as the prescriptive model because all the measures of claims management practices (claim planning, claims control, claims monitoring and evaluation, claims payment, and claims complaint) were significant. This implies that insurance companies in Lagos State, Nigeria can improve their profitability by focusing on the effective management of claims. The prescriptive model further revealed that for every one-unit improvement in claims planning, claims control, claims monitoring and evaluation, claims payment, and claims complaint, there will be an increase in firm profitability of 0.121, 0.180, 0.279, 0.218 and 0.167 units respectively. This means that insurance companies can increase their profitability by investing in improving their claim management practices. Further, the results suggest that claims monitoring and evaluation contribute most to predict profitability. Similarly, the Analysis of Variance (ANOVA) output showed *F*-value (5, 655) of 695.900 and the p-values of 0.000 that the overall model is significant in predicting the effect of claim management practices on firm profitability which implies that claim management practices are important determinants in the firm profitability of Selected Insurance Companies in Nigeria. The result suggests that such Selected Insurance Companies should pay more attention towards developing the component of the claim management practices to increase the firm profitability. Therefore, the null hypothesis ($H_0$1) which states that claim management practices have no significant effect on Firm profitability of Selected Insurance Companies in Lagos State, Nigeria is hereby rejected.

Discussion of Findings

The finding revealed that claims management dimensions of claims planning, claims control, claims monitoring and evaluation, claims payment, and claims complaints have significant effect on the firm profitability of selected insurance companies in Lagos State, Nigeria. These results have been supported by Nurudeen et al. (2020) who investigated the impact of board characteristics and risk management on financial performance of listed insurance firms in Nigeria using a period of (2012 to 2017). The study revealed that solvency and underwriting risk has a negative and significant relationship with performance. Agreeing with the study is Fali et al., (2020) that examined Insurance Specific Risk and Profitability: Evidence from Nigerian Insurance Firms using ex post facto (2009 - 2018) The results of the fixed effect regression model showed that the technical provision and the underwriting ricks had a negative and significant impact on profitability, while the re-insurance risk had a negative and insignificant impact on profitability.

Reshid (2015), that carried out a study into the determinants of the competitiveness of insurance firms in Ethiopia. The study's reported that technological provision has statistically significant and negative relationship with insurers' profitability while the result reveals that underwriting risk have significant and negative effect on insurers' profitability in Ethiopia. The findings of this research work give credence and support to the theoretical assumptions of the resource-based view theory as examined in the literature from the lens of claims management and firm performance. Because it can easily be applied to this study across the research constructs and more applicable compared to other theories. stated that the two main assumptions of RBV are that resources must be heterogeneous and immobile. Heterogeneous means that skills, capabilities and other resources that organizations possess differ from one company to another. If organizations would have the same amount and mix of resources, they could not employ different strategies to outcompete each other. Immobile means that resources are not mobile and do not move from company to company, at least in short-run. The RBV sheds light on the importance and value awarded to the empowerment of employees as they are deemed to be one of the companies' non-imitable assets that will ensure sustainable competitive advantage in the long run. Overall, given how dynamic the RBV theory is, the strategic choice provided complimentary support and theoretical explanation for the interaction between claims management and organisational performance.

In summary, the study found that claims management dimensions such as used in the study significantly affect the firm profitability of selected insurance companies in Lagos State, Nigeria. These findings are consistent with other research studies that have highlighted the importance of claims management in improving firm performance, customer engagement, and decision-making processes. It is therefore important for the insurance companies to carefully assess their specific needs and capabilities in order to determine the most effective strategies for leveraging claims management to drive firm profitability. Overall, this study highlights the growing importance claims management in the in the insurance industry and underscores the need for further research to fully understand its potential impact on business performance.

Conclusion and Recommendations

The study investigated the effect of claims management practices (claims planning, claims control, claims monitoring and evaluation, claims payment, and claims complaints) on the firm profitability of selected insurance companies in Lagos State, Nigeria. The study concluded that Claims management practices dimensions have significant effect on firm profitability of listed insurance companies in Lagos State, Nigeria.

Based on the findings of this study, it is considered pertinent to make the following recommendations:

1. The management of insurance companies in Nigeria should develop a policy to link claims management ancillaries and departments in order to make the sector profitable and sustainable in the long run. Such a policy would be the anchor of actions adopted by or proposed by the firms in matters pertaining to market dominance.
2. Nigeria Deposit Insurance Corporation (NDIC) as the regulatory body is charged with proper monitoring of insurance firms practices to ensure industry compliance and maintain industry best practices.

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