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EFFECT OF CLAIMS SETTLEMENT ON PROFITABILITY OF INSURANCE BUSINESS IN NIGERIA

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Abstract: This study examined the effect of claims settlement on the profitability of insurance business in Nigeria. The objectives of the study were to examine the effect of non-life insurance business claims settlement on the profitability of insurance companies in Nigeria and to assess the impact of life insurance business claims settlement on the profitability of insurance companies in Nigeria. An ex-post facto research design was employed. Data for the study was collected from the annual publications of the Nigerian insurance digest and National Insurance Commission for 10 years' period 2012-2022. Regression results revealed that claims paid by either life or non-life insurance business have statistical significant effect on the profitability of insurance business in Nigeria. The study recommends that insurance company should embrace strategies for customer satisfaction through effective and efficient claims settlement practices, there should be proper risk management system and that insurance companies should have a claims management department properly structured with highly technical, trained and experienced staff so as to manage the claims settlement process properly, knowing fully well that a well-managed claim leads to profitability through customer retention.

Keywords: Claims Settlement, Life Assurance, Non-Life Assurance, Insurance Business, Profitability

INTRODUCTION

One critical aspect of insurance business is claims settlement, which involves compensating policyholders for covered losses. Claims settlement, which

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refers to the process of assessing, evaluating, and paying insurance claims, is a fundamental aspect of the insurance industry (Investopedia, 2021). The efficient and effective settlement of claims is vital for maintaining customer trust, attracting new clients, and sustaining profitability in the insurance sector. Insurance plays a vital role in mitigating risks and providing financial protection to individuals and businesses. Timely and fair claims settlement is crucial for maintaining policyholders' trust and confidence, as well as for ensuring the financial stability and sustainability of insurance companies (Lalithchanadra and Kumari 2015). However, the impact of claims settlement on the profitability of insurance companies in Nigeria remains an area that requires thorough investigation. In Nigeria, the insurance industry has experienced significant growth over the past decade, but it also faces various challenges. Claims settlement practices have been a matter of concern, with reports of delays, disputes, and inadequate compensation experienced by policyholders. These issues can negatively impact the profitability of insurance companies and erode public confidence in the industry (Investopedia, 2021).

There are various factors that influences claims settlement, which includes regulatory frameworks, operational efficiency, financial stability, customer satisfaction, and the nature of insurance products. These factors have an impact on profitability of insurance company and there exist a link between insurance claims settlements and profitability (Oladunni, 2021).

The profitability of insurance companies is a key indicator of their financial performance and long-term viability. It is influenced by numerous factors, including claims settlement efficiency, underwriting practices, investment strategies, and regulatory frameworks. Understanding the specific influence of claims settlement on profitability is essential for insurance companies, regulators, policymakers, customers, industry associations, professionals, and researchers in the Nigerian insurance industry so as to be able to make informed decisions and improve industry performance.

According to Ekundayo (2012), the claims settlement process directly affects the loss ratio of an insurance company. The loss ratio is the ratio of claim payments to the premiums collected. Inefficient or ineffective claims settlement practices can lead to higher loss ratios. Delays in settling claims, inadequate investigation procedures, or wrongful payments can result in excessive claim amounts paid out by the insurer. These inflated claim payments inflate the loss ratio, reducing profitability as a larger proportion of premiums are expended on claim settlements. Claims settlement also affects the underwriting risk of insurance companies.

If claims are not properly assessed, investigated, and settled, it can result in higher underwriting risks. Inadequate scrutiny of claims can lead to a higher likelihood of fraudulent or inflated claims, increasing the overall risk exposure of the insurer and potentially leading to financial losses (Yusuf and Dansu 2014). If claims are settled fairly, promptly, and transparently, it enhances the insurer's reputation and can attract more customers. Conversely, if claims settlement is perceived as slow, unfair, or lacking transparency, it can harm the insurer's reputation, leading to a loss of trust and potential loss of business (Ogunnubi, 2017).

The profitability of insurance businesses in Nigeria has been a matter of concern and interest for industry stakeholders, policymakers, and investors. In recent years, there has been a growing recognition of the crucial role played by claims settlement practices in shaping the financial health and sustainability of insurance companies.

There have been sparse of literature on claims management and insurance profitability in Nigeria. Among the prominent scholars that have investigated effects of claims management on firm performance is Yusuf and Dansu (2014); Ogunnubi (2017); Yusuf, Ajemunigbohun and Alli (2017); Oyedokun and Gabriel (2018); Ajemunigbohun, Isimoya and Ipigansi (2019) to mention but a few. However, most of these researchers have employed primary data (questionnaire) as a research instrument for their study. This research gap hampers a comprehensive understanding of the factors influencing profitability and the potential impact of claims settlement practices on the profitability of insurance businesses in Nigeria. To this end, this study generates relevant research questions that will shed light on the intricate dynamics between claims settlement and profitability of insurance company in Nigeria. The research questions for this study are:

1. How does non-life insurance business claims settlement have an impact on the profitability of insurance companies in Nigeria?
2. How does life insurance business claims settlements affect the profitability of insurance companies in Nigeria?

LITERATURE REVIEW

Conceptual Review

Concept of Insurance Claims Settlement

Claims settlement is an insurance mechanism established for the purpose of indemnity. that is, bringing an individual who had suffered loss back to the position they were before the loss occurred (Insuranceopedia, 2023). The basic principle and objective underlying the whole essence of contract of insurance is the compensation and indemnification of the policy holder when the peril insured against occurs (Dorfman, 2015). It is the assurance by the insurer that, with the insured paying premiums when due, the insurer will restore or compensate the insured to his pre-loss position.

For an insurance company, claim settlement is one of its core activities. It is the chance to show that the years spent paying premiums were worth the expense (Butler & Francis, 2015). According to the Association of Insurance and Risk Managers in Industry and Commerce (2009), settling claims legitimately is a representation of the delivery of the promise at the heart of the insurance contract, which in fact indicate excellent claims handling service that is considered as a differentiator that separate them from their competitors.

According to Investopedia (2021), insurance claims settlement process refers to the series of steps involved in resolving an insurance claim filed by a policyholder or beneficiary. It involves the assessment, verification, and payment of the claim based on the terms and conditions of the insurance policy. According to Capgemini (2011a), claims processing is the mirror to the customer that enable the insurers' drive at improving customers' acquisition, expectation, retention and business' insight for product enhancement and company's profitability.

Quite a number of recent studies such as Capgemini (2011b), Michael (2008) and Rose (2013), had revealed that insurance company's management of claims settlement process is an integral link to its profitability and continuous survival, and also, mentioned that good claim management ought to be proactively conducted in acknowledging and paying claims legitimately; and then, evaluating accurately the claims reserve. An excellent claims settlement service is an insurance company's competitive edge Association of Insurance and Risk Managers in Industry and Commerce (2009),

According to an earlier remark by the Organization for Economic Co-operation and Development (2004), a good insurance claim settlement process should involve: claims reporting; receipt of claims by the company; claims files and procedures; fraud detection and prevention; claims assessment; timely claim process; complaints and dispute settlement; and supervision of claims-related services. Claims settlement process however, differs in both life and non-life insurance business. In life insurance, the claim is typically triggered by the death of the insured or the maturity of the policy. For non-life insurance, the claim is triggered by specific events or losses that are covered under the policy, such as an accident, theft, fire, or natural disaster. Also, Life insurance claims generally require less investigation since the cause of death or maturity is often straightforward. Non-life insurance claims may involve more investigation to assess the cause, extent, and validity of the loss or damage. For example, an insurance adjuster may assess a car accident, evaluate property damage, or investigate the circumstances surrounding a health insurance claim. Additionally, Life insurance claims typically involve a lump-sum payout to the beneficiaries or policyholders. Non-life insurance claims may have different payout structures depending on the coverage. For example, property insurance may involve reimbursement for the repair or replacement costs, liability insurance may cover legal expenses or compensation, and health insurance may involve direct payments to healthcare providers.

Life Assurance Claims Management

According to Okhakia (2010), life assurance policy is a contract on longevity of human life between the insurance company and the life assured wherein the insurer promises to pay a lump sum or agreed installment at maturity or prier death of the life assured, on the receipt of small installment payments/ premiums on due date. Life assurance companies generally design and package different products to meet individual needs and these products include whole life polices (with or without profits), investment linked policies, group life polices, and health insurance scheme among others.

Life insurance is yet to become big business in Nigeria, and the services that emanated therefrom are tagged "unsought products' (Onigbinde, 2018). The unsought products, according to Kotler and Armstrong (2006) are products that the consumers either do not know about or know about but do not normally think of buying. Meanwhile, life insurance is widely acclaimed worldwide an index of measuring the degree of sophistication and maturity of a given industrialized economy. In the United States of America, on the average, 6 per cent of disposable incomes are paid to life insurance companies as premium. A nearer example in sub-Saharan Africa is South Africa where life insurance premium is up to 9 per cent of the Gross Domestic Product (Gbede, 2003). In Nigeria, however, life insurance products are not as marketable as they ought to be in an economy that is supposed to be in ascendancy. A number of reasons have been advanced to the abysmal patronage of life insurance products in Nigeria.

It is important to state that for any individual or group to take a life assurance policy, the most important principle of insurance needed is insurable interest. According to Okhakia (2010), the categories of people having insurable interest include husband/wife, creditor/debtor, mortgagor/mortgagee, employer/employee, club/members, trustees and administrators among others. The principle of insurable interest states that for insurable interest to arise, the individual or organization concerned must stand to benefit as a result of the continued existence of preservation of the subject matter of insurance or loose as a result of damage to it (Okhakia, 2010). Therefore, blood relation such as brothers and sisters cannot insure one another.

The National Insurance Commission (NIC) and Life Insurance Council (LIC) gave a guideline for the settlement and payment of life assurance claims emphasizing that insurers are expected to settle claims in a fair and prompt manner.

For faster claim processing, it is essential that the claimant submits complete documentation as early as possible. A life insurer will not be able to take a decision until all the requirements are complete. Once all relevant documents, records and forms have been submitted, the life insurer can take a decision about the claim. Investigation is the next important step. Following the acknowledgement of receipt of claims notification, the insurer will investigate the claim as quickly as possible and where it lacks expertise, an expert such as a loss adjusters will be appointed to assist in investigating the claim. The policyholder will also assist in the investigation by providing all information in relation to the claim.

Non-Life Insurance Claims Management

According to Insurance Act 2003, non-life insurance business is sub-divided into eight (8) categories: Fire Insurance business; General Accident Insurance business; Motor Vehicle Insurance business; Marine and Aviation Insurance business; Oil and Gas Insurance business; Engineering Insurance business; Bonds, Credit guarantee and Suretyship Insurance business; and Miscellaneous Insurance business.

The general procedure for claims settlement in non-life insurance business according to National Insurance Commission include;

1. There must be a formal notification of any event that is likely to give a rise to a claim under the policy, promptly or immediately. This could be done in writing, verbally or via phone, and must conform to the requirement in this regard as stated in the policy.

2. The insured is also expected to prove that he has actually suffered a loss, and this is done by way of documentation. The level and nature of documentation depends on the class of business. Failure on the part of the claimant to prove his loss convincingly or satisfactorily within a reasonable time may lead to repudiation of liability.
3. The investigation process ensure. This process entails, registration of claims, acknowledgment of notification, determination of the existence of insurance cover, appointment of assessor(s)/loss adjuster(s), review of the reports submitted by assessors/adjusters, admission or repudiation of the claim.
4. Finally, admitted claims proceed to the stage of making an offer for eventual settlement.

Concept of Insurance Profitability

The essence of setting up a business organization is to make profit (Okoli, 2011). Without profit, a business is bound to fail as it would not be able to meet some of its short – term obligations and goals. Profit is the financial return or reward that entrepreneurs aim to achieve to reflect the risk that they take. It is the difference that exists between revenue and cost. That is, Profit equals total revenue (TR) less total cost (TC).

Ayele (2012) also defines profit as the difference between total earnings gotten from all assets and total expenditure on managing entire asset-liabilities portfolio. It should be noted at this point that profit and profitability are two different words though they are used interchangeably. Profit is the financial return or reward that entrepreneurs aim to achieve to reflect the risk that they take while Profitability is ability to continually make profit from all the business activities of an organization, company, firm, or an enterprise for over a long period of time. It shows how efficiently the management can make profit by using all the resources available in the market. It measures management efficiency in the use of organizational resources in adding value to the business (Owolabi and Obida, 2012).

Profitability, is an undeniable factor for the continued existence of business globally, this is because, no business owner goes into business with a setback and loss-control mindset, therefore, the sole aim of entering into the business arena is to make profit. (Okoli, 2011) also adds that without profit, a business will not be able to grow and meet some of its short term obligations and goals. Profit serves as a source of dividends and growth to an investor and management, whereas, it serves as additional security against insolvency to the insured and regulators (Ayele, 2012). (McClenahan, 2015) argues that profitability has a golden ring to investors and insurers, whereas, to policyholder of a stock insurer, it appears like a mark-up, and to the policyholders of a mutual company.

The volume of business underwritten rose from N365billion in 2017 to N413billion in 2018 representing an average annual growth rate of 13.4% due to brief spell of respite in the operating environment, commencement of major infrastructural projects across the country, increased regulatory support through the implementation of inclusive insurance initiatives - Micro insurance, Takaful and Bancassurance. The non-life premium grew by 15.6% from N203billion in 2017 to N235billion in 2018 while the Life business grew by 10.6% from N161billion to N178billion in 2018 respectively. The Industry also recorded an increase in its Investment Income from N65.88billion in 2017 to N77.93billion in 2018 representing 18.3%. The profit after tax grew from N35.5 million to N31.5 billion (Nigeria Insurance Digest, 2018).

The 2019 financial year was a favorable one also, with growth in gross premium written (GPW) rising from N413billion in 2018 to N490 billion representing an annual growth rate of over 18.6%. The life business recorded a remarkable growth of 29.2% from N178billion to N230billion. Similarly, premium for non-life business grew by 10.6% from N235billion to N260billion while investment income rose from N77billion to N98billion representing a percentage increase of 29.3% over the last one year. The profit after tax skyrocketed from N31.5 billion to N42.6 billion (Nigeria Insurance Digest 2019).

Regulatory bodies of insurance companies either encourage profitability when faced with solvency, or try to reduce it when regulating rates. In recent times, profitability of insurance companies has been debated against her sister (banking) industry, however, for insurance companies to stand out profitably like the banking sector, it must be adequately functional in not just underwriting practices but claims settlement practices also Anaesoronye (2010). It also embraces the assertion of Nguyen (2006), that profitability is regarded as a very essential goal of financial management because the principal aim of financial management is to maximize the owner's wealth, because of this, profitability is an essential determinant of performance in insurance companies. Insurance business profitability is influenced by a multitude of factors, ranging from effective risk assessment, investments of income, loss ratio and expense ratio (Oladunni and Eche, 2022)

Theoretical Review

Hawley's Risk Theory of Profit

Hawley's Risk Theory of Profit was propounded by F.B. Hawley in 1893. He believed that those who have the risk taking ability in the dynamic production have a sound claim on the reward, called as profit. Simply, profit is the price that society pays to assume the business risk. The risk in business may arise due to several factors,

The major reason behind the Hawley's opinion that profit should be maintained over and above the actuarial risk is that the assumption of risk is annoying; it leads to trouble, anxiety, and disutility among the businessman of several kinds. Thus, assuming risk grants entrepreneur a claim to a reward above the actuarial business risk.

Hawley's risk theory of profit is based on the assumption that profits arise from the factor ownership, as long as the ownership involves risk. Hawley believed that an entrepreneur must assume risks to qualify for the additional rewards (profit). On the contrary, if he avoids the risk by insuring against it, then he would cease to be an entrepreneur and would not be entitled to profits. Thus, it can be concluded that it is the uninsured risk from which the profit arises and until the product is sold an entrepreneur's amount of reward cannot be determined. Hence, in Hawley's opinion, the profit is a residue and therefore his theory is called a residual theory of profit. Thus, when claims are overpaid, insurance business profitability is negatively affected.

Empirical Review

Owolabi, Oloyede, Iriyemi and Akinola (2017) investigated the nexus between risk management and profitability of insurance Company. Using the expo facto research design, it was found out from the result of their regression analysis that financial risk management practices, operational risk management practices and strategic risk management practices have a positive and significant effect on the profitability of insurance firm.

Yusuf and Dansu (2014) carried out an empirical investigation on the association linking claims cost and profitability in the non–life sector of the Nigerian insurance industry over the period of 2002 to 2011, the study evidently found from the expo-facto research design via regression analysis result that profitability directly associates with net claims and expense ratio but associates indirectly with loss ratio.

Yusuf and Ajemunigbohun (2016) assessed the effectiveness, efficiency and promptness of claims handling process within the Nigerian insurance industry. The study employed a cross-sectional type of survey design and a judgmental sampling technique was employed and relevant data were gathered through the use of structured questionnaire. The study concluded that claims handling procedures should be managed promptly to evade shortfall in operational objectives of organizations.

In a further empirical study researched in Lagos State, Yusuf, Ajemunigbohun and Alli (2017) explored the influence of insurance claims management among selected insurance companies in Nigeria. The empirical investigation used a descriptive survey design using random sampling technique and the result revealed that the various claims handling processing have significant effects in the claims management processes of insurance companies. The findings from the study confirmed the level of significance of the different claims handling processing of the insurance companies' claims management in Nigeria.

Oyedokun and Gabriel (2018) analyzed the influence of claims management on the profitability of listed insurance companies in Nigeria. The expo-facto research design was adopted using multiple regression technique. It was discovered that profitability has a negative nexus with loss ratio and net claims, but depict a direct nexus with expense ratio. Furthermore, net claims and loss ratio have significant effect.

Ajemunigbohun, Isimoya and Ipigansi (2019) applied frequency percentage and t-test statistics to determine claims fraud associated with homeowner's insurance coverage in Nigerian insurance industry. The study infers that in order to promote stable, confidence-based, result oriented and trustworthy market environment, there is need for adequate fraud deterrent. Also, the government should promote anti-fraud strategy design that will enhance efficient operation and effective service delivery of insurance industry.

Olusegun (2018), empirically investigated the relationship between claims management and accident cover (risk) of non-life insurance companies in Nigerian insurance industry. The study adopted longitudinal design. The results revealed that there is a significant relationship between claims and the operating cost of non-life insurance companies in Nigeria. Based on the findings, it was recommended that claims management be properly structured with highly technical, trained and experienced staff to manage the claims of the insurance companies properly that will enhance insurance viability.

Kayode (2021), made research on the effect of claim settlement on profit maximization in the insurance industry. The research method and design adopted for this research work was the survey design method. Ordinary Regression Model was used to test the hypotheses formulated for this study. It was revealed that **c**laim handling has significant effect on profit maximization of an insurance company; and claim's information systems that are well-designed results to proper identification of existing policies by insurance companies.

METHODOLOGY

Research Design

This study adopts ex-post facto design in its discourse. Longitudinal time series data were used over a period of time to determine the effect of claims management on the profitability of insurance business due to the fact that it observed what happened to sample subjects or variables without any attempt to manipulate or control them (Asika, 2008). A descriptive study was used in this study because it assists in portraying an accurate profile of persons or events and thus establishes causal relationship between variables employed in the study (Robson, 2002, Saunders, Lewis, & Thornhill, 2009). According to Walliman (2011) descriptive study tries to look at things so as to ascertain what the norm, that is, what can be foretold to happen once more beneath the same circumstances.

Sources of Data

Data for this study were sourced from secondary data because of convenience, accuracy and reliability. Therefore, data for this study were strictly extracted from financial statements of insurance companies for 2012-2022 as published by Nigeria Insurer's Association (NIA) Digest and National Insurance Commission (NAICOM) annual publication. The justification for the use of secondary data in this research is that; it was available which is entirely appropriate and wholly adequate to draw conclusions and answer the question or solve the problem raised in this study.

Model Specification and Variable Measurement

The model adopted for the purpose of this study are:

$$PAT = \alpha_0 + \beta\,(NLC) + \varepsilon \qquad (i)$$

$$PAT = \alpha_0 + \beta\,(LC) + \varepsilon \qquad (ii)$$

$$PAT = \alpha_0 + \beta_1 (NLC) + \beta_2 (LC) + \varepsilon \qquad (iii)$$

Where:

PAT = Profit after tax

NLC = Net claims paid on Non-life claims

LC = Net claims paid on Life claims

α = Constant term

$\beta_{1, 2,}$ = Coefficient

ε = Composite error term

The dependent variable of this study is a profitability variable: Profit after tax (PAT). While the independent variable are Net claims settlements: non-life claims (NLC), life claims (LC), and both life and non-life claims (LNC). Table 3.

Table 1: Variables and Measurements

Variable	*Proxy*	*Type*	*Operationalization*	*Source*
Profit after tax	PAT	Dependent	Net profit after all expenses are paid	Owolabi and Akinola (2017), Kayode (2021)
Non-life claims	NLC	Independent	Net claims paid to non-life business	Olusegun (2018), Yusuf and Dansu (2014)
Life claims	LC	Independent	Net claims paid to life business	Oyedokun and Gabriel (2018)

Source: Author's compilation (2024)

Method of Data Analysis

Data for this study were analyzed using linear and multiple regression analysis. Multiple regression examines the relationship between a single outcome measure and several predictors or independent variables. The multiple linear regression model is an extension of a simple linear regression model that incorporates two or more explanatory (independent) variables in a prediction equation for a response (dependent) variable. It has been noted in research that since Cohen's 1968 seminar article, multiple regression analysis has become increasingly popular in both basic and applied research journals. Therefore, multiple regression examines the relationship between a single outcome measure by several predictor or independent variables. In this study, the statistical analysis used consisted of descriptive analysis, correlation analysis and regression analysis via the use of E-views 10.0. The pre-estimation diagnostic test used in this study includes the normality test.

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Descriptive Statistics

Table 2: Descriptive statistics on life, non-life claims and insurance profitability

	PAT	*LC*	*NLC*
Mean	1.02E+10	58219630	55306495
Median	10577458	48820000	54710835
Maximum	4.26E+10	1.17E+08	74412920
Minimum	-691724.0	19416200	26792130
Std. Dev.	1.68E+10	38161383	12719478
Skewness	1.037220	0.550389	-0.801386
Kurtosis	2.312953	1.815282	3.881069
Jarque Bera	1.989724	1.089695	1.393818
Probability	0.369775	0.579930	0.498123
Sum	1.02E+11	5.82E+08	5.53E+08
Sum Sq. Dev.	2.53E+21	1.31E+16	1.46E+15
Observations	10	10	10

Source: E-views 10.0 Output, 2024

Table 2 indicates that all the variables have 10 observations. The average value of the profitability is #1.02billion with a standard deviation of #1.68billion. The minimum and maximum value stood at -#691,724 and #4.26 billion respectively. This shows that at most insurance company in Nigeria realize a profit after tax of #4.26billion and at least, they incur loss of about #691,000. The positive value of profit after tax (PAT) indicates that on average, insurance companies are profitable, though some operate at loss as shown by the negative minimum value of profit after tax (PAT).

Considering the net claims on life business (LC), the average value is #58 million while the standard deviation, minimum value and maximum value stood at #38 million, #19.4 million and #117 million. That is to say on average, #58 million of claims comes from life business. This means that the minimum amount claimed on life business is #19.4 million and the maximum amount claimed on life business is #117 million.

Furthermore, the average value of net claims of non-life business (NLC) is #55.3 million with a standard deviation of #12.7 million. That is to say on average, #55.3 million of claims comes from non-life business. The maximum and minimum values stood at #74.4 million and #26.7 respectively. This means that the minimum amount claimed on non-life business is #26.7 million and the maximum amount claimed on life business is #74.4 million.

In measuring the dispersion of the variables, the highest and lowest values are profit after tax (PAT) and net claims on non-life business (NLC) with 1.03722 and -0.801386 skewness values respectively. The moderate skewness value of the variable which is within the range of -3.0 and +3.0 shows that the data distribution is normally skewed.

Looking at the peakedness of the distribution, net claims on non-life business (NLC) and profit after tax (PAT) has the highest and lowest kurtosis values of 3.881069 and 2.312953 respectively. This implies that the data is platykurtic. However, the Jarque-Bera of the variables are in line with apriori: meaning that the variables must be tending towards 3. Under the Jarque-Bera, PAT is 2.0; LC is 1.1; NLC is 1.4; meaning that all the variables are normally distributed.

Hypothesis Testing

Table 3: Regression Result of net Claims Settlement on Non-life Business (Independent Variable) and Profit After Tax (Dependent Variable)

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	-3.97E+10	1.92E+10	-2.064719	0.0728
NLC	901.6514	339.7073	2.654201	0.0291
R-squared	0.468254	Mean dependent var		1.02E+10
Adjusted R-squared	0.401786	S.D. dependent var		1.68E+10
S.E. of regression	1.30E+10	Akaike info criterion		49.58542
Sum squared resid	1.34E+21	Schwarz criterion		49.64593
Log likelihood	-245.9271	Hannan-Quinn criter.		49.51903
F-statistic	7.044784	Durbin-Watson stat		1.308403
Prob(F-statistic)	0.029066			

Source: E-views 10.0 output, 2024

Table 3 reveals the effects of net claims on non- life insurance business on profitability of insurance business in Nigeria. From the least square regression result shown above, R- square value of 47% which shows that the independent variables jointly explain about 47% of the profitability of Nigerian insurance industry as measured by profit after tax with an unexplained variation of about 53% which is attributable to other variable not included in the model. The adjusted R^2 which is 40% indicates that with the inclusion of more variables, the R can reduce maximally to 40%. The Durbin- Watson statistics value of 1.3 indicates that there is no suspicion of autocorrelation in the model. The F-statistics which is 7.0448 and the P-value of 0.029066 < 0.05, also shows that the overall regression is significant, can be used for meaningful analyses and null hypothesis rejected.

Net claims on non-life insurance business in Nigeria with the co-efficient of 901.6514 shows that non-life claims affects and increases the profitability of insurance business in Nigeria by #901.7 million and associated probability value of 0.0291 indicates that Nigeria insurance business profitability responds significantly to net claims of non-life insurance business.

Table 4: Regression Result of Net Claims Settlement on Life Business (Independent Variable) and Profit After Tax (Dependent Variable)

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	-1.10E+10	5.96E+09	-1.846686	0.1020
LC	363.7587	87.00505	4.180892	0.0031
R-squared	0.686027	Mean dependent var		1.02E+10
Adjusted R-squared	0.646780	S.D. dependent var		1.68E+10
S.E. of regression	9.96E+09	Akaike info criterion		49.05856
Sum squared resid	7.94E+20	Schwarz criterion		49.11908
Log likelihood	-243.2928	Hannan-Quinn criter.		48.99217
F-statistic	17.47986	Durbin-Watson stat		1.739497
Prob(F-statistic)	0.003076			

Source: E-views 10.0 output, 2024

Table 4 reveals the effects of net claims on life insurance business on profitability of insurance business in Nigeria. From the least square regression result shown above, R- square value of 69% which shows that the independent variables jointly explain about 69% of the profitability of Nigerian insurance industry as measured by profit after tax with an unexplained variation of about 31% which is attributable to other variable not included in the model. The adjusted R^2 which is 65% indicates that with the inclusion of more variables, the R can reduce maximally to 65%. The Durbin- Watson statistics value of 1.7 indicates that there is no suspicion of autocorrelation in the model. The F-statistics which is 17.47986 and the P-value of $0.003076 < 0.05$, also shows that the overall regression is significant, can be used for meaningful analyses and null hypothesis rejected.

Net claims on life insurance business in Nigeria with the co-efficient of 363.7587shows that life claims increases the profitability of insurance business in Nigeria by #363.8 million and associated probability value of 0.0031 indicates that Nigeria insurance business profitability responds significantly to net claims of non-life insurance business.

Discussion of Findings

Hypothesis one (H_{01}) test result revealed that non-life insurance business claims settlement as operationalized by net claims on non-life insurance business have significant effect and relationship on profitability of insurance business as measured by net claims on non-life business (NLC).This was evidenced from the F-statistic' p-value of 0.0291which is < 0.05. Thus, H_{01} is rejected. The coefficient of net claims on non-life business (NLC) revealed a positive relationship with profitability (PAT). This finding is in line with Yusuf and Dansu (2014), Ogunnubi (2017), SAS (2012), Ayuba (2020). This means that how an insurance company handles and settles claims in its non-life insurance policies directly influences its overall financial performance and ability to generate profits. This finding contradicts the findings of Olusegun (2018), Oyedokun and Gabriel (2018) Ogunnubi (2018). They found out that claims settlement has a negative relationship with profitability. This negative relationship implies that an increase in claim settlements reduces the profitability of non-life insurance business. This could be as a result of claims cost and operational costs incurred while indemnifying the insured.

Result for the test of hypothesis two (H_{02}) reveals that there exist a significant relationship between life insurance business claims settlement and the profitability of insurance business as measured by net claims on life business (LC). This was evidenced from the F-statistic' p-value of 0.0031 which is < 0.05. Thus, H_{02} is rejected. The coefficient of net claims on life business (LC) revealed a positive relationship with profitability (PAT). This finding is in line with Putra (2017). This means that effective claims settlement of life insurance policies directly influences the increase of profitability of insurance business. Proper assessment of claims and a positive experiences with the claims process leading to customer's satisfaction could be a reason for this.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The study investigated the effect of claim settlement on the profitability of insurance business in Nigeria. Profitability is one of the essential and vital tools used to measure organizational performance. It is more essential for insurance business because it is used to measures the company's propensity to pay compensation to its clients, motivate its employees, and maximize the wealth of its shareholder. In concluding this study, we agree that claims settlement have a great role it plays on insurance business profitability based on the findings and the hypotheses formulated. It was discovered that, for every insurance business to determine their level of profit in any given financial year, claim ratio will always be part of their determinant for profitability among other variables as their priorities.

Recommendations

Based on the findings of the study and review of relevant literatures, the following are the recommendations:

Insurance company should embrace strategies for customer satisfaction through effective and efficient claims settlement practices. Effective claims settlement is vital for customer satisfaction. When policyholders have positive experiences with the claims process, they are more likely to renew their policies and recommend the insurer to others. Therefore, all efforts should be made to pay genuine claims promptly as this increases confidence of the public in insurance and the industry as a whole thereby increasing profitability.

Insurance companies should have a reserve for financial stability. Insurance companies are required to set aside reserves to cover expected future claims. The efficiency and accuracy of the claims settlement process affect the adequacy of these reserves. Inadequate reserving can lead to financial instability and potential insolvency.

Insurance companies should have a claims management department properly structured with highly technical, trained and experienced staffs so as to manage the claims settlement process properly knowing fully well that a well-managed claim lead to profitability through repeated purchase.

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