CHAPTER 15

INSURANCE

Objectives

At the end of this chapter student should be able to define insurance; trace the history of insurance in Nigeria, list and explain the basic principles of insurance and state the various types of insurance. They should in addition be able to explain the meaning of underwriting with examples, the role of the insurance brokers and agents; the meaning of export credit insurance and the importance of insurance to business.

15.1 Definition

Insurance is defined as a means of spreading the burden of losses over a large number of those who are likely to suffer losses. In other words, **Insurance is a pooling of risks.** Insurance companies fund their services by collecting contributions (in forms of premiums) from those who are likely to suffer losses in view of the risks they are taking, should an accident happen. From such funds, those who suffer losses would be compensated, while those who suffer nothing receive nothing. This compensation is called indemnity.

Since not all those who undertake risks would suffer losses, the funds are usually more than enough to compensate the few who suffer losses. This is why insurance has been described as the system by which the fortunate many help the unfortunate few.

15.2 History of Insurance

The marine insurance which applies to ship and property at sea is the oldest form of insurance and it started in Italy at about the 12th century. It was followed by fire insurance: which applies to property on land. Life assurance developed later while accident insurance being the result of development in transport and industry came next.

In Britain, marine insurance as the oldest form of insurance came about 300 years ago. It started in a coffee house owned by one Edward Lloyds in London, where merchants engaged in foreign trade agreed to share losses in case of a loss of a vessel. That is why, today, Lloyds of London has become a very important name associated with insurance industry or business. In Nigeria, insurance business started in the 1930s when some companies operating in West Africa, that is UAC and CFAO combined their commercial activities with insurance business on an agency basis representing insurance companies overseas. As at April 9, 1984, there were 89 registered insurance companies in Nigeria owned by Nigerians, Federal and State Governments and some partially by foreigners.

15.3 Basic Principles of Insurance

Insurance policies operate on some important principles. These principles are as follows:-

(i) **Insurance Interest:** This means that, for any policy to be acceptable to the insurance company, the potential insured (or assured in the case of life assurance) must prove that there would be financial loss if the event happened. This is why a partner could take a life policy on his business partner and not on his neighbour. It also means that the policy covers the financial losses of the insured and not the object, person or event.

(ii) **Indemnity:** This is the principle by which the insured, who suffered some losses, is restored to his previous position before the losses. That is to say, the insured can not make a profit out of the happening of the event insured against.

(iii) **The utmost good faith** *(Uberrimae fidei):* This means all known facts about the applicant must be disclosed to the insurance company if the insurance would not be invalidated. For example, any person taking a life assurance policy must state any serious illness he has had before, e.g. ulcer, hypertension, high blood pressure, etc. Such declaration of the whole truth, would enable the insurer to decide whether to accept the policy or not, and if accepted at what premium.

(iv) **Subrogation:** This simply means that once the insured has been indemnified, the insurer takes the place of the insured. For instance, take the example of a new vehicle involved in an accident, once the insurer has paid ₦800,000.00 indemnity to the insured, the insurer has a right to the salvaged value of the wrecked vehicle. Alternatively, if there is claim against a third party in favour of the insured, the insurer has the right to enforce such claim, once the latter has indemnified the insured. In other words, the insured would not be indemnified (paid) twice - by the insurer and then by the third party.

(v) **No over-or under-insure:** Closely associated with the principle of â€˜no loss and no gainâ€™ from insurance policies, is the other principle that an insured must not over-or under-insure his object. For instance, a new vehicle costing ₦800,000.00 on the road must not be insured for any amount over ₦800,000.00 like ₦800,500.00 or ₦ 900,000.00. In the event of an accident in which the new vehicle becomes a write-off, the maximum amount payable would be ₦700,000.00 and not the on-the-road cost of ₦800,000.00. This amplifies the principles of â€˜no loss, no gainâ€™ in insurance policy.

(vi) **Proximate cause:** When an event insured against happens, there may be (a) *effective cause,* and (b) *other factors or causes.* The effective cause is the proximate cause, and an insurer would be liable for any loss caused by proximate cause only.

(vii) **Abandonment:** This principle states that, if the cost of reparation of a damaged object is more than the value of the object, the object is better abandoned. If this happens, the insured would be indemnified for total loss, and the damaged object or its parts would be sold for whatever they could fetch.

(viii) **Contribution:** When a number of insurers are liable under a given policy, the liability of each insurer would be limited only to a proportion of any indemnity payable; and such a fraction payable would be the fraction of the risk each had originally undertaken to bear. For instance, if total amount covered by a policy is ₦20,000.00, and insurer **â€˜Bâ€™** undertakes ₦5,000.00 only, the proportion insurer **â€˜Bâ€™** would pay in case of any loss is:

$$\frac{5,000}{20,000} \quad x \quad 100\% = 25\% \text{ of indemnity payable.}$$

15.4 Types of Insurance

(i) Motor vehicle insurance: Third party - fire and theft - comprehensive.

(ii) Fire insurance.

(iii) Burglary, theft and robbery insurance.

(iv) Fidelity insurance.

(v) Accident insurance

(vi) Life assurance with its many variations.

(vii) Goods or cash in-transit insurance.

(viii) Consequential loss insurance.

(ix) Exportersâ€™ insurance.

(x) State insurance scheme - NPF (National Provident Fund).

(xi) Employersâ€™ liability insurance.

(xii) Marine insurance.

(**N.B.** This list is not exhaustible).

(i) **Motor Vehicle Insurance:** This, in one form or the other, is made compulsory in Nigeria as in most other countries. It is undertaken by the vehicle owner compulsorily. There are three types:

(a) *Third Party Only:* This does not cover the damage suffered by the owner of the vehicle, it covers only the damage done by the vehicle to the third party. This is the one that is compulsory in law in most countries. The idea is that, even if the owner of the vehicle is not indemnified for the loss sustained through the accident, he must compensate the third party for such losses sustained in the motor accident even if the owner of the vehicle has no money. This is the cheapest of the three forms of motor vehicle insurance.

(b) *Third Party, Fire and Theft:* This, in addition to covering the damage done to third party or his property, also provides for compensation for loss arising from fire or theft of vehicle. While this is cheapest than the comprehensive types, it is more expensive than third party insurance.

(c) *Comprehensive:* This covers all the losses to the third party as well as to the owner of the vehicle. It is, therefore, the most expensive of the three. On payment of compensation, it is normal that depreciation of the vehicle is taken into consideration; therefore, it is prudent to insure an old vehicle for just its present market value; otherwise, it would amount to an over-insurance and the insurer would only pay for the present market value in the event of damages.

(ii) **Fire Insurance:** This insurance is taken to cover risks emanating from fire outbreaks. The premium is determined by:-

(a) the structure of the building, e.g. if it is a thatched house, it would attract heavier premium than an iron corrugated roofed house;

(b) if it harbours inflammable materials like rubber, oil, etc. the premium too would be higher.

A fire insurance policy could be with a clause stated as either *â€˜without averageâ€™* or *â€˜with averageâ€™*.

(i) *Without Averageâ€™ Clause:* This entitles the insured to claim the full amount of loss sustained. For instance, if a property which worths ₦10,000,00 is insured for ₦8,000.00 only and damages amounts to ₦5,000.00. The insured could claim the whole of the ₦5.000.00 as damages.

(ii) *â€˜With Averageâ€™ Clause:* In this case, the amount of damages payable would be the fraction which the amount insured forebears to the actual value of the property. For instance, in **the** example in (i) above, the amount payable for damages would work out like

this:

Amount insured	=	₦8,000.00
Actual value of property	=	₦10,000.00
Actual loss	=	₦5,000.00

$$\text{Amount payable} = \frac{(\text{Amount insured X Actual loss}}{\text{Actual value}}$$

$$= \frac{₦(8{,}000.00 \text{ X } 5{,}000.00)}{₦10{,}000.00}$$

$$= ₦4{,}000.00$$

and not ₦5,000.00 as in (i) above.

Fire insurance might take account of the contents of the property, if it is a building occupied by the owner. Otherwise, while the owner takes out an insurance policy against just the physical building, the tenants might take another policy for fire insurance to cover their properties contained therein.

Consequential loss: is not entertained in fire insurance policy. A consequential loss policy must, therefore, be entered into separately.

(iii) **Burglary, Theft and Robbery Insurance:** This covers damages or losses sustained from the breaking and entering of a shop or house by robbers or thieves. It is of particular importance to shop owners or producers with large piled-up stocks.

(iv) **Fidelity Insurance:** This is taken against possible loss of cash through misappropriation of funds by fraudulent cashiers, accountants and accounts clerks. In circumstances where much cash is handled in the accounts section, it is wise to take up fidelity insurance. In determining the premium, the value of cash being handled and the reputation of the accountant matter very much.

(v) **Accident Insurance:** This is usually taken to cover accidents while driving, travelling or working with factory machines. It is particularly of interest to staff and employees engaged at machine manning, travelling as salesmen, or attending conferences.

(vi) **Life Assurance:** This is referred to as *â€˜assuranceâ€™* as against insuranceâ€™ since it is in respect of loss caused by death, which is bound to happen. What is uncertain is when death will happen.

Life assurance is in two forms:

(a) Whole life assurance) Both could be with or without
(b) Endowment assurance) profits.

(a) *Whole Life Assurance:* Under this policy, the sum assured would only be payable after the death of the assured. For instance, a whole life assurance taken for ₦20,000.00 by Mr. **â€˜Yâ€™**, would only be paid after the death of Mr. **â€˜Yâ€™** himself, to his children, wife and relations often referred to as his beneficiaries.

(b) *Endowment Assurance:* This assurance is taken for a fixed period of time, say twenty years, for an assured fixed amount like ₦50,000.00. The premium would be paid for twenty years if the assured lives up to that time, and he (the assured) would receive ₦ 50,000.00 at the expiration of twenty years. However, if the assured died before twenty years, the amount of ₦50,000.00 insured for would be paid to his next of kin. On the other hand, the assured could surrender the policy before the expiration of twenty years and the cash value of such surrendered policy is known as *surrendered value.* If the policy is with profit, the premium is higher than one â€˜without profitâ€™. Then, the amount assured would be paid in addition to some profit, which is part of the profits made by the assurance company.

Life policies can be used as securitie for borrowing money either from the assurance company or any other financial institutions.

Life Assurance is taken for any of the following reasons:

(i) To provide for a lump sum on retirement (endowment).

(ii) To provide for dependants (whole life).

(iii) Repayment of debt at a distant date (endowment).

(iv) Security in respect of future loans (endowment).

(v) A mortgage on house, especially in the event of retirement or death of the mortgager (endowment).

(vi) Rayment of a partnerâ€™s capital in the event of the partnerâ€™s death (whole life).

(vii) Group insurance for employees who would be paid out of the amount assured in the event of retirement or death of any of them.

(vii) **Goods or Cash in Transit Insurance:** This is to cover losses through robbery, fire-outbreak or accident, of cash or goods usually carried by a company from one place to another. It must be emphasized that a business organization would not necessarily undertake this long list of insurance policies. Each organization would choose those policies best advantageous to its business operation.

(viii) **Consequential Loss Insurance: This** insurance takes care of other losses incurred, for example, as a result of fire accident. It pays for damages resulting from the consequences of the fire out-break which the fire insurance itself does not cover. Examples are loss of production of goods; payment of outstanding charges like salaries, rents, interests, etc. and hire of temporary accommodation. It is a complimentary policy to that of fire insurance, accident insurance, etc.

(ix) **Exporter Insurance:** This insurance covers likely risks suffered by exporters in foreign countries. Examples are losses accruing from insolvency of the foreign buyers, prohibition of transfer of funds from the foreign countries, war declaration hampering the sales of the exported goods etc. In the United Kingdom, the export credits department of the department of trade offers such insurance.

(x) **State Insurance Scheme:** In most countries, employers are by law expected to make provision towards pensions or gratuities payable to their employees on retirement. The National Provident Fund (NPF) in Nigeria, and the National Social Security Fund (NSSF) in Ghana are state insurance schemes. Both the employees and the employers contribute equal amounts to the scheme and the employees, on reaching retirement or superannuation age or becoming incapable of work, would receive a lump sum from the fund.

In most countries where pension and superannuation schemes are operated, the governments or the employers make equal amounts of contribution to those of the employees, the total of which is paid to the employees on retirement.

(xi) **Employersâ€™ Liability Insurance:** This is an insurance against any customersâ€™ injury (or any other person for that matter) sustained in the premises of the company, e.g. for a fall accident due to a slippery or uneven shop floor. This also covers loss by customers from the use of the companyâ€™s goods, e.g. where a hair shampoo produced by **a** company is responsible for damaging a customerâ€™s hair.

(xii) **Marine Insurance:** This is the oldest form of insurance and it is statutorily compulsory for both ships and goods to be insured against the perils of the sea. The principal place for marine insurance is Lloyds in London.

Types of marine insurance or policies

(i) *Voyage Policy:* The risks insured against are limited to a specific cargo on a specified voyage. For instance, the **â€˜Orielâ€™** might be insured for one specific voyage from Manchester (England) to Lagos (Nigeria).

(ii) *Time Policy:* This usually limited to a 12 month period; in addition, the period is mentioned, say, from noon of 26 June, 2002 to noon of 25 June, 2003.

(iii) *Valued Policy:* In this policy, the aggregate value of all the goods being consigned as the amount insured against. This type of policy comes handy for merchant trafficking in many goods **at** a given time. Maximum indemnity for total loss is the aggregate value or the actual value of loss, whichever is less.

(iv) *Unvalued Policy:* The value of the goods is unstated. However, the limit of the insurerâ€™s liability is stated, i.e. the sum insured. In the event of a total loss, the insurance company would pay the sum insured or the agreed value of the goods, whichever **is** less.

(v) *Floating Policy:* This evaluates many shipments within one policy, and a considerable value of goods is involved. It is for shippers or merchants who are regularly despatching or receiving specific goods; for instance, an importer of rice from U.S.A. Since the policy exposes underwriters to a non-specific amount of risks, it is usual to insert a specific number of runs to be covered by the policy e.g. 4 or 5 runs from Amsterdam (in Netherlands) to Port-Harcourt (in Nigeria). For the shipper or merchant, it is quite economic. It obviates taking out separate voyage or time policy; though the premium payable is much higher than in voyage or time policy.

(vi) *Open Cover:* This is for an agreed period within which the shipper must declare, and the insurer is bound to accept all consignments within the period of cover. As policies are issued, the premiums are paid while the shipments are carried out.

Types of Marine Losses

Broadly - losses that could be suffered in marine insurance could be divided into two: (i) Total loss and (ii) Partial loss.

(i) **Total Loss:** This can further be sub-divided into (a) actual total loss and (b) constructive total loss.

(a) *Actual Total Loss:* This is when the insured subject-matter is wholly destroyed, lost or damaged i.e., it is not possible to reconstitute the subject-matter (ship or goods) into its original state.

(b) *Constructive Total Loss:* The subject-matter has been justifiably abandoned since it is uneconomic to reconstitute it to its former state. This is where, for instance, it would cost ₦5,000.00 to repair or recover a subject-matter having an original value of ₦3,500.00 only.

(ii) **Partial Loss:** This could be sub-divided into (a) general average loss and (b) particular average loss.

(a) *General Average Loss:* This is loss intentionally incurred in order to save life or preserve cargo and or ship from an impending danger. This could be by jettisoning cargoes into the sea to lighten the ship, or towing of ship to the port. However, such damage or expenditure incurred must be reasonable in the circumstances, and should have been made only to avoid imminent danger. General average loss is usually borne by all interested parties i.e. the ship owner and the cargo-owner. For instance, if lives and the ship are saved by throwing off-board some cargoes, it is fair that all interested parties should bear the loss of such cargoes.

(b) *Particular Average Loss:* This is when the risk insured against occurs by accident e.g. owing to a defect in the ship or in the goods themselves; or due to the roughness of the seas. This loss is borne by the owners of the property affected, or by the insurers.

It is important to point out here that the addition of either ***â€˜withâ€™*** or ***â€˜freeâ€™*** to a particular average loss would change its meaning in a marine insurance. For instance:

* â€˜With particular averageâ€™ (WPA) covers all risks. This might be total or partial.

* â€˜Free of particular averageâ€™ (FPA) means that the insured can not claim damages in the event of a particular average loss. Such a policy only covers total loss and general average loss only.

Some Terms in Marine Insurance

(i) *The Slip:* This is the proposal form for marine insurance filled by the broker, and not by the client, on the basis of the information received from the latter. The slip, like a note, consists of all the information required for marine insurance and it is passed on to the underwriter for the purpose of assessing the premium payable.

(ii) *Jettison:* This is the throwing of goods into the sea in order to lighten a ship when it is in imminent danger.

(iii) *Burglary:* This is the deliberate casting overboard of cargoes without any good cause. It could be regarded as wilful destruction of cargoes or ship, since the ship or goods are in.noHYPERLINK â€œhttp://in.no/â€ in.no danger at all.

(iv) *Captainâ€™s Protest:* It is a sworn testimony of the captain stating details of any losses and their cause.

(v) *York Antwerp Rules:* (YAR) These are the traditional rules generally employed by underwriters and shippers in settling general average claims. (The use of â€˜Antwerpâ€™ is reminiscent of the golden age of Antwerp as the centre of commerce).

(vi) *Certificate of Survey:* This is a claims certificate in respect of damages or losses. It is a certified document from the Lloyds surveyors assessing the amount of damages or losses. It must be presented at every claims.

15.5 Underwriting

This is the process by which a body undertakes to bear all or part of possible losses designated by someone, through the signing of an insurance agreement. An underwriter is one who underwrites insurance policies. In other words underwriting in insurance simply means the â€œbusiness of insuranceâ€ and the underwriter is simply the insurer - such as the National Insurance Corporation of Nigeria. The underwriter fixes the rate of premium for cash underwriting business and describes the terms of which he is prepared to accept the underwriting insurance proposal.

15.5.1 Re-insurance: (NICON and the Nigerian Re-insurance Corporation)

NICON is owned by the Federal Government of Nigeria; it was set-up in 1969 by Decree No. 22. Before then, the bulk of insurance business, especially the re-insurance connected with the Nigeria foreign trade was handled in London and other foreign capital of the world. The net effect of this was a massive drain on Nigeriaâ€™s foreign reserves. The Nigerian governmentâ€™s answer to this challenge was the incorporation of NICON, which has since been saving Nigeria a colossal amount in foreign exchange in connection with insurance business in foreign trade. The Nigeria Re-Insurance Corporation (the counter part of NICON) was set-up by Decree No. 49 of 1977 for re insurance functions.

Functions of NICON

(i) It undertakes the insurance of all the properties belonging to the federal government and federal government corporations.

(ii) It engages in all types of insurance, including life assurance and re insurance business.

(iii) It designs training schemes and conducts training for employees of any registered insurance company.

(iv) It acts as an insurance broker or agent to other insurance companies.

(v) In 1976, it took shares in some privately owned companies, thereby turning some private monopolies in insurance business into public ownership.

(vi) It has, by its participation in private insurance companies, been able to release some of the funds and profits formerly in private hands for public investments to the well-being of the general public.

(vii) The re-insurance business aspect of NICON in particular, has now guaranteed that much of the funds hitherto remitted overseas are made available for domestic investment programmes. The countryâ€™s hard earned foreign exchange is, therefore, being saved and converted.

As at 23 March, 2004 the underlisted are some of the Insurance and Re-Insurance Companies which have complied with the requirement of Insurance Act 2003 and have been approved by the National Insurance Commission, the apex body that regulates insurance business in Nigeria.

	Name of Company	Scope of Business
1.	African Alliance Insurance Co. Ltd.	Life only
2.	AIICO Insurance Plc	Composite
3.	Atlantic Insurance Co. Ltd	General Business Only
4.	Baico Insurance Plc	Life Only
5.	Bendel Insurance Plc	General Business Only
6.	Continental Reinsurance Plc	Composite
7.	Crusader Insurance Plc	Composite
8.	Great Nig. Ins. Co.	Composite
9.	Guinea Insurance Plc	Composite
10.	Inter-Continental Ass Co	General Business Only
11.	Law Union & Rock Ins.	Composite
12.	NICON Insurance Corp	Composite
13.	N.E.M. Ins. Plc	Composite
14.	Nigerian Alliance Assurance Corp.	General Business Only
15.	Piccadilly Insurance Co.	General Business Only
16.	Phoenix of Nig. Assurance Plc	General Business Only
17.	Royal Exchange Assurance Plc	Composite
18.	Standard Life Assurance Co. Ltd	Life Only
19.	Trans-Nigeria Assurance Co. Ltd.	General Business Only
20.	UNIC Insurance Plc	General Business Only
21.	Vigilant Insurance Co. Ltd	General Business Only

Insurance Companies and their Scope of Business:

Insurance Companies are registered in three categories according to the scope of business each of them is interested in.

Insurance Companies that register with ₦350 million have composite scope of business. This means that they are free to transact any insurance business, e.g. general business and life.

Another category is the general business group. The insurance companies in this group can transact any insurance business except life assurance. The registration fee is ₦200 million.

The third group are those whose business is life assurance only. This group will not be allowed to transact any other insurance business except life. The Registration fee for this group is ₦150 million.

15.6 The Role of Insurance Brokers and Agents

In Nigeria, as in all other West Africa countries, the public is unaware of the advantages of insurance. Hence, the insurance companies actively engage in giving publicity to insurance services. In addition to press, television and radio advertisements, insurance companies employ agents who go round the public solicitating patronage for the companies. The agents, like brokers, earn a commission based on the percentage of premium paid by the clients they succeed in winning for the company.

Conditions under which an Insurance is possible

(i) Where a number of people are likely to suffer losses from a particular event happening, e.g. motor accidents, or fire on a premises.

(ii) Where only a small number would actually suffer the loss - this is why the fortunate many are said to help the unfortunate few.

(iii) Where through past experience or statistical investigation, it is possible to assess the probable total loss.

(iv) Where the losses, when they do occur, might be absorbed by the insurance.

(v) Where the repercussion of the losses might have wide ranging consequences beyond a firm or individual suffering the losses directly; for instance, the burning down of a major Nigerian oil depot would have repercussion beyond the direct losses suffered by the Nigerian National petroleum Corporation (NNPC).

15.7 General Procedure in Taking up an Insurance

By practice, insurance companies have no direct contacts with the public, just like the stock exchange. All transactions are through the insurance brokers. The clients approach the brokers, who offer the clients a proposal form to fill; and which when completed, is passed on to the insurance company.

On the basis of the filled proposal forms, the insurance company decides whether or not to accept the policy, and if accepted, the premium payable is stated. The premium, by mutual agreement, can be paid by instalment if not paid in bulk. By accepting the proposal form, the insurer has accepted the risk for the duration of the policy.

A cover note confirming the acceptance of the policy would be issued temporarily pending the issue of the final certificate for the policy. In the case of vehicle policy, a cover-note has a statutory duration of thirty days only, after which another should be issued if as at that date, the issue of the final certificate has not been effected.

15.8 Non-Insurable Risks

Although insurance is an aid to business, it must be emphasized that not all business risks are insurable. The non-insurable business risks are:

(i) *Loss of profit through maladministration:* Administration is organizing and directing all the resources (manpower, materials and money) of a business into attaining the objective of the business, i.e. maximum production. There is no substitute for good administration, a manager would either engage in good administration to make the business suffer considerable loss; maladministration cannot be insured against.

(ii) *Loss of profit through change in fashion:* The business world is a dynamic one. Business forecast and ability to take prompt advantage of change is part and parcel of the business world. An entrepreneur must be capable of comprehending and apprehending the changing world of commerce to be able to succeed. Failure to appreciate that tastes change with time cannot be insured against; it is an inherent part of business prospects and opportunities.

(iii) *Loss of profit through competition:* The world of business is a competitive one. Ability to appreciate the existence of competitors and anticipate their next lines of action is an inherent quality of good entrepreneur. This quality could not be substituted by insurance policy, success in business is a matter of survival of the fittest.

(iv) *Loss through gambling:* Gambling is a game of chance, if one gambles one might suffer loss, but if one does not gamble, one would not suffer any loss. This is not the case with all insurable risks, whatever one does, an event might happen, involving heavy losses, e.g. for life assurance, death could come any day and at any time. Secondly, there are no realistic available statistics on which the premium for such an insurance can be calculated and the losses incurred assessed. For these reasons, losses through gambling are non-insurable.

15.9 Export Credit Insurance

In International Trade, the risks faced by the exporter of goods are greater than those suffered in transit trade on loss of goods or damage. The two risks in international trade are buyer risks and miscellaneous risks. Most of the risks in international trade are mostly buyerâ€™s risks since most of the transactions are on credit.

Buyerâ€™s risks is the inability of the buyer to solve the goods insolvency. Political risk arises from political upheaval or war in the buyerâ€™s (importerâ€™s) country or between the buyerâ€™s (importerâ€™s) and sellerâ€™s (exporterâ€™s) countries.

Transfer risk is the loss through fluctuations in the rate of exchange (currencies exchange rates). Other risks (miscellaneous risks) associated with export are non-renewal or cancellation of export licences.

These risks stated here are covered by special insurance known as Export Credit Insurance. Such Insurance can be provided by some Merchant Banks through factoring. A government department whose function is to provide insurance cover for these greater risks involved in export trade is the Export Credit Guarantee Development (ECGD). Although the ECGD does not provide finance to the exporter but it ensures that insurance cover is available for the buyerâ€™s political - transfer - and miscellaneous risks above. The ECGDâ€™s policy, also enhances the exportersâ€™ ability to obtain loan from the banks.

15.10 The Importance of Insurance to Business

We live today in the world of businesses - small and big, national and multi national - in which colossal amounts of capital (millions or even billions of naira) are invested in a variety of businesses. Building machineries and plants are employed for the purposes of production. There could be accidental outbreak of fire and floods, all doing incalculable damage to properties and goods, or even workers of the company. If the business can not be indemnified against such losses, a typical entrepreneur would naturally loathe to take business risks. This is the place of insurance in business - it reassures the entrepreneur that accidental losses would be taken care of, and the business would be put back into its former financial position. This is one reason why insurance is an aid to business.

The other reason is that, once the business is indemnified of the losses, the entrepreneur does not have to pass the bulk of the losses to the consumers in forms of higher prices. In other words, at the face of heavy losses, insurance helps the business world to keep prices stable.

15.11 Insurance Terms

(i) **Proposal Form:** It is questionnaire form designed by the insurance company and supplied to the potential customer to fill. The information given by the potential customer would enable the insurance company to decide on whether to accept or not to accept the policy; and if accepted, to decide on the amount of premium.

(ii) **Policy:** This has dual usage. When it is stated as an insurance policy agreement, it means the actual contract between the customer and the insurance company; whereas when it is simply addressed as â€˜insurance policyâ€™, it means a category or class of insurance like fire, accident, or motor vehicle insurance.

(iii) **Premium:** This is the amount paid by the insured to the insurer (the insurance company). Premium could be paid weekly, monthly or yearly. The amount of premium is determined by the following factors:

  (a) *The Risk Involved:* Where the risk insured against is high, the premium payable will be high. A forty-five year old man is presumed to be nearer death than a twenty-year old young man. The former, therefore, would pay a higher premium for life assurance policy of the same amount insured.

  (b) *Amount Insured For:* Again, when the amount insured for is high, the premium would be high.

(c) *Number of People Insuring Against the Same Risks:* Where a good number of people are insuring against the same risk, e.g. a fire accident policy, the premium payable is normally small. On the other hand, where, for instance, a musician is insuring against the loss of his voice, there are not likely to be many people in this category of insurance; he would, therefore, likely pay much higher premium.

(iv) **The Insured:** The person who is insured against any risk; or one who takes up an insurance policy cover. He is the one indemnified in the event of a loss.

(v) **The Insurer:** This is the insurance company who gives the insurance cover. He pays the insured in the event of a loss.

(vi) **Insurable Interest:** This means that the insured has interest in the object being insured. It means the insured would suffer loss of the event that happened. For instance, if oneâ€™s house is burnt, one would suffer losses. Hence, one has insurable interest in taking a fire insurance policy cover on oneâ€™s house. However, one would not suffer personal loss if the house of oneâ€™s neighbour is burnt down. Consequently, one has no insurable interest on oneâ€™s neighbourâ€™s house and would not obtain a fire insurance policy cover on it.

(vii) **Indemnify:** This means making for any losses suffered if the event of the risks insured against happened. It is compensating the policy holder for the losses suffered.

(viii) **Idemnity:** This is the amount of compensation paid to the insured for the loss incurred.

(ix) **Certificate:** This is a paper, a documentary evidence that a policy exists.

(x) **Cover note:** This is a temporary evidence offering protection while the policy is being drawn up. It is offered pending the issue of the actual certificate. It is valid usually for thirty days only, and would have to be re-issued if after thirty days of issue, the final certificate is not yet ready.

(xi) **Warranty:** It is the condition that the insured must fulfil, if the policy would not be declared null and void.

(xii) **A Broker:** He sells insurance to the insured on behalf of the insurance companies (insurers). In return, he gets a commission known as *brokerage* paid by the insurers. Brokers usually form themselves into companies.

(xiii) **Agent:** He helps to arrange insurance, usually on part-time, with a number of people on behalf of the insurer.

(xiv) **Actuary:** He calculates the premium payable, adopting statistical information and use of past experience, on any new policy.

(xv) **Assessor:** He assesses the amount payable to the insured by the insurer in the event of any suffered losses.

(xvi) **Underwriter:** This is an insurer in marine insurance and he is a member of Lloydsâ€™ Association of Insurer. He is an underwriter because he undertakes a fraction of the risks in a marine insurance, and writes his name for the amount so taken under the policy. For instance, if a ship were insured for ₦1,000,000.00, ten underwriters might decide to share the risk for ₦100,000.00 each. They would each write their names for the amount of risk undertaken and their individual liabilities are limited to the ₦ 100,000.00 should the event insured against occur.

(xvii) **Endorsement:** This is when another condition is added to a policy to vary the original intention.

(xviii)**Amount Insured:** This is the amount of loss the insured expects should the event occur, and it is the amount paid by the insurer as compensation for the loss incurred when the event occurred. It is also one of the deteminants of the premium payable.

(xix) **Surrender Value:** This term is peculiar to life assurance policy, it is the amount the insurance company would pay the assured in the event of discontinuing with the life policy.

(xx) **Loan Value:** This is the amount of loan, usually 95%, of surrender value which the assurers are prepared to lend to the assured, on security of the loan.

(xxi) **Ex-gratia Payment:** These are payments made by the insurance company-outside itâ€™s legal obligations, i.e. merely out of sympathy to the insured who has not met the conditions for being paid the amount insured for.

(xxii) **Re-insurance:** This is the means by which insurance companies spread their risks by passing on some of their less desirable risks to other insurance companies known as *re-insurance companies.* Both the insurance and the re-insurance companies share the receipt of the premiums paid by the insured and also share the payment of the amount insured should the loss insured against occur. However, the insured does not have direct dealing with the re-insurance companies.

(xxiii) **Insurance:** It is used for events which merely have probabilities of happening, e.g. for a fire or an accident insurance, fire outbreak or accident may or may never occur.

(xxiv) **Assurance:** This is a term used for events with possibilities of occurrence, or which must happen. For instance, in life policy.

(xxv) **Consequential Loss:** This is loss arising out of the event insured against happening. For instance, with fire outbreak, not only would properties be damaged, there would be loss due to stoppage of production. This is consequential loss and must be provided for separately from the fire policy.

Summary

Through insurance, all those who are likely to incure some losses (the insured) make periodical payment (known as premium) to an insurance company from which pool of payments the insurance company (the insurer) makes good any losses incurred by any of the insured, i.e. the latter is indemnified. Those who suffer no losses need no indemnity.

Some risks are insurable, e.g. loss of goods through fire or of cash through stealing; while some are not insurable, e.g. losses through changes in fashion or competition or gambling.

Broadly the types of insurance discussed here are:-

(a) Those for safe-guard of property of inland enterprises - e.g. fire - against loss of property goods, etc.

Burglary - against stealing to robbery.

Motor Vehicle Insurance - against accidents involving motor, vehicle transports.

Fidelity - loss of cash through accounting officer, etc.

(b) Those for Safe-guard of Loss of Life -

Endowment - reclaimable in life time after the expiration of a pre determined fixed period.

Life Assurance - Payable to the dependant of the insured after the latterâ€™s death.

(c) Those for safe-guard of imports and exports on the high seas, i.e. marine insurance which is classified as voyage policy, time policy floating policy, valued and unvalued policies. NICON - The National Insurance.

Revision Questions

A. Essay Questions

1. (a) What is Insurance?

   (b) How is it an aid to business or commerce?

2. (a) Explain what is meant by non-insurable risks.

   (b) Give four examples of non-insurable risks.

3. Explain any four of the following Insurance principles.

   (a) Utmost good faith

   (b) Over- or under-insurance

   (c) Subrogation

   (d) Proximate cause

(e) Abandonment

(f) Insurable interest

4. Write short notes on the following pair of insurance terms: -

A. Proximate cause and insurable interest.
B. Underwriting and re-insurance.
C. Pooling of risk and subrogation.
D. Export credit insurance and life assurance.
E. Insurance policy and proposal forms.

NECO 2002

5. (a) Explain briefly the importance of insurance as a service to business.

(b) Within the context of 5(a) above write fully on the role of insurance agents.

B. Objective Questions

1. If an assured has taken an insurance policy against death by accident and actually dies of malaria fever, which of the following would prevent his beneficiary from being compensated?

A. Subrogation
B. Proximate cause
C. Contribution
D. Insurable interest

WASSCE 1999

2. Which of the following is an uninsurable risk?

A. Burglary
B. Personal Accident
C. Change in Fashion
D. Fidelity Guarantee

WASSCE 1999

3. What is not a principle of an insurance?

A. Contract contribution
B. Indemnity
C. Insurable interest
D. Premium
E. Subrogation

NECO 2001

4. What best explains the principle of â€œsubrogationâ€ in insurance?
   A. Both parties to the insurance contract must deal openly and honestly with each other and disclose all relevant facts.
   B. The right that a person has to stand in the place of another and enjoy all the rights and remedies of that other person.
   C. There must be a close connection between the risk insured against and the cause of the loss.
   D. The insured who insures one risk with more than one insurer can only recover to the extent of the loss and nothing more, in the occurrences of the event.
   E. The insured discloses all the materials facts which would affect the premium which the insurer charges.

NECO 2001

5. The transfer of risks already undertaken from one insurance company to another is:

   A. Over-insurance
   B. Re-insurance
   C. Under insurance
   D. Groups insurance

WASSCE 2002

6. The principle of subrogation imposes an obligation on the insured to:

   A. Disclose all material information.
   B. Have financial risks in the object insured,
   C. Collect compensation from only one insurer.
   D. Surrender all rights after compensation.

WASSCE 2002

7. An insurance policy is a document stating the

   A. Amount of compensation to be paid.
   B. Amount paid regularly to the insurance company.
   C. Principles of insurance.
   D. Terms of agreement.
   E. Way insurance companies are organized.

NECO 2002

Use the following information to answer question 8 -10 below

   A. Loan value
   B. Surrender value
   C. Ex-gratia payment
   D. Endorsement

8. Payments made by the insurer outside the legal obligations.

9. Percentage of the surrender value that assurers are prepared to loan to the assured.

10. The amount the insurance company in life assurance policy, would pay the assured in the event of discontinuing with the life policy.

Project

1. Give five names of insurance companies and two names of insurance brokerage companies in your locality.

2. What is the difference between an insurance company and insurance brokerage company?

3. Ask daddy or mummy to give you a full list of insurance schemes undertaken at:
   (i) Home and
   (ii) At their offices.