**COVID-19 Pandemic Lockdown: It’s Economic Shock on Insurance Business in Nigeria**

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***Abstract***

*The sudden outbreak of the pandemic Covid-19 novel has led many organizations to the adoption of unprepared for strategies for the survival of their entities due to the shock posed by the corona virus on their routine business. On this note this study bordered on the economic shock of corona virus on the business of insurance companies in Nigeria. The finding of the study reveals that, the pandemic posed economic shock on insurance business activities. The study concludes that it is imperative for insurance stakeholders in the country to be pro-active and prepare for any future eventuality that could stem up from increased claims ratio that might impacting their profitability, budgets planning, cash flows, and capital requirements. The study recommends that insurance companies should evaluate their assets impairment to be ensure if there has been a significant decline in the fair value of the investment below its cost or loss event that could affect their future cash flow.*

**Keywords: Covid-19, Insurance, Business, Economic**

* 1. **Introduction**

With the global pandemic’s significant impact on the nation economic activities and, employment levels in all industries, also consumers income have reduced drastically over a short period. Insurance companies are responding to this issue with the adoption of different strategies to ensure their businesses are rolling. The responses of insurance companies to the pandemic lockdown will have the possibility to either increase or reduce the insuring public confidence in the industry. According to Deloitte (2020) the pandemic continues to have shock on the households, businesses, society, and the wider economy across the globe significantly.

The important of insurance business in the development of economy, and in the economic resilience of individuals and business organizations has been amplified by the COVID-19 pandemic. As of March 30, 2020, the major commercial and industrious areas of Nigeria were in total lockdown before the announcement of the total lockdown of national economic purposely to slowdown the spread of the corona virus. Consequentially, this has forced many businesses not operating in essential services and close their doors temporarily. Without adequate reserves or appropriate insurance solutions many companies will be forced to lay off employees, even shutdown permanently.

Even though insurance companies are the custodians of risk, the insurance underwriters have not escaped its impact, but they have responded quickly to the crisis. Obviously, Covid-19 continues to impact insurance business in divers form, and all major stakeholders must take some proactive measures against some unforeseen difficulties that may later surface in the industry. Ajayi (2020) opined that among the financial services sector, insurance organizations, given the nature of risks associated with their business, they are likely to be hit hard by the Covid-9 crisis owing to its impact on policies.

Whilst the insurers are generally more resilient to the economic shock, many insurance business operators will be forced to readjust and reposition their business strategy, reformulate policies and reimplementation of their plans for cash flow expectations and investment portfolios as to cushion the effects of the Pandemic on their business activities.

As the COVID-19 crisis has created new challenges for many businesses in world at unprecedented stages. Without doubt, premiums income forms the major source of revenue for insurance companies, however, business failure in the economy, bankruptcy and, loss of revenue by policyholders during the pandemic lockdown will certainly impact premium payments negatively, if they avoid cancelling the policies outrightly as a result of supply chain and production sudden disruptions, restrictions of workforce, restrictions of local and international travels to reduced consumer to mitigate against the spreading of the disease among other factors. According to KPMG (2020) insurance companies in Nigeria are not exempted from these negative shocks of the pandemic, the impacts are being seen on their business operations from sales and processing of insurance coverages through processing of claims and payment to their financial reporting. According to the study, these could impact underwriters’ financial positions, capital base and solvency ratios significantly.

* 1. **Research Objective**
1. To determine the economic shock of COVID-19 pandemic on insurance business in Nigeria
	1. **Research hypothesis**
2. COVID-19 has not posed any economic shock on insurance business during the pandemic lockdown

**2.0. Theoretical Framework**

**2.1. Economic impact of Pandemic on Insurance businesses in Nigeria**

Globally, due to the sudden spread of the covid-19 pandemic novel, face-to-face interaction in both social gathering and business places has effectively stopped, with many organizations with their customers now channel their business transactions through digital channels. In the insurance markets customers are being re-directed to digital means for information, service and queries, where possible. These challenges also extended to the intermediaries, agents and financial advisors practically. The following classes of insurance business are majorly hurt during the pandemic lockdown, especially in Nigeria.

1. **Workers’ compensation insurance**: this policy covering situations where employees claim they were not adequately protected by their companies against exposure to the pandemic virus. As there may be losses of job due to the COVID-19 pandemic, there may be high rate of claims by employees that they have not been properly protected against the impacts of the pandemic by their employers. This may expose the insurance companies to more claims of such.
2. **Marine insurance:** This policy covering the losses of cargo or damages to hulls, cargos, vessels, and terminals. As a result of the pandemic lockdown there would be low underwriting activities relating to marine insurance business during this period. Moreover, the premium already written with respect to the business may not been earned until lockdown restrictions are lifted globally.
3. **Trade credit insurance**: This policy covering businesses against defaults in their debts or loan obligations. Since businesses are faced with the challenges posed by the pandemic, it might become tough for the debtors to meet up with the repayment obligations of their loans, and this may expose insurance companies to claims under this class of business
4. **Credit life Insurance:** As businesses are restructuring for operations in post-COVID-19, job losses may be on the increase. In situations where workers with loans outstanding with banks become unemployed due to the pandemic, insurance companies would need to settle the unpaid balances under the credit life insurance business.

**2.2. Economic impact of Pandemic on the Insurance company’s profitability**

1. **Increased claims ratio:** claims payments may take more time and could result in a change in the paid-claim patterns used in some actuarial methods for calculating insurance liabilities. There is also the likelihood of increased reported claims after lockdown is ended given that the insurers provide coverage for death claims, health and other adverse contingencies.
2. Lower returns from traditional investments will continue due to market volatility and instability of interest rates. Investment income will be deeply impacted in the nearer future due to the volatility in the financial markets along with expectation that interest rates will remain at record lows for the foreseeable future.
3. **Claims:** Life & disability insurance claims are expected to increase. Health agencies are estimating the number of deaths attributed to COVID-19 could be 200,000 - 1.2 Million people in the US alone.
4. **Premium and Fees Income:** Life & Annuity business will see a short term hit on premium income, but this will recover in the long term. However, in Property & Casualty we see more seismic impact, with short term reductions in new business premiums that we believe will continue over a long period of time (i.e. future premiums reduced due to reduced economic activity).
5. Decreases in asset valuations arising from the COVID-19 pandemic may impact regulatory capital and solvency margin calculations and disclosures about how the entity manages capital.

**2.3. Measure taking By Nigerian Insurance companies cushion the effect of Pandemic on Policyholders**

1. some insurance companies have announced premium refund to policy holders for auto policies for the lockdown period. The refund is a credit which can be utilized against future premium payments.
2. The Nigerian Insurers Association (NIA) announced that it will support in the fight against the pandemic through the provision of kits and insurance cover for all medical personnel and allied workers that engaged in giving care to COVID-19 patients.

**3.0. Empirical Review of Related Literature**

Aderemi, Adenirana, Amusa, & Ebere*.* (2020) carried out research on Globalization and Corona Virus (COVID-19) Pandemic; the Vulnerability of Africa is the Opportunity of China. The study submitted that COVID-19 virus spread to Africa as by-product of globalization while examining the nexus between globalization and Covid-19 pandemic vis-à-vis Africa and China.

Ajayi (2020) Examine the overall impact of Covid-19: Impact on the Insurance industry in Nigeria, especially how it impacts diverse interests of investors in the insurance business including insurance companies and their customers. Also, how the regulatory response by the National Insurance Commission (NAICOM) and the pandemic potentially affects the recapitalization efforts by insurance companies in Nigeria, in view of directives previously issued by NAICOM. Collins (2020) examined the impact of COVID-19 pandemic on stock market value of China, Europe and USA with an application of differential analysis. The authors submitted that the COVID-19 pandemic exacted different impacts in the stock markets the regions under study.

Deloitte (2020) investigated on Impact of COVID-19 on the Insurance Sector. The study on emphasised the importance of caring for the health and safety of insurance companies’ employees and distribution partners in the intermediaries during the Coronavirus crisis. More so, the study suggests that insurance companies should consider creating cross-functional groups for emergency decision-making. Those groups would coordinate the organization’s response to COVID-19 related challenges, set new health and safety protocols, and assure quick action as the pandemic continues to evolve.

**4.0. Methodology**

The study adopted explanatory research design, using regression analysis to analyse the primary data obtained with the aid of well-structured questionnaire. The study population is the entire quoted insurance companies in Nigeria. The sample size for the study is forty-five (45) respondents.

**4.1. Data Analysis**

The **model**is to investigate the relationship between Economic shock and Insurance Business is shown below:

 Y= $a\_{0 }$+$β\_{1 }$+ U……………. (1)

Where:

 Y = INB (Insurance Business)

$a\_{0 }$= Autonomous

 $β\_{1 }$ = ECS (Economic shock)

U = Error

|  |
| --- |
| **Table 4.1.1. Model Summary** |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .715a | .511 | .429 | .16836 |
| 1. Predictor (Constant), ECS
 |

***R* =0.715**

$R^{2}$**= 0.511**

 Regression coefficient R= 0.715 reveals the relationship that exists between economic shock (ECS) and insurance business (INB) during the Covid-19 lockdown. The coefficient of determination $R^{2}=$0.511 indicates that 51.1% of variation of economic shock is impacted on insurance business Nigeria during this period.

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| **Table 4.1.2. Coefficientsa** |
| Model | Unstandardized Coefficients | Standardized Coefficients | T | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | 7.390 | .844 |  | 8.753 | .000 |
|  ECS | .228 | .091 | .715 | 2.502 | .046 |
| a. Dependent Variable: INB  |

The result in table4.1.2, shows that INB= 7.380+0.228$ECS\_{1 }$+U. This indicates that one percent increase in the pandemic situation will affect the business activities of insurance sector by 22.8% during this period.

**5.0. Conclusion and Recommendation**

The COVID-19 pandemic is affecting all aspects of insurance business, it is a situation that is evolving in a complex and dynamic manners where the future is unpredictable for insurance businesses in the economy. The finding of the study shows that the pandemic posed economic shock on insurance business activities. Therefore, it is imperative for insurance stakeholders in the country to be pro-active and prepare for any future eventuality that could stem up from increased claims ratio that might impacting their profitability, budgets planning, cash flows, and capital requirements. Also, hedge against any strain that could cause from lower returns on their investments as a result of low interest rates and market volatility.

The study recommends that insurance companies should assess their assets impairment to be ensure if there has been a significant decline in the fair value of the investment below its cost or loss event that could affect their future cash flow.

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