Corporate Governance and Insurance Company Growth: Challenges and Opportunities

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Abstract

The paper examines challenges and opportunities associated with corporate governance and insurance company growth. It advocates the imperative of good corporate governance in the insurance industry. The paper describes corporate governance, examines corporate governance theoretical perspectives, highlights the challenges of corporate governance in Nigeria, and explores the relationship which exists between corporate governance and insurance company growth in Nigeria. The study is an empirical design using the responses of survey, structured questionnaires, of 112 respondents. Pearson product coefficient of correlation(r) is employed for data analysis and hypotheses testing. The findings reveal that good corporate governance promotes safe and sound insurance practice; effective supervision promotes good corporate governance; and the new code of good corporate governance for the Nigerian insurance industry enhances insurance companies’ growth in Nigeria. The implication for practice suggests that effective corporate governance is necessary for proper functioning of insurance companies in order to promote growth and secure public confidence. The paper highlights the fact good corporate governance practices can enable the Nigeria insurance industry to generate more resources to create more employment opportunities and support the economy by way of prompt claims settlement.

Keywords: Corporate Governance, Insurance Company, Insurance Company Growth, Corporate Governance Theoretical Perspectives, Nigeria

1 Introduction

Corporate governance has been of concern since the foundation of the joint-stock company. Much of this concern focused on the separation of ownership from control. Adam Smith (1776) expresses unease over separation of ownership and control; and subsequently explored by Ross (1973) and Davis et al. (1997). However, recent discussion and interest in corporate governance stems from issues relating to financial crises and high profile corporate scandals. The most recent of such scandals are the Enron and the WorldCom saga in the United States, the Vivendi and the Parmalat scandals in Europe. Globalisation and technological advancement also provide challenges for corporate governance structure. Good corporate governance is necessary to facilitate effective firms’ management in the current global and dynamic environment. Moreover, good corporate governance is necessitated by the need for accountability due to deregulation and lesser governmental control. Good corporate governance promotes economic growth and development. The benefits of good corporate governance practices to a firm,
among others, include: facilitating greater access to finance, lower cost of capital, better performance and favourable treatment of stakeholders (Claessens et al., 2002); promoting better disclosure in business reporting, thereby facilitating greater market liquidity and capital formation (Frost et al., 2002); and increasing firm valuations and boast profitability (Gompers et al., 2003). Nigeria had its share of inelegant business practices that have resulted in failed corporate firms. Hence, several insurance companies in Nigeria have gone out of business; while some have been acquired or merged due to poor performance, following poor corporate governance practices. For a developing country, like Nigeria, corporate governance is of critical importance. Recently, Nigeria has initiated pillars of corporate governance by sponsoring a series of legislative, economic and financial reforms which seek to promote transparency, accountability and the rule of law in the nation’s economy. Consequently, corporate governance is relevant in insurance companies, as it promotes accountability, enhances transparency of operations, improves firm’s profitability, protects stakeholders’ interest by aligning their interest with that of the managers, and facilitates growth of the insurance industry. The questions to be addressed in the paper include:

i) Could corporate governance enhance insurance company growth?
ii) Does corporate governance promote safe and sound insurance practice? and
iii) Does effective supervision promote good corporate governance?

The paper is divided into six sections. Section one introduces the study and states the questions to be addressed. Section two states scope, objectives and significance of study. Section three focuses on theoretical framework and review of literature. The section also examines approaches to corporate governance and theoretical perspectives to corporate governance. Section four outlines the methodology. Section five contains hypotheses testing and findings. Finally, section six highlights conclusions and recommendations of the study.

2 Scope, Objectives and Significance of Study

The paper explores challenges and opportunities of corporate governance and insurance company growth in Nigeria. It examines the relationship that exists between corporate governance and insurance company growth. Specifically, objectives of the study include:

a) To describe corporate governance;
b) To examine corporate governance theoretical perspectives;
c) To highlight the challenges of corporate governance in Nigeria; and
d) To explore the relationship that exists between corporate governance and insurance company growth in Nigeria.

Meanwhile, several studies have been conducted on corporate governance challenges and opportunities. However, most of these studies focused on major Western industrialised economics such as Canada, France, Germany, United Kingdom, United States, and Japan. Governance issues are equally, if not more, important for developing and emerging economies like Nigeria. There is no study on challenges and opportunities of corporate governance and insurance company growth in Nigeria. Moreover, no study has examined the relationship...
between corporate governance and insurance company growth in Nigeria. The study fills these gaps and contributes to knowledge on corporate governance and insurance company growth in Nigeria. The study is imperative, more importantly, as it also examine the relationships between corporate governance and insurance companies growth in Nigeria

3 Theoretical Framework and Review of Literature

Corporate governance has become an important issue which has received wide attention of government, firms, law makers and researchers for more than three decades. The literature provides some forms of meaning on corporate governance which include words like: manage, govern, governance, regulate and control. This suggests that definition of corporate governance depends on the person defining the term. For instance, the way a manager in the firm will define the term may be different from an investor in the firm. Consequently, corporate governance models can be flawed because scholars may develop their own scopes and concepts about the subject. For example, Cadbury Committee (1992) emphasises that corporate governance entails how companies ought to be run, directed and controlled. From financier perspective, Shleifer and Vishny (1997) view corporate governance as mechanisms which ensure that suppliers of finance to corporations get a return on their investment. Metrick and Ishii (2002) also describe corporate governance from the perspective of the investor as, both the promise to repay a fair return on capital invested and the commitment to operate a firm efficiently with a given investment. For Mayer (1997), corporate governance is concerned with ways of aligning interests of investors and managers to ensure that firms are run for the benefit of investors. Likewise, corporate governance is concerned with the relationship between internal governance mechanisms of corporations and society’s conception of the scope of corporate accountability (Deakin and Hughes, 1997). Oyejide and Soyibo (2001) view corporate governance as the relationship of the enterprise to shareholders; or in the wider sense, as the relationship of the enterprise to society as a whole. According to Denis and McConnell (2003), corporate governance aims at reducing conflicts of interest, shortsightedness of writing costless perfect contracts and monitoring of controlling interest of the firm, the absence of which firm value is decreased. Consequently, corporate governance entails set of rules which governs relationship between a firm management, shareholders and stakeholders (Ching et al., 2006). However, firm level governance may be more important in developing markets with weaker institutions because it helps to distinguish among firms (Metrick and Ishii, 2002). This implies that corporate governance centres on how the organisation relates with other stakeholders within an environment; and its impact on the collective welfare of society.

Basically, there are two main traditional approaches to the study of corporate governance: institutional and functional. An institutional approach to corporate governance focuses on the appraisal of the existing institutions to maximise efficiency of services offered and improve governance generally. This approach views institutions in the light of regulatory, legal and financial frameworks which underpin the governance system. On the other hand, the functional approach considers how different institutional framework function, subject to individual institution peculiar features. The functional approach to corporate governance is flexible, as it
provides for examining of other possibilities. This implies that corporate governance issue is complex. However, it is relevant to consider influence corporate governance theoretical approaches to facilitate better understanding of firms’ governance. There are several theoretical perspectives on corporate governance available to scholars in exploring the issues of corporate governance. These theories include: agency theory, stewardship theory, resource dependence theory, transaction cost theory, organisation theory, political theory and ethics related theories such as business ethics theory, virtue ethics theory, feminists ethics theory, discourse theory and postmodernism ethics theory. To facilitate better understanding of corporate governance; these theories are examined below.

3.1 Agency Theory

Agency theory has its roots in economic theory expositions by Alchian and Demsetz (1972), and further developed by Jensen and Meckling (1976). The theory focuses on separation of ownership and control (Bhimani, 2008). It highlights relationship between the principals (e.g. shareholders), the agents (e.g. company executives) and the managers. The theory advocates that shareholders (who are the owners or principals of the company) hire agents to perform work; but, the principals delegate the running of the business to directors or managers (who are the shareholder’s agents) (Clarke, 2004). Thus, agency problems can arise when one parts (the ‘principals’) contracts with another part (the ‘agents’) to make decisions on behalf of the principals. Agency problems may occur as agents can hide information and manage firms’ in their own interest; for example, as in the cases of Adelphia, Enron, WorldCom and Parmalat. According to Jensen and Meckling (1976), agency problem is concerned with the consumption of perquisites by managers and other types of empire building (La Porta et al., 2000).

Daily et al. (2003) identify two major factors which influence the prominence of agency theory. First, the theory is conceptually and simple theory that reduces firm to two participants: managers and shareholders; and second, the theory suggests that employees or managers in firms can be self-interested. However, Roberts (2004) argues that the remedy to agency problems within corporate governance involve acceptance of certain agency costs as either incentives or sanctions to align both the executives’ and shareholders’ interests. In essence, agency theory highlights the significant role of corporate governance to facilitate compliance by curtailing executives’ self-serving inclinations to compensate their risk through opportunistic means (Lubatkin, 2005).

3.2 Stewardship Theory

Stewardship theory postulates that managers are motivated by a desire to achieve and gain intrinsic satisfaction by performing challenging tasks; hence, their motivation transcends mere monetary considerations. Stewardship theory recognises the need for executives to act more autonomously to maximise the shareholders returns. Consequently, managers require authority and desire recognition from peers and bosses to effectively perform their tasks. Hence, shareholders must authorise the appropriate empowering governance structure, mechanisms, authority and information to facilitate managers’ autonomy, built on trust, to take
decisions that would minimise their liability while achieving firm’s objectives (Donaldson and Dave, 1991).

Unlike agency theory, stewardship theory emphasises the role of top management as stewards because they are expected to integrate their goals as part of the organisation. Daily et al. (2003) argue that executives and directors are inclined to protect their reputations by ensuring that their organisations are properly operated to maximise financial performance. Managers are expected to maximise investors profit and to establish a good reputation to enable them retain their positions (Shleifer and Vishny, 1997). Thus, stewardship theory advocates unifying the role of the CEO and the chairman to reduce agency costs (Abdullah and Valentine, 2009). Furthermore, Davis et al. (1997) highlight five components of the management philosophy of stewardship: trust, open communication, empowerment, long-term orientation and performance enhancement.

3.3 Resource Dependency Theory

The resource dependency theory, developed by Pfeffer (1973) and Pfeffer and Salancik (1978), emphasise the importance role played by board of directors (BODs) in providing access to resources that would enhance the firm’s performance. Boards enhance organisational function through accessibility to resources (Daily et al., 2003); through linkages with the external environment to appropriate resources and create buffers against adverse external changes (Hillman et al., 2000); by promoting organisational interlocking directorates (Lang and Lockhart, 1990); and through social and professional networking (Johannisson and Huse, 2000; Riana, 2008). Abdullah and Valentine (2009) classify directors into four categories: insiders, business experts, support specialists and community influentials. One, ‘insiders’ are current and former executives that provide expertise in specific areas of the firm. Two, ‘business experts’ are current, former senior executives and directors of other large for-profit firms that provide expertise on business strategy, decision making and problem solving. Three, ‘support specialists’ are specialists like lawyers, bankers, insurance company representatives that provide support in their individual specialised field. Lastly, ‘community influentials’ are political leaders, university faculty, members of clergy, and leaders of social or community organisations. Outside directors play positive role in monitoring and control function of the board, because a firm’s value increases with the number of outside directors (Coles et al., 2006; Abdullah and Valentine, 2009; Boubakri, 2011). Resource dependency theory is highly relevant to firms’ as diverse background of directors enhance the quality of their advice (Zahra and Pearce, 1989). The theory favours larger boards, as coordination and agreement are harder to reach in larger boards (Booth and Deli, 1996; Dalton et al., 1999). However, Cheng (2008) shows that large Board of Directors (BODs) does not seem to be associated with a higher firm value. Likewise, Brick and Chidambaran (2008) observe that board independence (i.e., higher percentage of outsiders) is negatively related to firm risk when measured by the volatility of stock returns.
3.4 Stakeholder Theory

The stakeholder theory advocates that managers in organisations have a network of relationships to serve; this include employees, shareholders, suppliers, business partners and contractors. The theory is developed by Freeman (1984). The theory is at variance with agency theory which advocates that there is contractual relationship between managers and shareholders; whereby managers have the sole objective of maximising shareholders wealth. Stakeholder theory considers this view to be too narrow, as manager actions impact other interested parties, other than shareholders. In essence, the stakeholder theory emphasises the need for managers to be accountable to stakeholders. Stakeholders are “any group or individual that can affect or is affected by the achievement of a corporation’s purpose” (Freeman, 1984:229). To ensure adequate protection of stakeholders’ interest, stakeholder theory proposes the representation of various interest groups on the organisation’s board to ensure consensus building, avoid conflicts, and harmonise efforts to achieve organisational objectives (Donaldson and Preston, 1995).

Stakeholder theory have been criticised for over saddling managers with responsibility of being accountable to several stakeholders without specific guidelines for solving problems associated with conflict of interests. However, Freeman (1984) contends that the network of relationships with many groups can impact decision making processes, as stakeholder theory is concerned with the nature of these relationships in terms of processes and outcomes for the firm and its stakeholders. Likewise, Donaldson and Preston (1995) assert that stakeholder theory focuses on managerial decision making and interests of all stakeholders have intrinsic value, and no sets of interests is assumed to dominate the others. This suggests that managers are expected to consider the interests and influences of people who are either affected or may be affected by a firm’s policies and operations (Frederick et al., 1992). Similarly, Jensen (2001) affirms that managers should pursue objectives that would promote the long-term value of the firm by protecting the interest of all stakeholders.

3.5 Transaction Cost Theory

Transaction cost theory was initiated by Cyert and March (1963), and subsequently theoretical examine by Williamson (1996). For Williamson (1996), firms and markets are alternative modes of governance; and the allocation of activity between firms and markets is not taken as given, but is something to be derived. Transaction cost theory uses explicit concept of governance to explain undertaking of economic transactions through the efficiency of the chosen governance structures, tailored to undertake the transactions at hand (Wieland 2005). Transaction cost theory considers laws and contracts as governance structures. Williamson (1996:5) considers transaction cost economics as “the study of governance concerned with identification, explication, and mitigation of all forms of contractual hazards”. Hence, the theory advocates that a firm is a comparatively efficient hierarchical structure, formal and informal, which enhances the accomplishment of contractual relationship. Hence, Williamson (1996) argues that the problem of transaction-cost economics associated with corporate governance is not
the protection of ownership rights of shareholders; but it is effective and efficient accomplishment of transactions by firms in their cultural and political environment.

3.6 Organisation Theory

The organisation theory views economic organisations as a sum of human and organisational resources, capabilities or competences annexe to generate, combine and activate these resources to attain competitive advantage. Organisation theory is built on strategic management, not on market or hierarchy, of resources and competences within and by means of an organisation. In this regard, Daily et al. (2003:371) define governance as “a determination of the broad uses to which organisational resources will be deployed and the resolutions of conflicts among the myriad participants in organisations”. Similarly, Aoki (2001:11) defines corporate governance as “the structure of rights and responsibilities among the parties with a stake in the firm”. This implies that organisational theory encompasses mechanisms, disciplinary and cognitive dimensions, of creation/distribution of value to maximise potential in creating value by innovation.

3.7 Political Theory

Political theory is built on the approach of developing voting support from shareholders, rather than by purchasing voting power. Political theory advocates that whoever wields a political power in governance may influence corporate governance within the organisation. In view of cultural challenges, public interest is much reserved as the government participates in corporate decision making (Pound, 1993). Political theory argues the allocation of corporate power, profits and privileges are determined via the governments’ favour. Hence, the political power of corporate governance can greatly influence organisations decision-making process, organisational performance and governance developments. Political theory emphasises the entrance of politics into the governance structure or firms’ mechanism (Hawley and Williams, 1996). Political theory therefore explains why the government of a country has been seen to have a strong political influence on firms, over the last decades.

3.8 Ethics Theories

Beside the above seven fundamental corporate governance theories, there are other ethical theories that are closely associated with corporate governance. These include business ethics theory, virtue ethics theory, feminist ethics theory, discourse ethics theory, postmodern ethics theory. Ethical theories shed light on rules and principle (right and wrong situations) through the study of morality and the application of reasoning (Abdullah and Valentine, 2009).

3.8.1 Business Ethics Theory

Business ethics theory addresses rights and wrongs decisions-making situations in business. It influences business activity in the society, as businesses support the society in terms of jobs, products and services. Survival of businesses has a greater impact on society than ever.
Consequently, business ethics is a relevant governance issue because it is relevant in identifying benefits and problems associated with ethical issues both within a firm and a sector.

3.8.2 Virtue Ethics Theory

Virtue ethics theory focuses on moral excellence, goodness, chastity and good character. Virtue is a force influencing action in a given situation. Virtue ethics highlights the virtuous character towards developing a morally positive behaviour (Crane and Matten, 2007). Virtues are set of traits that help a person to lead a good life. Virtues are exhibited in a person’s life mainly from two aspects: affective and intellectual. The concept of affective in virtue theory suggests “doing the right thing and have positive feelings”; whilst, the concept of intellectual suggests “doing virtuous act with the right reason” (Abdullah and Valentine, 2009:93).

3.8.3 Feminist Ethics theory

Feminist ethics theory promotes empathy, healthy social relationship, loving care for each other and the avoidance of harm. This theory advocates social concern, and not merely a profit centred motive, by way of care for one another in an organisation. The theory advocates welfare of the firm workforce in order to promote collectiveness and sense of belonging.

3.8.4 Discourse Ethics Theory

Discourse ethics theory is concerned with peaceful settlement of conflicts. Discourse ethics, also called argumentation ethics, advocate constructive argument that seeks to establish ethical truths by investigating the presuppositions of discourse (Habermas, 1996). Discourse ethics is highly relevant in business, as it facilitates brainstorming and amicable settlement to promote cultural rationality and cultivate openness (Maisenbach, 2006).

3.8.5 Postmodern Ethics Theory

Postmodern ethics theory goes beyond the facial value of morality and addresses the inner feelings of a situation. It provides a more holistic approach in which firms make goals achievement as their priority, with less emphasis on values. This may have a long term detrimental effect on a firm. However, there are firms today who are highly value driven that their values become their ultimate goal (Balasubramaniam, 1999). This implies that postmodern ethics theory can have double hedged effects on the firm; hence, effective decision-making is necessary.

Having considered corporate governance theoretical perspectives; the outcomes suggest that corporate governance is concerned with the role of stakeholders, and its impact on the collective welfare of society. OECD views the role of corporate governance as twofold: first, it covers the manner in which shareholders, managers, employees, creditors, customers and other stakeholders interact with one another in shaping corporate strategies; and second, it relates to public policy, and an adequate legal regulatory framework, which are essential for
the development of good systems of governance (OECD, 2009). Corporate governance increases investors’ confidence and goodwill. It also ensures transparency, accountability, responsibility and fairness. Governance issues in developing economies include constraints imposed by governments on the evolution of markets and the role of competition in product and capital markets (McGee, 2009). Okpara (2011) identifies challenges and issues in Nigeria militating against effective implementation of corporate governance to the levels that might be accepted in developed economies. These include: constraints arising from concentrated shareholdings usually held by founders or family members, weak regulatory framework, ineffective or lack of enforcement, weak monitoring, lack of transparency and disclosure, shallow and inefficient capital markets and ineffective boards of directors (Okpara, 2011). In Nigeria, the issue of corporate governance gains impetus in the post structural adjustment program (SAP) era, following the growth of private ownership and financial institutions. The country witnessed a very high rate of corporate failures due to weak corporate culture in these institutions. To regain the public confidence, the Securities and Exchange Commission set up a committee in 2000. The committee report was the first to articulate a corporate governance code for companies in Nigeria. Also, in 2000 the Central Bank of Nigeria published a similar code to address corporate governance practices in Nigeria (CBN, 2006). The recently launched Code of Best Practices on Corporate Governance in Nigeria (Corporate Governance Code) lays credence to this emphasis. Furthermore, effective March 2009 the National Insurance Commission (NAICOM), releases Code of Good Corporate Governance for the Insurance Industry in Nigeria (NAICOM, 2009). NAICOM is a governmental agency saddled with the responsibility of regulating insurance business and practice in Nigeria.

Insurance is a contractual relationship between two parties, insured (buyer) and insurer (seller), whereby the insurer undertakes to indemnify the insured in the event of a loss covered in exchange for payment of premium, subject to the contract terms and conditions (Atkins and Bates, 2009; Boland et al., 2009; Thoyts, 2010). Blunden and Thirlwell (2010) describe insurance as a contract of fortuity which depends on occurrence of something that is not foreseen, and over which the insured ostensibly has no control. The insurance industry is an important sector of the economy, as it facilitates shifting the cost of the risk away from the insured (who runs it) to an external party (the insurer) in exchange for payment of premium (Ericson et al., 2003; Ericson and Doyle, 2004). Primarily, insurance is a risk transfer mechanism, thereby facilitating transfer of risks from insureds (i.e. individual, firms or state) to insurance companies or institutions (Fadun, 2013). Consequently, insurance facilitates transfer of economic risks to an insurer, while the actual risk remains with an insured (Coyle, 2002; Gordon, 2003). This is possible because an insurer has a more diversified portfolio of exposures which help to decrease unexpected losses.

4 Methodology

4.1 Population, Sample and Procedure

The study population comprises the insurance companies in Nigeria’s insurance industry. Random sampling technique is used to select fifteen insurance companies from the population.
Random sampling procedure gives every insurance company equal chance of being selected from the population. The sample of study consists of 150, ten each from the 15 selected companies. Structured questionnaires were administered to 150 participants; but 112 respondents, representing 74.66% response rate, eventually participated in the study. 67, representing 59.82% of the respondents, are males and 45 (40.18%) are females. Majority of the respondents are in the middle age which is between 31 to 44 years (76.7%). 65.3% has been working with their organisations for more than 5 years and 26.6% have been working between 3 to 4 years. Likewise, most of the respondents have First degree or HND (65%), 25% with Masters Degree and only 15% with Diploma qualification.

4.2 Research Instrument and Data Analysis

Structured questionnaires were administered to obtain relevant information from participants within Lagos metropolis. The questionnaire consist of 15 questions in statement forms describing issues operationalise in the concept of corporate governance as it relates to the Nigerian insurance industry. Responses were measured using Likert five point-scales ranging from: strongly agree to strongly disagree. The statistical technique adopted for data analysis and test of hypotheses is the Pearson product coefficient of correlation (r).

4.3 Model Specification

Pearson product coefficient of correlation (r) statistical formulae is used in analysing and interpreting responses connected with the main variables of the hypothesis. The Pearson product moment of correlation formulae is given as:

$$r = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2}\sqrt{n(\sum y^2) - (\sum y)^2}}$$

From the formula:

n = number of options
x = points allocated to the options
y = number of responses from respondents
Where X and Y is the variables being considered. The dependent variable is denoted as Y while the independent variable is denoted as X.

4.4 Interpretation of Results

Interpretation of Pearson product coefficient of correlation (r) result: when r = 0, there is no relationship between the variables tested. When 0 < r < 0.4, there is weak correlation between the variables, and when r ≥ 0.5 there is a strong correlation between the variables. When r is negative (-) the variables are inversely related; but the variables are directly related, if positive (+). Note that: $H_0$ = Null Hypothesis and $H_1$ = Alternate Hypothesis.
Reliability test is also carried out on the analysis result by way of a test of significance to ascertain the reliability of findings and to further justify the outcome of the correlation test. The test of significance is used to justify the results. Here, the decision rule is that once the t calculated (t-cal) is greater than the t tabulated (t-tab) value at a chosen significance level and at a given degree of freedom; the Ho would be rejected and H1 would be accepted; otherwise we accept H0 and reject H1. The significance level is 95% (P value = 0.05); and the degree of freedom is given as d.f = n – 2 = (5 – 2) = 3: thus, the degree of freedom is 3. The essence of the significance test is to prove the relationship of two variables, as correlation coefficients suggest a relationship between two variables.

5 Hypotheses Testing and Findings

In this section, hypotheses testing, data analysis and results are presented. The response options are allocated points: Strongly agreed (SA) - 5; Agreed (A) - 4; Strongly disagreed (SD) - 3; Disagreed (D) - 2; and Indifference (IN) - 1.

5.1 Hypotheses Testing

5.1.1 Hypothesis 1 Testing

H0: Corporate governance cannot enhance insurance company growth.

H1: Corporate governance can enhance insurance company growth.

The responses to the statement “the code of good corporate governance for the Nigerian insurance industry can enhance insurance company growth” were used to test this hypothesis.

<table>
<thead>
<tr>
<th>OPTIONS</th>
<th>POINTS (X)</th>
<th>RESPONSES (Y)</th>
<th>XY</th>
<th>X²</th>
<th>Y²</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA</td>
<td>5</td>
<td>60</td>
<td>300</td>
<td>25</td>
<td>3600</td>
</tr>
<tr>
<td>A</td>
<td>4</td>
<td>47</td>
<td>188</td>
<td>16</td>
<td>2209</td>
</tr>
<tr>
<td>SD</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>D</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>IN</td>
<td>1</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15</td>
<td>112</td>
<td>493</td>
<td>55</td>
<td>5834</td>
</tr>
</tbody>
</table>

Source: Field survey, 2012

\[
r = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2}} \sqrt{n(\sum y^2) - (\sum y)^2}
\]

\[
r = \frac{5(493) - (15)(112)}{5834}
\]
\[ \sqrt{5(55) - (15)^2} \sqrt{5(5834) - (112)^2} \]

\[ r = 0.8611 \]

Decision: \( H_0 \) is rejected and \( H_1 \) is accepted because \( r \) (0.8611) is greater than 0.4. This implies that the code of good corporate governance for the Nigerian insurance industry enhances insurance, if strictly adhered to by practitioners and other stakeholders.

Significance Test:

\[ r \sqrt{\frac{N - 2}{1 - (r)^2}} \]

\[ 0.8611 \sqrt{\frac{5 - 2}{1 - 0.7415}} \]

\[ T \text{ calculated} = 2.93 \]

Final Decision: Since the \( T \) calculated (2.93) is greater than the 2.32 at 95% significance level, with degree of freedom (n.d) = 3, then \( H_0 \) is rejected and \( H_1 \) is accepted. This suggests that the code of good corporate governance can enhance insurance company growth in Nigeria.

5.1.2 Hypothesis 2 Testing

\( H_0 \): Good corporate governance does not promote safe and sound insurance practice.

\( H_1 \): Good corporate governance promotes safe and sound insurance practice.

The responses to the statement “good corporate governance promotes safe and sound insurance practice” were used to test this hypothesis.

<table>
<thead>
<tr>
<th>OPTIONS</th>
<th>POINTS (X)</th>
<th>RESPONSES (Y)</th>
<th>XY</th>
<th>X^2</th>
<th>Y^2</th>
</tr>
</thead>
<tbody>
<tr>
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<td>5</td>
<td>52</td>
<td>260</td>
<td>25</td>
<td>2704</td>
</tr>
<tr>
<td>A</td>
<td>4</td>
<td>56</td>
<td>224</td>
<td>16</td>
<td>3136</td>
</tr>
<tr>
<td>SD</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>D</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>IN</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15</td>
<td>112</td>
<td>488</td>
<td>55</td>
<td>5856</td>
</tr>
</tbody>
</table>

Source: Field survey, 2012
\[ r = \frac{5(488) - (15)(112)}{\sqrt{(5(55) - (15)^2)} \sqrt{(5(5856) - (112)^2)}} \]

\[ r = 0.8309 \]

Decision: \( H_0 \) is rejected and \( H_1 \) is accepted because \( r \) (0.8309) is greater than 0.4. This indicates that good corporate governance promotes safe and sound insurance practice.

Significance Test:

\[ t = \frac{r \sqrt{N - 2}}{\sqrt{1 - r^2}} \]

\[ 0.8309 \sqrt{5 - 2} \sqrt{1 - 0.6904} \]

\[ T \text{ calculated} = 2.59 \]

Final Decision: \( H_0 \) is rejected and \( H_1 \) is accepted, because the \( t \) calculated (2.59) is greater than 2.32 at 95% significance level, with degree of freedom (n.d) = 3. This suggests that good corporate governance promotes safe and sound insurance practice.

5.1.3 Hypothesis 3 Testing

\( H_0 \): Effective supervision of insurance does not promote good corporate governance.
\( H_1 \): Effective supervision of insurance promotes good corporate governance.

The responses to the statement “effective supervision promotes good corporate governance” were used to test this hypothesis.

<table>
<thead>
<tr>
<th>OPTIONS</th>
<th>POINTS (X)</th>
<th>RESPONSES (Y)</th>
<th>XY</th>
<th>( X^2 )</th>
<th>( Y^2 )</th>
</tr>
</thead>
<tbody>
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<td>SA</td>
<td>5</td>
<td>63</td>
<td>315</td>
<td>25</td>
<td>3969</td>
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<td>196</td>
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<td>2401</td>
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<tr>
<td>SD</td>
<td>3</td>
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<td>0</td>
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<tr>
<td>D</td>
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<td>0</td>
<td>4</td>
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<tr>
<td>IN</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15</td>
<td>112</td>
<td>511</td>
<td>55</td>
<td>6370</td>
</tr>
</tbody>
</table>

Source: Field survey, 2012

\[ r = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}} \]
\[
\begin{align*}
\text{r} &= \frac{5(511) - (15)(112)}{\sqrt{5(55) - (15)^2}\sqrt{5(6370) - (112)^2}} \\
&= 0.8907
\end{align*}
\]

Decision: \(H_0\) is rejected and \(H_1\) is accepted, because \(r (0.8907)\) is greater than 0.4. This implies that effective supervision of the insurance industry promotes good corporate governance.

Significance Test:

\[
T \text{ calculated} = \frac{N - 2}{\sqrt{1 - (r)^2}}
\]

\[
0.8907 \sqrt{\frac{5 - 2}{1 - 0.7933}}
\]

\[
T \text{ calculated} = 3.39
\]

Final Decision: \(H_0\) is rejected and \(H_1\) is accepted because the \(t\) calculated (3.39) is greater than 2.32 at 95% significance level, with degree of freedom (n.d) = 3. This suggests that effective supervision of insurance promotes good corporate governance in the Nigerian insurance industry.

5.2 Findings

Generally, respondents agreed that professionals with requisite technical skill and experience should head and manage insurance companies. This practice promotes professionalism in the industry. The need for strong internal control system was emphasised, in order to promote good corporate governance and improve the image of the Nigeria insurance industry. The respondents also agreed that effective risk management is necessary to ensure development and growth of the Nigerian insurance industry. Furthermore, adequate capital base and compliance with NAICOM guidelines for insurance practice are strongly supported by respondents in order to redeem the image of the insurance industry in Nigeria. This can also promote strong financial base and increase the capacity of the nation’s insurance industry. However, government need to provide enabling environment, as corporate governance thrives in economical and political stable environment. The findings suggest that code of good corporate governance for the insurance industry can enhance insurance company growth in Nigeria; good corporate governance promotes safe and sound insurance practice; and effective supervision facilitates good corporate governance in insurance companies. In other words, good corporate governance helps to build a better reputation for insurance industry, increase profitability and enhance insurance company growth.
6 Conclusions and Recommendations

6.1 Conclusions

Good corporate governance is beneficial to insurance companies because it facilitates accountability, promotes transparency of operations, improves firm’s profitability and enhances growth of the insurance industry. Corporate governance helps to protect stakeholders’ interest by aligning their interest with that of managers. The study examines challenges and opportunities of corporate governance and insurance company growth. It also explores empirically the relationships between corporate governance and insurance company growth in Nigeria. The findings indicate that code of good corporate governance for the insurance industry can enhance insurance company growth in Nigeria; good corporate governance promotes safe and sound insurance practice; and effective supervision facilitates good corporate governance in Nigeria. The implication for practice suggests that effective corporate governance is necessary for proper functioning of insurance companies to promote growth and secure public confidence. Furthermore, the outcome indicates that insurance companies in Nigeria are well positioned to support the nation’s economy. This implies that with good corporate governance practices, insurance companies in Nigeria would be able to generate resources to create more employment opportunities and support the nation’s economy through prompt claims settlement. Likewise, the insurance industry would be able to support the nation’s economy through their financial intermediation role by channeling resources to the critical areas of the economy.

6.2 Recommendations

Considering the need for insurance companies in Nigeria to positively contribute to the nation’s economy; it is necessary that Nigeria insurance companies must adhere to NAICOM guidelines and good corporate governance codes. Consequently, the researcher recommended the following:

- NAICOM should improve on supervision of the nation’s insurance industry activities by strengthening its inspection and enforcement divisions. This is necessary to ensure that the code of good corporate governance for insurance industry is strictly adhered to by practitioners and other stakeholders. Compliance with code of good corporate governance would promote safe and sound insurance practice in the insurance industry.
- The management staffs have important roles to play in promoting sound internal control system in insurance companies. This would ensure that laid down procedures are reviewed regularly to promote good corporate governance. It is also necessary in order to redeem the image of the insurance industry, and perception of insurance by the public.
- More importantly, is the need for qualified and experience staff to manage insurance companies in Nigeria. This would facilitate better performance and rapid growth of the insurance industry.
The study examines corporate governance challenges and opportunities associated with insurance company growth in Nigeria; hence, the findings do not apply to other African countries. However, the sample represents the insurance industry in Nigeria, so the results can be generalised to insurance companies that were not part of the study. However, future research may be strengthened by using larger sample, and possibly include reinsurance companies. Future research can also utilise data on a longitudinal basis to help draw causal inferences and to further validate the research findings.

Acknowledgement

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References


