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A SURVEY ON THE RECAPITALISATION, MERGERS AND ACQUISITIONS OF THE NIGERIAN INSURANCE INDUSTRY

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ABSTRACT

The reaction of the insurance underwriters towards the recapitalization exercise in Nigeria is investigated. Fifty-four questionnaires were properly filled and returned from members of staff of some selected insurance companies, upon which descriptive analytical tools and chi-square statistical tool were used. From the analysis, recapitalisation has been enhancing the development of insurance industry and mergers and acquisitions have remained a viable option for them to remain in business. Based on the findings recommendations were made; insurance industry should not wait until they are compelled by law to increase their capital base. Recapitalised insurance companies should have strategic alliance with the multinationals in the country for technical and business support for the local underwriters. Also, the industry's regulatory mechanism should produce a strong pressure group to make a presentation to the government for legislation to conserve our foreign earnings and retained insurance premiums paid to the foreign underwriters who absolutely control some of our insurance business in Nigeria.

Introduction

In recent times, the world financial system has experienced considerable economic shocks due to unprecedented system failures, and increasing insiders' abuse (Irukwu, 2005). Thus, government's intervention is continually noticed with the aim of repositioning the emerging companies for better service and enhances their capacity to acquire a larger share of the market. For insurance and re-insurance companies in Nigeria, the positive drive by government for repositioning seems to be beneficial both to the organisations and the

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Nigerian community at large (Aghoghobvia, 2005; Isimoya, 1999). Insurance and reinsurance companies that are perceived as safe and well managed in the market place are likely to obtain more favourable terms and conditions in its relationship with investors, creditors, insureds, reinsurers / retro-cessionaries and other counter parties than one that is perceived as weak and more risky (The Risk Shield Magazine, 2005a,b).

In Nigeria, the minimum paid up capital of life insurance companies were raised to ₦2 billion (representing an increase of 1,233.33%) while the capital base of non-life insurance companies was increased by 1,400% to ₦3 billion. Composite insurance companies underwriting have their capital base increased by 1,328.57% to ₦5 billion, while the reinsurance companies were required to shore up their minimum paid up capital to ₦10 billion, (representing an increase of 2,575.14%). Thus, adopting the merger and acquisition option remains a critical decision for business owners (Bashorun, 2003; Bashorun, 2003a,b; Ladipo-Ajayi, 2005).

In the Nigerian insurance industry, the decline in goodwill is exemplified by the sharp fall in gross premium income of all insurance companies in Nigeria from ₦14,792.0 million in 1999 to ₦1,567.8 million in 2000. Thus, the Nigerian insurance industry is in crisis, exemplified by shrinking market share and reduced growth. In the past, the Nigerian insurance companies have lost much premium whereby multinational companies and operators in the oil and gas sector prefer to insure their risk overseas with attendant capacity flight, tactical delay of claims payment and other financial obligations to the public (Uranta, 2004). Thus, insurance companies, must strive to improve on their collective public image, which has been battered by these factors by improving on their service delivery. It is observed that the quantum of claims was greater than the paid up capital of all insurance companies; it may well be that some insurance companies were not financially strong enough to meet the claims of client, thereby creating a crisis of confidence in the entire industry. This may be the reason why reinsurance business was introduced in Nigeria in 1976.

This study investigates into the reactions of the insurance underwriters towards the recapitalization exercise; examines how mergers and acquisitions will enhance the sustainability of some insurance companies who are unable to meet the new capital base (Ladipo-Ajayi, 2005); and also examines the factors responsible for low contribution of insurance industry to the nation's growth (Thomas, 2004; Sunday, 2006). This research will also recommend some likely solution to the insurance experts and the government that makes enactment regarding the insurance industry.

A great number of papers have investigated into the recapitalisation problem of the insurance industry in Nigeria. The following is a brief account of them. Irukwu (2005) decries recapitalization order by arguing that it was wrong for the government to call for another round of recapitalization in the insurance industry when the operators were yet to recover from the previous one. Ladipo-Ajayi (2005) stated that the recent capital base set by the federal government of Nigeria for the insurance and reinsurance companies should be seen as a possible magnet that could enable local players take jobs outside the shores of the country after the consolidation exercise.

Aghoghovbvia (2005) stated that it is not surprising that the insurance industry has not been able to support the economy to the extent that it should. He listed some of the challenges facing the industry to include shortage of skilled manpower; difficulties in the collection of balances; lack of innovation by operators as well as the low level of information technology leverage in the industry. In order to cope with these challenges facing the industry and take full advantage of opportunities likely to emerge after the recapitalization exercise, they should improve upon the underwriting, marketing, operations and financial aspects of their management.

The challenge to the insurance industry has become much stronger with the emergence of universal banking which has, in effect, expanded the scope of activities of banks to include a good measure of insurance. Indeed, in developed countries, insurance is regarded as a major component of the financial services industry. A large company, having multi-billion naira assets, would not be unduly sentimental when arranging for the insurance of its assets. Such a company would rather target a large insurance company with strong asset base to provide the necessary cover.

Given the prevailing realities in our insurance industry, very few insurance companies can justifiably claim to be in a position to insure assets whose value runs into billions of Naira. The fact that reinsurance is available to cushion the devastating effect of large claims does not detract from the basic need to have very strong and viable players in the industry. The structure of many of the small and hardly viable insurance companies does not encourage resorting to take-overs because the proprietors of such companies would easily prevent any take-over bid which does not enjoy their support. It is also difficult to comprehend how such proprietors would readily accede to a request or a merger with another company, particularly where such merger may terminate their direct involvement in the industry. Perhaps a practical solution may be found in a statutory and regulatory apparatus which makes it practically impossible for any company which has not gotten a very solid financial base to operate in the insurance industry. Such an apparatus would simply compel the merger of companies whose only other alternative is to get out of the industry altogether through the sheer inability to meet with the basic requirements of the statutory and regulatory apparatus.

In conclusion, if necessary care is taken in effecting the schemes, which are likely to be put in place consequent upon an increase in the tempo of business activities in the country, the entire economy will certainly benefit from the exercise. However, if the processes are again caught in the usual lackadaisical and, sometimes, narrow-minded approach to important issues and characteristics of our society, then the future of this basically beneficial machinery for economic development may be bleak in this country. It is only to be hoped that we are already bargaining to learn our lessons regarding the imperative need to adopt a pragmatic approach to those things, which are useful vehicles for the economic development of our society. Therein lies the future of the great country of our dream.

A close study of the trends of mergers and acquisition of insurance companies in the United Kingdom from January to August 1998 noted that the growth in the sizes establishment in other parts of the world outside the United Kingdom, arose from the financial muscles they achieved via mergers and acquisition. The diversity into other businesses also led to the growth. Mergers and Acquisitions, and branching out into other parts of the world, continued to be part of the insurance business culture from year to year in the United Kingdom. For instance, in 1984 only 11 companies were involved in bids for mergers and acquisitions, and in 1987 and 1988, the numbers were 69 and 79 respectively. But in 1992 and 1993, the figures were 33 and 32 respectively (Samuel, 2003).

Furthermore, in 1997 and 1998, the numbers were 68 and 67 respectively. It did not mean that most of the bids were successful, but it, at least, showed the process of dynamic evolution through mergers and acquisitions up and down. While many bid deals succeeded, some were not concluded and thus failed. The numbers of bids from period to period in the United Kingdom depended on periods of economic booms and recessions. Unfortunately, it has become very difficult to get mergers and acquisitions taking place in Nigerian insurance industry, among other businesses. The probable part of the reason is the lack of the will to let go what had always belonged to us. The fear of losing the business prevails irrespective of the merits of mergers and acquisitions. The culture needs a change. It is believed that in the light of the benefits, which could accrue to the industry through mergers and acquisitions, all concerned directors, shareholders, management of insurance and reinsurance companies, regulatory arms of the government etc., should take this opportunity to seriously restructure the Nigerian insurance industry.

It is not necessary that companies needing additional capital need to be merged or acquired. We could even have a reinsurance group, aiming to be as big as Swiss Re, etc. Royal and Sun Alliance do not merge to comply with any legislation, nor did they need the capital to continue to function. They merged to become one of the top United Kingdom insurance companies. The compression or merger of these small insurance companies in Nigeria into formidable companies will even make the work of the supervisory authority easier, as it is stated earlier, and all these rate cutting and purchase of premium may disappear. There will be a better confidence and improved image of the industry in the minds of members of the public.

Methodology

Research Methodology

Information for the purpose of this work will be collected from various sources like questionnaires with a mixed grill of respondents in the private and public sectors of the economy. This will actually target the relevance of recapitalization and how mergers and acquisitions can be applied effectively (Asika, 1991; Richard, 2006). A survey research will be carried out which involved a representative portion of the insurance companies, stratified sampling method will be applied in such companies, whereby the management will be stratified into top management, middle management and lower management. Chi-square was used to test the stated hypothesis. The previous items of information will be supplemented with returns made available to Nigeria Insurers Association (NIA) by the insurance companies, insurance journals, and publications. In data processing, simple frequency count will be used and the statistical computation done manually (Murray, 2003; Sirkin, 1995).

The current global economic recession and inflationary situations have accentuated the challenges posed by the rapidly changing information technology and dynamics of the business environment while the purchasing power of consumers and the market share of insurance companies have suffered severe diminution, their real paid up capitals are also facing the same fate. In order to overcome these inevitable challenges, corporate integration strategies have been evolved to enable insurance companies increase their resource risks, expand their market share through the elimination of vicious competition and ultimately, enhance their earning abilities. Thus, mergers and acquisitions, have become a business imperative due largely to the desire by corporate entities to benefit from synergy associated with the economies of scale, acquisition and use of new technology, enhanced access to financial resources and new markets, availability of large pool of skilled personnel, etc. The above-mentioned benefits are what this research investigates into whether this will enhance the development of the industry or not.

The scope of this research work is limited to recapitalization of insurance industry and how mergers and acquisitions will be an option for insurance companies to remain in business. The limitations of this work include time, finance, and apathy to the filling of the questionnaires by the insurance companies and other operators in the industry.

The magnitude of this research study requires making use of the survey type of research design. Consequently, preliminary investigations were made to ascertain some of the established and listed insurance companies on the Nigeria Stock Exchange. At the time of investigation a number of twenty-two insurance companies were listed. Stratified sampling method is applied in the company, whereby the management is stratified into top level management, middle level management and low level management. The simple random sampling method was used in selecting sample of the insurance company’s staff. Every staff in the survey was given equal opportunity of being included in the sample. This method was used to produce a representative sample of the population so that meaningful conclusion can be drawn on the population.

Definition of certain terms

Capitalization: This is the capital structure of a company or an organization.

Recapitalization: It is the change in the capital structure of a company or an organization.

Merger: This is a situation where, for many strategic and economic reasons, two or more companies come together to form a larger company.

Acquisition: This entails a buy-over of one company usually by a bigger company. The company bought over normally loses its identity, in the case of a merger, it may be agreed that the larger formed company may retain their individual names to form the final name of the merged company.

Insurance: It can be defined as a social scheme which provides financial compensation for the occurrence of a misfortune.

Reinsurance: This is a form of insurance whereby an underwriter or direct insurer can transfer to another insurer all or part of the risks or liabilities already insured.

Underwriting: It is the process of undertaking to bear all or part of possible loss by signing an agreement about insurance and the representative of the syndicate who is the signatory is called underwriter.
Risk: This is the possibility of an unfortunate occurrence as the chance of loss, "as the uncertainty as to the occurrence of an economic loss".

Statement of research questions

The following research questions are stated so as to give sharp focus to the study:

(i) Can insurance industry benefit from this recapitalization exercise?
(ii) Are insurance companies ripe for another recapitalization?
(iii) Would mergers and acquisitions be a solution for insurance companies to remain in business?
(iv) Does the insurance industry generate enough business to justify the current level of recapitalization, let alone being prepared for a fresh exercise?
(v) Can insurance companies settle their differences in practice while adopting mergers and acquisitions?
(vi) Is recapitalization responsible for the development of insurance companies?
(vii) Do insurance companies need such huge amount to run their operations?

Statement of the research hypotheses

The researcher worked with the following hypotheses and the hypotheses formulated were equally tested at the end of the study.

H_o: Recapitalization will not aid the development of insurance companies
H_1: Recapitalization will aid the development of insurance companies

H_o: Mergers and acquisitions will not be a solution for some insurance companies to remain in business
H_1: Mergers and acquisitions will be a solution for some insurance companies to remain in business

The instrument that was used to carry out primary data is the questionnaire. Items in the questionnaires were designed in two forms:
(a) *Open-ended Questions*: The open-ended form which may be referred to as the "unstructured questionnaires" permits respondents to answer the questions freely and fully in their words and their own frame of preference.
(b) *Close Form*: This includes a list of questions with their possible answers from which respondents select relevant options. This form is easy to complete, it directs the respondents mind to the subject of study and aids the process of tabulation and analysis.

Method of data analysis

The data collected via the questionnaires will be presented in a tabular form and analyzed with the use of simple percentage to make comparison of data easy. The Chi-square statistical procedure will be used to test the true position of the issues raised in the hypotheses. Accurate and appropriate interpretation based on the findings from the analysis and test will be made with relevant conclusions and recommendations. The sources of data for the study are both primary and secondary. Due to the nature of the study, most of the data will be collected by the use of questionnaires. The data will be collected from selected insurance companies. These questionnaires were specifically designed for the management of these companies. These are termed as primary data. The secondary data used in this research study was gathered from magazines, journals, books, articles, and business publications. These were obtained from: (1) University of Lagos Library, and (2) Chartered Insurance Institute of Nigeria Library. A total of sixty (60) questionnaires were administered to the staff of the companies.

Data Analysis

Interpretation of results

This section presents data collected from the respondents and the analysis of the data. From table 1 that follows, it is reviewed that 59.26% of the respondents were males and 40.74% of them were females. From table 2, it is observed that 35-39 age bracket of the respondents were 36.74% which is the highest percentage, followed by 25-29 age bracket with 30.61%, 40 years and above age bracket with 26.57%, 30-34 age bracket with 9.26% and below 25 age bracket with 6.12%. From table 3, 51.85% of the respondents were married, 44.44% were single, and 3.71% did not specify their marital status. Table 4 shows that 16.67% of the respondents were top managers, 55.56% were functional managers, and 27.77% were lower managers. From table 5, 57.41% of the respondents had OND/HND/B.Sc., 31.48% had M.Sc./MBA, 9.26% had professional qualification while 1.85% of the respondents had WAEC/GCE.

From table 6, 72.22% of the respondents spent less than 10 years in the organization, 29.93% spent between 10 and 20 years while 1.85% of the respondents spent above 20 years in organization. From table 7, it could be seen that 40.74% of the respondents disagreed that the former capital base was adequate, 37.04% strongly disagreed, 3.71% were indifferent, but 14.82% strongly agreed while 3.71% agreed. From table 8, 57.41% of the respondents strongly agreed that the increase in capital base was necessary, 35.19% agreed, 1.85% were indifferent but 1.85% disagreed while 3.70% strongly disagreed. The table 9 revealed that 64.82% of the respondents strongly agreed that recapitalization would increase the capacity of insurance companies, 33.33% agreed, while 1.85% were indifferent. Table 10 shows that 61.10% of the respondents strongly agreed that insurance companies underwriting oil and energy require a larger capital, 20.37% agreed but 9.26% were indifferent while 1.85% disagreed and 7.41% strongly disagreed. Table 11 shows that 46.30% of the respondents strongly agreed that recapitalization will improve the public image of the insurance industry, 38.89% agreed but 5.56% were indifferent while 5.56% disagreed and 3.70% strongly disagreed. From table 12, it could be seen that 48.15% of the respondents agreed that recapitalization improve the operational efficiency of insurance companies, 35.19% strongly agreed, 7.41% were indifferent but 7.41% disagreed and 1.85% strongly disagreed.

Table 13 shows that 50.00% of the respondents agreed that mergers and acquisitions were good sources of large capital base, 38.39% strongly agreed, 5.56% were indifferent but 3.70% disagreed and 1.85% strongly disagreed. From table 14, 33.33% of the respondents disagreed that mergers and acquisitions posed a greater threat to the unity of operation of the constituent companies, 29.63% were indifferent, 20.37% strongly disagreed but 14.80% agreed while 1.85% strongly agreed. Table 15 shows that 40.74% of the respondents strongly disagreed that it was better for some insurance companies to close operations than getting involved in mergers and acquisitions, 27.78% disagreed, 16.67% were indifferent but 11.11% agreed while 3.70% strongly agreed. Table 16 shows that 25.93% of the respondents were indifferent on raising capital through the Stock Exchange and public offer is better than mergers and acquisitions, 25.93% strongly disagreed, 24.07% disagreed but 20.37% agreed while 3.70% strongly agreed. Table 17 revealed that 40.74% of the respondents agreed that there was a problem of merging the various units of the companies involved in mergers and acquisitions, 22.22% disagreed, 18.52% were indifferent but 16.67% strongly disagreed while 1.85% strongly agreed. Table 18 shows that 48.15% of the respondents agreed that by merging with and acquiring other insurance companies, the underwriting performance will improve, 25.93% strongly agreed, 12.96% were indifferent but 9.26% disagreed while 3.70% strongly disagreed. From table 19, it could be seen that 35.19% of the respondents disagreed that the premium income generated by insurance companies justified the recent recapitalization exercise, 29.63% strongly disagreed, 22.22% agreed but 9.26% were indifferent while 3.70% strongly agreed.

Table 20 shows that 51.850% of the respondents agreed that insurance companies can meet up with the recapitalization requirement without any sharp practices, 18.52% strongly agreed, 12.96% were indifferent but 11.11% strongly disagreed while 5.56% disagreed. From the table 21, it could be seen that 33.33% of the respondents agreed that the last recapitalization exercise is too close to the recent recapitalization exercise, 20.07% disagreed, 16.67% strongly disagreed but 14.82% were indifferent while 11.11% strongly agreed. Table 22 shows that 35.19% of the respondents disagreed that differences in work practices by the insurance companies would have negative effect, 25.93% strongly disagreed, 20.37% were indifferent but 16.67% agreed while 1.85% strongly agreed. From table 23, it could be seen that 35.19% of the respondents disagreed that the insurance industry is not ripe for a new round of recapitalization, 25.93% strongly disagreed, 20.37% were indifferent but 16.67% agreed while 1.85% strongly agreed. Table 24 shows that 37.04% of the respondents agreed that there was a positive relationship between the level of capitalization and the level of development in the insurance industry, 33.33% strongly agreed, 12.96% strongly disagreed but 9.26% were indifferent while 7.41% disagreed.

Table- 1: Sex Distribution of Respondents

Sex	No. of respondents	Percentage (%)
Male	32	59.26
Female	22	40.74
Total	54	100.00

Table- 2: Age Distribution of Respondents

Age	No. of respondents	Percentage (%)
Below 25 years	3	6.12
25-29 years	15	30.61
30-34 years	5	9.26
35-39 years	18	36.74
40 and above	13	26.57
Total	54	100.00

Table- 3: Distribution of Marital Status of the Respondents

Marital status	No. of respondents	Percentage (%)
Single	24	44.44
Married	28	51.85
No response	2	3.71
Total	54	100.00

Table- 4: **Distribution of Designation of the Respondents**

Designation	No. of respondents	Percentage (%)
Top level management	9	16.67
Middle level management	30	55.56
Lower level management	15	27.77
Total	54	100.00

Table- 5: **Distribution of Educational Background of the Respondents**

Educational background	No. of respondents	Percentage (%)
WAEC/GCE	1	1.85
OND/HND/B.Sc.	31	57.41
M.Sc./MBA	17	31.48
Professional Qualification	5	9.26
Total	54	100.00

Table- 6: **Distribution of Length of Service of the Respondents**

Length of service	No. of respondents	Percentage (%)
Less than 10 years	39	72.22
10-20 years	14	29.93
Above 20 years	1	1.85
Total	54	100.00

Table- 7: **The Former Capital Base is Adequate**

Response	No. of respondents	Percentage (%)
Strongly Agree	8	14.82
Agree	2	3.71
Indifferent	2	3.71
Disagree	22	40.74
Strongly Disagree	20	37.04
Total	54	100.00

Table- 8: **The Increase in Capital Base is Necessary**

Response	No. of respondents	Percentage (%)
Strongly Agree	31	57.41
Agree	19	35.19
Indifferent	1	1.85
Disagree	1	1.85
Strongly Disagree	2	3.70
Total	54	100.00

Table- 9: **Recapitalization will Increase the Capacity of Insurance Companies**

Response	No. of respondents	Percentage (%)
Strongly Agree	35	64.82
Agree	18	33.33
Indifferent	1	1.85
Total	54	100.00

Table-10: **Insurance Companies Underwriting Oil and Energy require a Larger Capital**

Response	No. of respondents	Percentage (%)
Strongly Agree	33	61.1
Agree	11	20.37
Indifferent	5	9.26
Disagree	1	1.85
Strongly Disagree	4	7.41
Total	54	100.00

Table- 11: **Recapitalization will improve the public image of the Insurance Industry**

Response	No. of respondents	Percentage (%)
Strongly Agree	25	46.30
Agree	21	38.89
Indifferent	3	5.56
Disagree	3	5.56
Strongly Disagree	2	3.70
Total	54	100.00

Table-12: **Recapitalization will improve the operational efficiency of the Insurance Companies**

Response	No. of respondents	Percentage (%)
Strongly Agree	19	35.19
Agree	26	48.15
Indifferent	4	7.41
Disagree	4	7.41
Strongly Disagree	1	1.85
Total	54	100.00

Table-13: **'Mergers and Acquisitions' is a good source of large capital base**

Response	No. of respondents	Percentage (%)
Strongly Agree	21	38.89
Agree	27	50.00
Indifferent	3	5.56
Disagree	2	3.70
Strongly Disagree	1	1.85
Total	54	100.00

Table- 14: **Mergers and Acquisitions pose a greater threat to the unity of operation of the constituents companies**

Response	No. of respondents	Percentage (%)
Strongly Agree	1	1.85
Agree	8	14.80
Indifferent	16	29.63
Disagree	18	33.33
Strongly Disagree	11	20.37
Total	54	100.00

Table- 15: **It is better for some insurance companies to close operations than getting involved in mergers and acquisitions**

Response	No. of respondents	Percentage (%)
Strongly Agree	2	3.70
Agree	6	11.11
Indifferent	9	16.67
Disagree	15	27.78
Strongly Disagree	22	40.74
Total	54	100.00

Table- 16: **Raising Capital through the Stock Exchange and public offer is better than mergers and acquisitions**

Response	No. of respondents	Percentage (%)
Strongly Agree	2	3.70
Agree	11	20.37
Indifferent	14	25.93
Disagree	13	24.07
Strongly Disagree	14	25.93
Total	54	100.00

Table- 17: **There is a problem of merging the various units of the companies involved in mergers and acquisitions**

Response	No. of respondents	Percentage (%)
Strongly Agree	1	1.85
Agree	22	40.74
Indifferent	10	18.52
Disagree	12	22.22
Strongly Disagree	9	16.67
Total	54	100.00

Table- 18: **By merging with and acquiring other insurance companies, the underwriting performance will improve**

Response	No. of respondents	Percentage (%)
Strongly Agree	14	25.93
Agree	26	48.15
Indifferent	7	12.96
Disagree	5	9.26
Strongly Disagree	2	3.70
Total	54	100.00

Table- 19: **The Premium income generated by insurance companies justified the recent recapitalization exercise**

Response	No. of respondents	Percentage (%)
Strongly Agree	2	3.70
Agree	12	22.22
Indifferent	5	9.26
Disagree	19	35.19
Strongly Disagree	16	29.63
Total	54	100.00

Table- 20: **Insurance Companies can meet up with the Recapitalization requirement without any sharp practices**

Response	No. of respondents	Percentage (%)
Strongly Agree	10	18.52
Agree	28	51.85
Indifferent	7	12.96
Disagree	3	5.56
Strongly Disagree	6	11.11
Total	54	100.00

Table- 21: **The last Recapitalization exercise is too close to the recent recapitalization exercise**

Response	No. of respondents	Percentage (%)
Strongly Agree	6	11.11
Agree	18	33.33
Indifferent	8	14.82
Disagree	13	20.07
Strongly Disagree	9	16.67
Total	54	100.00

Table- 22: **Differences in work practices by the Insurance Companies will have negative effect**

Response	No. of respondents	Percentage (%)
Strongly Agree	1	1.85
Agree	9	16.67
Indifferent	11	20.37
Disagree	19	35.19
Strongly Disagree	14	25.93
Total	54	100.00

Table- 23: **The Insurance Industry is not ripe for a new round of recapitalization**

Response	No. of respondents	Percentage (%)
Strongly Agree	1	1.85
Agree	9	16.67
Indifferent	11	20.37
Disagree	19	35.19
Strongly Disagree	14	25.93
Total	54	100.00

Table -24: **There is a positive relationship between the level of capitalization and the level of development in the insurance industry**

Response	No. of respondents	Percentage (%)
Strongly Agree	18	33.33
Agree	20	37.04
Indifferent	5	9.26
Disagree	4	7.41
Strongly Disagree	7	12.96
Total	54	100.00

Hypotheses testing

The chi-square method of testing the goodness of fit was used by the researcher to test all carefully formulated hypotheses in section one. The degree of freedom (DF) of empirical chi-square (χ^2) is obtained using the formula:

$$(r_T - 1)\ (c_T - 1)$$

where r_T = the row total, and c_T = the column total

Therefore, degree of freedom for the purpose of this paper is (5-1)(2-1) = 4.
The expected frequency is computed using the formula:

$$e = \frac{r_T \times c_T}{G_T}$$

Where r_T = the total row, c_T = the total column, and G_T = the grand total which is the number of cases. While the chi-square (χ^2 - test) is given as: $\chi^2 = \sum \left(\frac{(O - E)^2}{E} \right)$

Where O = observed frequencies, and E = expected frequencies.

The degree of freedom (DF) is measured against 95% level of significance. This means that the critical ratio of 2.776 is obtained using the chi-square table while tracing the degree of freedom under the deviation value of 5% or q(0.05).

Decision Rule: The decision rule under this study is as follows:
(1) The hypothesis is accepted if the critical ratio (q) is greater than test at 5% statistics.
(2) The hypothesis is rejected if test statistics (TS) is less than critical ratio (q) at 5% value.

Hypothesis 1
Null Hypothesis (H_o): Recapitalization will not aid the development of insurance companies.
Alternative Hypothesis (H_i): Recapitalization will aid the development of insurance companies.

Table-25: **Combination of questions 5 and 18 were used to test stated hypothesis**

ITEM	SA		A		U		D		SD		TOTAL
	O	E	O	E	O	E	O	E	O	E	
5	25	13	21	11	3	2	3	2	2	1	54
18	18	9	20	10	5	3	4	2	7	4	54
TOTAL	43		41		8		7		9		108

Computation of expected frequency:

$$e = \frac{r_T \ x \ c_T}{G_T}$$

$E_1 = 13$, $E_2 = 11$, $E_3 = 1.5$, $E_4 = 1.5$, $E_5 = 1.0$, $E_6 = 9$, $E_7 = 10$, $E_8 = 2.5$, $E_9 = 2.0$, $E_{10} = 3.5$.

Application of chi-square statistical tool for hypothesis testing:

O	E	(O - E)	$(O - E)^2$	$(O - E)^2/E$
25	13.00	12.00	144.00	144.00/13.00 = 11.08
21	11.00	10.00	100.00	100.00/11.00 = 9.09
3	1.50	1.50	2.25	2.25/1.50 = 1.50
3	1.500	1.50	2.25	2.25/1.50 = 1.50
2	1.00	1.00	1.00	1.00/1.00 = 1.00
18	9.00	9.00	81.00	81.00/9.00 = 9.00
20	10.00	10.00	100.00	100.00/10.00= 10.00
5	2.50	2.50	6.25	6.25/2.50 = 2.50
4	2.00	2.00	4.00	4.00/2.00= 2.00
7	3.50	3.50	12.25	12.25/3.50 = 3.50
				$\chi^2 = 51.17$

The test statistic (TS) = 51.17, the corresponding χ^2 at 4 DF which has q(0.05) = 2.776. Since TS > q(0.05), H_o is rejected, while H_i is accepted. It thereby follows that recapitalization will aid the development of insurance companies.

Hypothesis 2
Null Hypothesis (H_o): Mergers and acquisitions will not be a solution for some insurance companies to remain in business.
Alternative Hypothesis (H_i): Mergers and acquisitions will not be a solution for some insurance companies to remain in business.

Table - 26: **Combination of question numbers 7 and 9 were used to test the above stated hypothesis**

ITEM	SA		A		U		D		SD		TOTAL
	O	E	O	E	O	E	O	E	O	E	
7	2	1.0	6	3	9	4.5	15	7.5	22	11	54
9	21	10.5	27	13.5	3	1.5	2	1	1	0.5	54
TOTAL	23		33		12		17		23		108

Computation of expected frequency

$$e = \frac{r_T \text{ x } c_T}{G_T}$$

E_1=1, E_2 = 3, E_3 = 4.5, E_4 = 4.5, E_5 = 11, E_6 = 10.5, E_7 = 13.5, E_8 = 1.5, E_9 = 1.0, E_{10} = 0.5.

Application of chi-square statistical tool for hypothesis testing:

O	E	(O - E)	$(O - E)^2$	$(O - E)^2/E$
2	1.00	1.00	1.00	1.00/1.00 = 1.00
6	3.00	3.00	9.00	9.00/3.00 = 3.00
9	4.50	4.50	20.25	20.25/4.50= 4.50
15	7.50	7.50	56.25	56.25/7.50 = 7.50
22	11.00	11.00	121.00	121.00/11.00= 11.00
21	10.50	10.50	110.25	110.25/10.25= 10.25
27	13.50	13.50	182.50	182.50/18.50 = 13.50
3	1.50	1.50	2.25	2.25/1.50= 1.50
2	1.00	1.00	1.00	1.00/1.00= 1.00
1	0.50	0.50	0.25	0.25/0.50 = 0.50
				χ^2 = 53.75

The test statistic (TS) = 53.75, the corresponding χ^2 at 4 DF which has q(0.05) = 2.776. Since TS > q(0.05), H_o is rejected, while H_i is accepted. It thereby follows that mergers and acquisitions will be a solution for some insurance companies to remain in business.

Conclusion

The paper revealed how recapitalization has been enhancing the development of insurance industry and how mergers and acquisitions can be an option for some insurance companies to remain in business. Insurance and reinsurance companies that are perceived as safe and well managed in the market place is likely to obtain more favourable terms and conditions in its relationship with investors, creditors, and other parties than one that is perceived as weak and more risky. The recent capital base set by the Federal Government of Nigeria for the insurance and reinsurance companies should be seen as an opportunity that could enable local players take jobs outside the country after the consolidation exercise. The insurance operators should create an attitude to set up mega insurance and reinsurance companies that will be able to compete internationally. Recapitalization was not a bad idea for the industry but only the frequency and magnitude of the increase that was too demanding for insurance and reinsurance companies to raise.

It is important to point out here that recapitalization was not the final problem of insurance industry as there were several other areas that needed to be looked into otherwise “the insurance industry will never get it right”. The future of the insurance industry in Nigeria is very bright. Within the last few years, the industry has experienced unprecedented growth. If the insurance industry can be successful in developing an insurance culture in our economy, we can expect increased patronage from them in the near future. It will be difficult if not impossible for some companies to optimize recapitalization. Companies that view the exercise as a good business decision are likely to look beyond compliance with the statutory requirements. The constructive and systematic increase in capital base is likely to be more beneficial to the company than those compelled by legislation.

At the end of the recapitalization exercise, the research reviewed that fewer insurance companies will emerge through mergers and acquisitions, driven by regulation, improved innovation, creativity and healthy competition as companies vie to capture the retail end of the market whilst making themselves attractive to shareholders. One of the objectives of this study is not only to periscope the recapitalization and the insurance industry, where ‘mergers and acquisitions’ is an option for survival, but also to make recommendations for improvement and highlight steps necessary to achieve the much desired advancement. The most glaring limitation of the local underwriting firms is their very low capital base unless it is compelled by law to do so (Olawoyin, 2003). The various methods of improving the financial strength of an insurance company through capitalization are: (a) Introduction of fresh capital by existing owners: Here existing shareholders are advised to bring more funds to beef-up the capital base. This may be in the form of rights issue of shares proportional to existing holding. (b) Fresh capital from new shareholders. This is an invitation of new investors to invest in the visions and dreams of the company. It may take the form of a public offer for sale or subscription of the company’s shares if it is a public quoted company. It may also be by private placement. (c) Introduction of fresh capital from company’s reserve: funds reservoir of a company may include contingency reserve, general reserve, revaluation reserve, premium reserve, etc. A part of these reserves can be capitalized and converted to fund the issue of bonus shares to existing shareholders, thus enhancing the capital base of the company. (d) Mergers and acquisitions: mergers involved the coming together of two or more companies to form a single stronger, more competitive entity while acquisition involves the buy over or integration of an existing weaker firm by a stronger one. It will lead to growth by generation of large capital base to enhance technical marketing, management and business opportunity, efficiency, image and reputation. This will sure strengthen the local firms to be able to underwrite oil and gas risks.

The local underwriter can go into corporate alliance with the insurance multinationals who underwrite business of oil and gas under an international business strategic alliance arrangement. This will provide technical and business support to local underwriters, provide an avenue for training of technical and managerial expertise in the oil and gas insurance business, and also enable local underwriters to be listed as corporate members of reputable petroleum insurance giants in the world. The industry regulatory mechanism of Chartered Insurance Instate Of Nigeria (CIIN), the Nigeria Insurers Association (NIA), the Professional Reinsurance of Association of Nigeria (PRAN), The Nigerian Corporation of Insurance Brokers (NCIB), etc. should produce a strong pressure group to make a presentation to the government for legislation to conserve our foreign earnings and retain insurance premium paid to the foreign underwriters who absolutely control some of our insurance business in Nigeria. Underwriters should endeavour to put in effort to improve the perception and acceptability of Nigeria insurance market in the international arena. This will improve the image of the industry.

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