DETERMINANTS OF CLAIMS HANDLING TECHNIQUES AND NON-LIFE INSURANCE COMPANIES' MARKET PENETRATION IN NIGERIA

JOSHUA SOLOMON ADEYELE *

ABSTRACT: *The Nigerian insurance companies are facing difficult time in terms of market penetration among the insuring public due to poor image of the industry. Quick response to claim investigation and payment of valid claims are main part of key factors to go about market penetration but have not been closely examined by many studies in Nigeria. This study therefore investigated the determinants of claim handling techniques and their impacts on nonlife insurance business. It also determined how insurance companies' reputation lead to market penetration in Lagos State, Nigeria. A total of 121 valid copies of questionnaire distributed to 13 insurance companies were returned for analysis using expo facto method. The findings revealed that both claim handling techniques and companies' reputation have strong and significant impact of market penetration. The study concludes that timeliness in claim handling enhances insurance reputation as well as market penetration.*

KEY WORDS: *Non-life insurance business, operational risks, claim handling, insurance penetration.*

JEL CLASSIFICATIONS: *D12, G22.*

1. INTRODUCTION

The first aim of insurance supervision is the protection of the interests of the policyholders through a properly managed and financial soundness of insurance sector (Thorburn, 2004). In recent time, the insurance industry has been faced with challenges of claims management which has contributed to poor image of the industry and low penetration of the insurance services. Most insurance complaints relate to claims management suggesting room for improvement in this area of client service. It is envisaged that an efficient claims management process will result to improved service

* *Ph.D. Department of Actuarial Science, University of Jos, Nigeria, adesolojosh@gmail.com*

delivery to the public which will in turn create confidence hence improving the image of the industry and eventually lead to a deeper penetration level of insurance service.

In attempt to determine the viability of the insurance industry, the study investigates issues relating to claim handling in selected insurance companies in Nigeria. Bulks of studies on insurance literature have not paid adequate attention to this aspect. For instance, the impact of operational risk management such as risk reserving, internal control system, risk underwriting, claim experience and approved persons on claim management have not been jointly examined by existing studies to ascertain the soundness of insurance businesses.

Over the years, insurance companies in Nigeria have battled with reputation risk due to poor claim handling techniques of reported claims to them by their respective policyholders. The ability of insurance companies to pay claims depends on their risk reserving, internal control, management expenses, underwriting effectiveness, and frequency of claim and the role of approved persons (APER). It is believed that the skills of APER will lead to sound underwriting and limit insurance companies' exposure to vulnerable risks thereby reducing the volume of claims. In all of these listed factors affecting insurance claim experience, there is no evidence of any study that has directly investigated the impact of these operational risks on claim handling techniques.

Following the literature gaps in existing body of knowledge, the hypotheses for this paper include author's considered views of diverse management of operational risks that affect ability of insurance companies to handle claims effectively. The author proposes that a good operational risk management will lead to positive and timely handling of valid claims reported to insurance companies and vice-versa. The operational risks considered in this paper include risk reserving, internal control, management expense, risk underwriting, insurance reputation and competent staffing (or approved persons –APER) based on Solvency II regime. The Solvency II regime provided that each insurance company should establish an effective risk evaluation system to ensure policyholders interest safety and the ability to prosper within the tough market environment (Stepchenko, Voronova & Pettere, n.d).

Thus, the main aim of the study is to determine the impact of operational risk management on claim handling techniques. The specific objectives of the study are: to determine the influence of risk reserving, internal control system, management expense, risk underwriting, and APER on claim handling techniques; find out how claim experience and management expense affect reputation; and to investigate how claim handling techniques and reputational risk affect insurance companies' penetration. This study is restricted to claim handling and insurance penetration of non-life insurance products, and has nothing to do with life insurance companies. The choice of this type of insurance is due to the fact that it is one where the highest frequency and severity of claim are recorded; it equally covers a broader spectrum of the population. Also among these non-life insurance companies, only the listed ones were selected for the study. The study focused on the issues and processes involved in claim handling and how it will improve insurance penetration in the country. Lagos metropolis is chosen as the area for this study because it is a commercial center where over 90% of the insurance companies head offices are located.

2. LITERATURE REVIEW

Operational risk is a change in value caused by the fact that actual losses, incurred from inadequate or failed internal process, people and systems, or from external events (including legal risk), differ from the expected losses (Stepchenko *et al.*, n.d). Some studies have cautioned that it is important to identify the risks that affect an insurance company's performance and development, since it may cause unexpected losses incurred from inadequate processes, people and systems, partners or from other events (Stepchenko *et al*, n.d).

A claim is the defining moment in the relationship between an insurer and its customer which shows the number of years spent paying premiums. If a claim is well handled, retention rates may rise. If poorly handled, the insurer may not only lose the customer, but also damage its wider reputation. Commercially, claims represent by far the largest single cost to insurers; up to 80 percent of all premiums are spent on claims' payment and associated handling charges. By keeping these costs under control, an insurance company can price competitively without sacrificing margins (Francis & Butler, 2010). However, there is a delicate balance between reducing expense and giving customers a positive claims experience. Seeking multiple supplier quotes may get you a better price, but can also be very time consuming, especially if the claimants themselves have to chase and approve the estimates, leading to a negative customer experience. At the other extreme, without sufficient controls on liability and claims costs, insurers can pay too much to service providers, or even unknowingly make payments for fraudulent claims.

The ability to act on an account at First Notice of Loss (FNOL) is essential for effective insurance claims management. Adeyele, Maduchie and Isimoya (2019) noted that effective operational risk management determines to a greater extent how the insurance companies can effectively handle claims reported to them by their policyholders. Identifying how an account should be treated during the earliest stages of the claims lifecycle can significantly reduce the expense of managing an account. Assigning the appropriate treatment to an account as early as FNOL improves an insurer's ability to respond quickly with resources best suited to handling that claim and this reduces cost and minimizes the need for deploying resources at later stages (Angoss Software Corporation, 2014). In addition, early detection of fraudulent claims drastically reduces losses. Many industry analysts agree that the most important trend in insurance claims management is the streamlining of operations.

Best practice examples of sustainable claims processes had some common features. In most cases, a framework for reducing environmental impacts and/or costs includes:

- Setting targets and benchmarks against which to measure results.
- Involving and engaging key stakeholders and suppliers by briefing them on sustainability targets and/or holding joint discussions on sustainability targets.

To keep both service providers and customers happy, and to return healthy profits, Meyricke (2010) notes that insurers need to address the following five key issues: (1) taking greater control of the claims process; (2) understanding your customer; (3)

choosing the right claims model for your business; (4) developing a mutually beneficial relationship with service providers; and (5) gaining an information advantage.

According to Strain (1997) there is a clear distinction between claims handling and proper claims management. Claims management is wider in scope and involves not only processing but also the strategic role, cost monitoring role, service aspect and the role of people handling the claim. Yusuf and Dansu (2014) summarized a good claims management as being proactive in recognizing and paying legitimate claims, assessing accurately the reserve associated with each claim, reporting regularly, minimizing unnecessary costs, avoiding protracted legal dispute, dealing with claimants courteously and handling claims expeditiously. Claim management includes the review of the claims performance, monitoring of claims expenses, legal costs, settlement costs, planning for future payments and avoiding delay and disputes in the payment of claims. Amoroso (2011) observes that the need to shift from claims handling to efficient claims management has now been recognized by insurers and reinsurers.

Yusuf and Dansu (2014) submitted that claims management is fundamental to profit and long term sustainability of the company through customer satisfaction, contract renewal and customer retention. Proper management of claims is a control tool to ward off fraud. Their observation that 10% of all insurance claims are fraudulent calls for more concerted and coordinated effort by both insurers and reinsurers to enhance claims management techniques.

A sustainable claim is one that is economically affordable (for both the insurer and for the customer) and does not have a negative impact on environmental or social capitals now or in the future (Meyricke, 2010). The ultimate goal is for the insurance claims process to have no negative impact on the environment. Progress towards this goal can be made by actions that make the claims process more 'sustainable'. Actions that 'increase sustainability' should:

- Reduce any negative impact of claims on environmental or social capitals, now or in the future.
- Be economically affordable, for both the insurer and for the customer. The six steps in the claims process according to Meyricke (2010) are: notification validate legitimacy, quantify and/or scope damage, prepare a repair schedule and costing, cost settlement and claim fulfillment. There is diversity in how insurers complete the claims process, particularly in respect of the degree of outsourcing of loss adjustment, the use of cash settlement and the supplier arrangements for claim fulfillment (e.g. sole supplier, building network or customer's own builders).

2.1 Claim handling and insurance reputation - To identify factors that might affect insurer's reputational risk, this study argues that an insurer's established positive reputation could be damaged by its failure to pay valid claims promptly. The manners in which claims are being handled by insurance companies affect their reputation. As such, an organisation's reputation depends not only on how it acts, but also on how the action is perceived by various stakeholders with different interests and distinct preferences (Kamiya, Schmit, & Rosenberg, 2010). Thus, insurers must behave as expected by stakeholders to maintain their reputation. When purchasing coverage, insurance consumers are unable to observe an insurer's ultimate performance on the explicit and implicit promises incorporated into their policy. As a result, these consumers must rely on an insurer's reputation to evaluate the offered coverage when deciding which insurer's product to purchase. Maintaining that good reputation, however, is costly (Kamiya *et al*, 2010)

For insurance companies a positive reputation is not first a factor for the financial success but a necessary factor to survive in the market (Kamiya *et al*, 2010). Maintaining a positive reputation is necessary for insurers to sell policies because consumers do not have the opportunity to examine what is being purchased before premiums are paid for risk cover. For instance, an insurer's protocols on executing implicit and explicit contractual promises, such as good customer service, appropriate and prompt claim payments, sufficient amount of capital, adequate reserves, and safe investment are not easily observed by customers (Kamiya *et al*, 2010). In reality, therefore, both insurers and customers must heavily rely on insurer's reputation in insurance transactions, even though regulators restrict insurer's performance such as excessive-risk-taking in investment and inappropriate underwriting practices. In general, customers are willing to pay a higher price for a stronger sense of confidence in the firm's ability to perform, hence, we know that a positive reputation has value in market place.

Sustainable claims management (SCM) provides guidelines to insurance companies on sustainable claims management which implies the measurement and management of the environmental impact of the insurance claims cycle (Association of British Insurers, 2010). SCM guidelines would encourage all companies in the insurance industry to measure, monitor and share information on the environmental impact of claims (ClaimWise, n.d). Apart from meeting corporate social responsibility concerns, good claims management can reduce the financial cost of claims and prepare insurers for future government regulation on property insurances (Marks & Spencer, 2010). There are also co-benefits for customers such as: reduced time and disruption caused by reinstatement and possible premium savings if there is a large drop in the cost of claims.

The operation of SCM guidelines and reporting should allow for the diversity in insurers' business models and supply chains, and for the commercial constraints on insurers (Association of British Insurers, 2010b). A properly managed claims process is guided by a written corporate philosophy setting out the broad approach aiming to provide high quality service. It specifies the nature of claims service at each stage, the speed of claims service and assigned responsibilities.

The relationship between a reinsurer and a cedant is largely influenced by the speed, accuracy and efficiency with which claims are settled (Hoffman, 1994). The claims process commences at underwriting function which is guided by structured losses experience data and other quantifiable performance metrics to underwrite reinsurance business. Defective underwriting may saddle reinsurers with unwanted claims. Managing events like settlement, arbitration and dispute resolution form part of claims management and is a marketing tool. A dissatisfied customer is a bad publicity and has the potential to damage the reputation of a company. Claims management has a social service angle. It therefore becomes imperative that claims management at reinsurance level is enhanced.

3. METHODOLOGY

3.1 Population, sample size and sample technique

The population for this study comprised all insurance companies that deal with nonlife business in Lagos State, Nigeria. A total of 195 copies of questionnaire were distributed to 13 insurance companies in Lagos Metropolis out of which 121 copies were retrieved from the selected companies. The names and distributions of responses by companies are shown in Table 1. These companies were purposively selected because they deal with non-life insurance business underwriting. Lagos state was chosen for the study because it represents the major commercial centre for most insurance companies in Nigeria which consequently informed the choice of it as the study area.

Table 1: Data distribution of nonlife insurance companies in Lagos metropolis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Anchor Insurance	10	8.3	8.3	8.3
	Guinea Insurance	9	7.4	7.4	15.7
	SUNU	8	6.6	6.6	22.3
	Old Mutual Insurance	8	6.6	6.6	28.9
	Consolidate Hallmark	10	8.3	8.3	37.2
	Veritas	8	6.6	6.6	43.8
	Zenith	10	8.3	8.3	52.1
	Gold Link Insurance	8	6.6	6.6	58.7
	NSIA	8	6.6	6.6	65.3
	Prestige Insurance	10	8.3	8.3	73.6
	Niger Insurance	8	6.6	6.6	80.2
	Linkage Assurance	9	7.4	7.4	87.6
	Ensure	15	12.4	12.4	100
	Total	121	100	100	

Source: Field Survey, 2018; 2019

3.2 Data source, procedures and instrument

Most claims in non-life insurance companies usually happen during the festive periods. Consequently, data for this study were collected between December 2018 and January 2019. Hence, the insurance companies at these periods are more likely to experience claims from the motor vehicles underwriting business and the ability of insurance companies to pay valid claims reported to them promptly determines the selected insurance companies' reputation. The selected companies were contacted through their associated brokers and marketers because they are the ones who usually have close link with the insuring public. The respondents that participated in the field survey were employees of selected companies in marketing, underwriting and claim departments.

3.3 Model specification

3.3.1 Determinants of claim handling technique - In the following operational risks modeled on claims handling techniques, a positive results indicates chances of insurance companies being able to handle claims efficiently without any constraint while a negative results limit the ability of insurance companies to handle risk as and when due. A study by Adeyele et al (2019) revealed that insurance companies have good claim handling techniques. The method of analysis employed by the authors are purely descriptive. Hence, the use of inferential statistic to test is hope to give adequate information on the state of claim management in selected insurance companies. Based on this, the required model is given as follow:

$$\begin{aligned} \mathrm{CHDLNGT} &= \beta_0 + \beta_1 \mathrm{RESERV} + \beta_2 \mathrm{INTERCTR} \\ &\quad + \beta_3 \mathrm{MGTEXP} + \beta_4 \mathrm{RISKUND} + \beta_4 \mathrm{APER} + \varepsilon \end{aligned} \qquad (1)$$

$CHDLNGT = Claim\ handling\ technique$

$RESERV = Risk\ reserving$

$INTCONT = Internal\ control,$

$MGTEXP = Management\ \exp enses,$

$RISKUND = Risk\ underwriting,$

$APER = Approved\ persons$

$and\ \varepsilon = error\ term$

β_0 *is the intercept;* β_1 *to* β_4 *represent coefficient of explained variable*

3.3.2 Impact of management and claim experience on insurance reputation: The ability of insurance companies to pay valid claims without unnecessary delays influences their reputation in the market. This is model as follow:

$$REPRISK = \beta_0 + \beta_1 MGTEXP + \beta_2 CLMEXP + \varepsilon \qquad (2)$$

$MGTEXP =$ Management expense

$CLMEXP =$ Claim experience,

and $\varepsilon = error\ term$

β_0 is the intercept; β_1 to β_2 represent coefficient of explained variables

3.3.3 Claim handling effectiveness and reputation on insurance penetration - In this study, it is hypothesized that a good claim handing techniques and good reputation will increased the insurance penetration. For many years, insurance companies in Nigeria have battled with reputation risk due to poor claim handling techniques of reported claims to them by their respective policyholders. Adeyele and Maiturare (2012) proposed a sound risk management technique for development of insurance industry in Nigeria. A prompt response to claim management is part of risk management that will propel insurance development. In this study, it is hypothesized that a good claim handing techniques and good reputation will increased the insurance penetration. A negative result is a symptom of poor claim handling technique and reputation while the reverse shows a good claims handling technique as well as good reputation. Based on objectives of the study, the necessary and sufficient model is given as follow:

$$INSPENET = \beta_0 + \beta_1 CHDLNGT + \beta_2 REPRISK + \varepsilon \qquad (3)$$

$INSPENET =$ Insurance penetration

$CHDLNG =$ Claim handling technique

$REPRISK =$ Reputational risk

and $\varepsilon = error\,term$

β_0 is the intercept; β_1 to β_2 represent coefficient of explained variables

3.4 Variables description:

3.4.1 *Risk reserving (RESERV):* For any insurance company to be able to pay valid claims to their policyholders there should be risk reserving adequacy in which any verified claims can be paid promptly without any delay. This study considers this variable as very important because experience and empirical studies suggest that many insurance companies that end up using part of their assets to pay claims have poor risk reserving.

3.4.2 *Internal control (INTCONT):* Internal control as used in this study entails how records are kept right from the acceptance of policyholders. Every record in respect of individual policyholder must be kept safe in secure cabinet in case of dispute as to extent of liability to insurance companies when claims are made. Where there is poor record management, it will be difficult for any claims to be verified easily and this sometimes leads to claim defaults among insurance companies.

3.4.3 *Risk underwriting (RISKUND):* The risk cover by insurance companies is termed risk underwritten. Most insurance companies in Nigeria usually faced with severe competitions and in order to increase their market share, they do not charge adequate premiums for every risk accepted. Any insurance company that charges below what it should charge as premiums as well as overcharging the policyholders very is considered risky since the former may result to inability of insurance companies to pay valid claims as they fall due while the latter may lead to low patronage. Hence, the need to balance the extreme points for insurance penetrate rate is essential.

3.4.4 *Approved persons (APER):* 'Approved persons (APER)' is term used in insurance parlance to describe those in the hem of affair of insurance companies. For any persons to be described as APER such persons must be professionally qualified by possessing diligence skills and competent in order to manage the companies they oversee.

3.4.5 *Claim handling effectiveness (CHDLNGT)–* Policyholders usually assess insurance companies' performance based on the companies' ability to pay valid claims reported to them. In this case, timeliness in verifying claims reported and paying valid claims to policyholders by insurance companies is of essence. Most insurance companies having low penetration rate are usually associated with sluggishness in paying valid claims to policyholders. As a result, such companies do normally have renewal policies from their existing customers. Experience in Nigerian insurance industry reveals that risk reserving, internal control, risk underwriting and approved persons (APER) have link with claim handling effectiveness of insurance companies.

3.4.6 *Management expense (MGTEXP)-* Underwriting expense dominates the bulk of expenses most insurance companies experienced. Different form of charges are added up to represent management expense. These charges include the underwriting and claim expenses incurred by insurance companies.

3.4.7 *Claim experience (CLMEXPR)-* Claim experience together with management expense of insurance companies determine the operational efficient of any insurance company in Nigeria. Early claim by policyholders from insurance companies may result to business strain and impact on solvency of insurance companies. If insurance companies are not able to pay claims as they fall due, it will negatively affect their reputation and hence low insurance patronage. In this study, the author argues that both management expense and claim experience constitute insurance reputation.

3.4.8 *Reputational risk (REPRISK)-* Insurance reputation determines their market shares. Those insurance companies with good reputation of paying valid claims promptly do get new business from new and existing customers and the rate of business retention is very high.

Specific questions as regard the above variables were contained in the research instrument used for the data collection.

4 RESULTS

The major threat to non-life insurance underwriters is increasing claims which do not correspond to premium underwriting income as most insurers engage in rate cutting to get customers. This subsection deals with presentation of how operational risk management can reduce exposure of non-life underwriters to avoidable claims. Table 2a reveals relationship between operational risk and claim handling techniques.

Table 2a: Proportion of claim handling determinants in non-life insurance companies in Nigeria

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.629[a]	0.395	0.39	0.80842	0.395	77.793	1	119	0.000
2	.704[b]	0.495	0.487	0.74173	0.1	23.361	1	118	0.000
3	.725[c]	0.525	0.513	0.72259	0.03	7.333	1	117	0.008
4	.747[d]	0.558	0.543	0.69975	0.033	8.764	1	116	0.004

a. Predictors: (Constant), RESERV

b. Predictors: (Constant), RESERV, INTERCTR

c. Predictors: (Constant), RESERV, INTERCTR, RISKUND

d. Predictors: (Constant), RESERV, INTERCTR, RISKUND, APER

Source: Author's computation

Table 2a shows the proportion of claim handing determinants in nonlife insurance companies. As can be seen, entry of risk reserving accounted for 39.5% and has significant relationship with claims handling techniques (RESERV: R^2 = 0.39.5; F = 77.793, p < 0.000). This implies that ability of insurance companies to handle claim effectively is explained by 39.5% level of reserves. Also, the entry of internal control contributed 10% to claim handling and is similarly significant (INTERCTR: R^2 = 0.10; F =23.361, p < 0.000) thereby increasing the total explained factors from 39.5% to 49.5%. This means that combination of reserve and internal control significantly accounted for 49.5% of nonlife claims handling techniques. Similarly, the entries of risk underwriting and approved persons respectively accounted for only 3%(RSKUND :R^2 = 0.030; F = 7.333, p < 0.05) and 3.3% (APER : R^2 = 0.033; F = 8.764, p < 0.05) of claim handling technique. This means that the combination of risk underwriting and approved persons variables only accounted for 6.3% of claim handling technique. Hence, risk reserving, internal control, risk underwriting and approved persons variables explained variables of claim handling techniques accounted for a total of 55.8% of claims handling techniques. Table 1b shows the coefficient of variables measured in Table 1a.

In Table 2b, the regression model with negative constant indicates that the selected insurance companies is likely to default on claim handling reported to them while positive results indicates the credibility of insurance in handling claims efficiently. As it is evident in the table, claim reserving (RESERV: Beta = 0.327, t = 4.543, p < 0.05), internal control system (INTERCTR: Beta = 0.235, t = 2.573, p < 0.05), risk underwriting (RISKUND: Beta = 0.154, t = 2.159, p < 0.05), and approved persons (APER: Beta = 0.230, t = 2960, p < 0.05) have positive and significant impact on claim handling. This suggests that a unit increase in level of claim reserving, internal control system, underwriting effectiveness and continuing upgrade of personnel skill will enable insurance companies to effectively handle valid claims reported to them.

Table 2b: Claim handling determinants of non-life insurance companies in Nigeria

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
4	(Constant)	0.311	0.455		0.683	0.496
	RESERV	0.327	0.072	0.344	4.543	0
	INTERCTR	0.235	0.091	0.21	2.573	0.011
	RISKUND	0.154	0.071	0.162	2.159	0.033
	APER	0.23	0.078	0.23	2.96	0.004

a. Dependent Variable: CHDLNGT

Source: Author's Computation.

Based on these available evidences, it can be concluded that claim reserving, internal control system, underwriting effectiveness and continuing training of personnel have positive and significant impact on claim handling effectiveness among nonlife insurance companies in Nigeria.

Table 3a: Relationship of management expense and claim experience with reputational risk

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.325[a]	0.106	0.098	1.20971	0.106	14.076	1	119	0
2	.371[b]	0.138	0.123	1.193	0.032	4.357	1	118	0.039

a. Predictors: (Constant), MGTEXP

b. Predictors: (Constant), MGTEXP, CLMEXPR

Source: Author's computation

Table 3a shows how insurance companies' management expense and claim experience affect their reputation. In the table, management expense and claim experience of nonlife insurance companies accounted for 10.6% (MGTEXP: $R^2 = 0.106$, $F = 14.076$, $p < 0.05$) and 3.2% (CLMEXPR: $R^2 = 0.0326$, $F = 4.357$, $p < 0.05$) of their reputational risk in Lagos metropolis. This implies that the both management expense and claim experience accounted for 13.8% of nonlife insurance operational risk. Table 3b reveals the direction of these variables on reputational risk.

Table 3b: Impact of management expense and claim experience of nonlife insurance companies on their reputation.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
2	(Constant)	2.036	0.571		3.568	0.001
	MGTEXP	0.359	0.102	0.302	3.506	0.001
	CLMEXPR	0.161	0.077	0.18	2.087	0.039

a. Dependent Variable: REPRISK

Source: Author's computation

From this Table 3b, management expense (MGTEXP: Beta = 0.359, t = 3.506, $p < 0.05$) and claim experience (CLMXPR: Beta = 0.161, t = 2.087, $p < 0.05$) have positive and significant impact on insurance reputation. This implies that a unit increase in management expense and claim experience both increase the companies' reputation risk. In other words, management expenses are kept below the acceptable limit. Table 4a reveals the relationship of claim handling and reputational risk with insurance penetration.

Table 4a: Relationship of claim handling and reputational risk with insurance penetration

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.564[a]	0.318	0.312	0.92371	0.318	55.389	1	119	0	
2	.672[b]	0.452	0.442	0.83153	0.134	28.847	1	118	0	1.73

a. Predictors: (Constant), CHDLNGT

b. Predictors: (Constant), CHDLNGT, REPRISK

c. Dependent Variable: INSPENET

Source: Author's Computation

In the Table 4a, Model 1 presents entry of claim handling technique which account for 31.8% of the variance (CHDLNGT: $R^2 = 0.318$, F =55.389, $p < 0.000$) of insurance penetration is significant by F Change test, (F = 55.389, $p < 0.001$). Entry of reputational risk variable (Model 2) resulted in an R square change of 13.4% and is also significant by F Change test, (REPRISK : $R^2 = 0.318$; F = 28.847, $p < 0.000$) which suggests reputational risk management increases the explained variance from 31.8% to 45.2%. Invariably, both claim handling techniques and reputational risk explained 45.2% of insurance penetration in Lagos metropolis.

Table 4b: Impact of claim handling and reputational risk on insurance penetration

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.426	0.472		0.902	0.369
	CHDLNGT	0.56	0.074	0.521	7.585	0
	REPRISK	0.322	0.06	0.369	5.371	0

a. Dependent Variable: INSPENET

Source: Author's Computation

From the Table 4b, claim handing techniques has positive and significant impact on insurance penetration (CHDLNGT: Beta = 0.560, t = 7.585, $p < 0.05$). Since the result is positive, it means that the selected insurance companies are efficient in term of claim handling technique which increases their chance of market share. Also, the inclusion of reputational risk also have positive and significant impact on insurance penetration rate (REPRISK: Beta = .322, t = 5.371, $p < 0.05$). Positive result indicates that insurance has no reputational risk that can endanger their business underwriting. These results agreed with rational thinking of insurance behaviour in market situation. On the basis of these results, we came to conclusion that both claim handling technique and reputational risk have positive and significant impact on insurance penetration.

5 CONCLUSION AND RECOMMENDATIONS

Operational risk management as a core exercise in insurance industry was examined in this paper. These operational risks include internal control system, reserves, underwriting effectiveness, management expense, and approved persons (APER) impacts on claims handling as well as market penetration. The results revealed that internal control system, reserve and internal control which accounted for 49.5% of insurance companies' ability to handle claim made are significant. Possessing of technical skills and exercise of due diligence as relate to management expenses and claim experience increase enhance insurance reputation among the insuring public. Also, good reputation and speed of claim handing techniques both influence insurance market penetration by 45.2% in Lagos metropolis.

In line with the above findings, the study recommended that the selected insurance companies should keep on improving on internal control system as well as claim reserving in order to respond effectively on claim reported to them by policyholders. Also, since both management expenses and reputational risks have negative impact on insurance companies, the need to watch out for these variables before they turn out to become significant. Hence, the need for insurance companies to mitigate against negativity that may emanate from claims payment default which in turn have negative effect on their reputation among the insuring public.

Similarly, even though the management expenses which has negative impact on claim handling is not yet significant, there is need for the management of the selected insurance companies to pay attention to expenses incurred by them in the process of underwriting policies because this affects their ability to handle claim effectively. This in turn also brings about negative reputation of insurance.

Akin to suggestion raised above, insurance companies should not relax their effort in claim handling in order to boost or redeem their image among insuring public and thereby increasing their penetration rate among the insurance public. The current penetration rate of 45.2% explained by claim handling technique and reputation suggest that effort should be concentrated on them in order to increase their general acceptance among their esteem policyholders in Lagos metropolis.

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