ISSN: 2249-0310 EISSN: 2229-5674
www.scholarshub.net

ORIGINAL ARTICLE

Employer's Liability Insurance Portfolio and the Gross Income of Non-Life Insurance Business: A Case of Nigeria

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Abstract

Purpose: This study is conducted to determine how employer's liability insurance product influences the gross premium of non-life insurance business income in Nigeria. **Methodology:** This study adopted an ex-post-facto research design method. We used correlation and regression models to evaluate the data extracted from Central Bank of Nigeria's financial report from 1981 to 2001, along with Nigeria Insures Association digest's financial report from 2002 to 2018. The target population of this study was the entire quoted insurance in Nigeria. **Findings:** The results reveal that LEMP influenced LIGP significantly with a coefficient of 85.06939, and the associating P=0.009. **Implications:** Stakeholders and regulatory bodies within the industry should sensitize the insuring public more on the employers' liability insurance policy, and improve their respective business strategies to ensure high sales volume of employers' liability policies and compliance to this insurance product in Nigeria. **Originality:** Multiple studies have been carried out in the field of insurance business. However, very few have been based on employers' liability insurance. Therefore, it may be assumed that the originality of this study is fully authentic.

Key words: Employee, employer, employer's liability insurance, gross premium
JEL Classifications: G22

INTRODUCTION

In this modern world, the core of our routine business activities is prone to one or more risks. Employees are faced with varieties of risks among themselves, both within and outside the purview of their employers. Further, due to the complexities of our existing business operating environment, especially in this technological age, employers' liabilities have been steadily growing due to newer business discoveries, ideas, issues, and innovations. Anderson et al. (2014) opined that business entities, the experts, and individuals are facing varieties of risks, in which liability risks remain significant with possible extensive and unfavorable financial consequences.

Every employer of labor has a duty of care to his or her employees pertaining to providing a safe and healthy working environment; in particular, protecting employees

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Received: January 25, 2022; **Accepted:** March 15, 2022

DOI: 10.18843/ijcms/v13i2/02

from potential accidents in the workplace due to work premise exposures. This informs the decision of the government of the United Kingdom to come about compulsory insurance to protect the employees against damages and injuries sustained in their workplace, in the course of working for their employers. The requirements for this employer's compulsory insurance were first established in the Liability of Employers (Mandatory Insurance) Act 1969, and thenceforward, it has been amended by the Employers' Liability Regulations 1998. Carter and Falush (2009) affirmed that increasing failures of non-life insurance business in the earliest years of the 20th century impelled the acknowledgment of the essential to extend the prudent laws to the non-life business by enacted Employers' Liability Insurance Companies Act (1907). Notably, in Nigeria, employers' liability insurance protection offers benefits to the employees' family, in case of unfortunate death, disability, or disappearance.

Statement of the Problem

Employers' liability insurance under the Workmen Compensation Act 1987 was signed into law, targeting the employers; it requires them to provide compensation for any of their staff, who sustains an injury in the course of working. In 2004, under the Pension Act, Employers' Liability Insurance (Group Life) was established, and under the Pension Reform Act of 2014, this law was re-established as one of the six mandatory insurance policies in Nigeria. Even though, this policy is compulsory and applies to both private and public sector workers, many employers of labors in the country are yet to act in accordance with this law. As a result, despite the low rate of premiums charged by insurance firms, compare to the liabilities they will be responsible for at the point of insurance claim, many employers of labor in Nigeria still failed to comply with this particular insurance policy. To enhance the implementation of this act, the National Insurance Commission (NAICOM) has engaged in multiple meetings with different stakeholders that included manufacturers, health workers, among others, in an attempt to effectively enforce the employers' liability insurance law. However, the government has major role to play in enforcing this law by mandating it for all employers of labor in the nation, as this would contribute immensely to the gross premium income of the industry, and invariably boost the country's economy.

Research Hypotheses

H_0: Employer's liability insurance premium has no significant effect on the gross premium of non-life insurance business in Nigeria.

LITERATURE REVIEW

Meaning of Employers' Liability

Liability insurance intended to protect a private individual or an organization against certain uncertainties to ensure security and stability has to be maintained within an economy. Salleh et al. (2020) asserted that liability insurance is a cover for a third party, along with the policyholder, when the third party demands for compensation. Parsons (2002) affirmed that employers' liability arrangements are schemes that mandate the injured workers to establish legal duty on the part of their employers if they are to be compensated. The onus of responsibility to pay the benefit then lies on the latter. Certainly, the loss may be shifted to the insurance company. In major cases, law necessitates the worker to show negligence or fault on the part of employer. Jackson (2018) opined that an employers' liability cover offers protection for any amount that the owner of the business might be legally liable to pay to the worker as regards to disease, illness, injury, or death as a result of employment.

Meaning of Employee in the Content of Employer Liability

Employee means "any person who has gone into or performs duty under an apprenticeship or a contract of service with an employer either by way of manual labor, clerical work or otherwise, whether such agreement is implied or expressed, in writing or oral. (The Employers' Liability ACT, 1969). Hence, it includes the direct staffs, the self-employed people, the learners on work experience, and the hired people (Jackson, 2018). Furthermore, employees shall refer to any individual under a service contract or apprenticeship with the policyholder, which include:

i. Any master of labor; or sub-contractor or persons supplied by any of these
ii. Self-employed person
iii. People under work experience organizations
iv. Any one employed or on loan to the policyholder from other organization working for him or her in relation with his or her company.

Why Employers' Liability Insurance Policy?

The possible impact of employees involved in accidents, sustaining injuries, or diseases in the course of work can be devastating for both the employee and the owner of the business. Moreover, as the number of diverse businesses is growing in this modern and technology era, employment risks also have increased proportionally. Hence, any size of business is vulnerable to this type of threat. Imperatively, employers' liability coverage is an essential form of risk management for business owners, whereby the staffs are compensated if s/he incurs any injury or becomes ill in the course of their work. The purpose of employers' liability policy is to protect the employers for the claims of damages made against them by employees. Employers' liability coverage is available to the insuring public on two bases, which are:

A claims-made basis coverage

Most employers' liability coverage is 'claims-made', meaning that the policy must be in effect both during the event of injury or disease and during a lawsuit filed for a claim payment. The only exception is when and if the coverage has a retroactive period, which allows protection for a pre-existing incident.

An "occurrence" coverage

This covers any claim for any injury or disease that took place within the period of the policy – even if the case is filed after the expiration of the policy.

Employer's Liability Insurance in Nigeria

Nigeria practices employer's liability policy in two forms concurrently; one is the Workmen's Compensation Insurance, while the other, Group Life Assurance. Essentially, these are the two insurance policies that the Federal Government of Nigeria has mandated for every employer in the country to obtain and protect their employees in the event of bodily injury, property damage, and death.

Employee compensation rule was ratified in the year 2010, The Employee Compensation Act 2010 (ECA 2010) came into light in Nigeria, which annulled the Workmen Compensation Act 1987. The ECA 2010 necessitates every employer of labor in the country, for the first 12 calendar months of the commencing of the act to contribute at least 1% of the total monthly salary of the staff to the pool of Employee Compensation fund with the Nigeria Social Insurance Trust Fund. The money shall be used to pay compensation to the employee or his or her beneficiary for any injury he or she sustains in the course of work for the employer, both within and outside the work premises, which the employer is liable for. The law stipulates N20,000 as penalty for any defaulter, or imprisonment for a year, or both for initial case, whereas N100,000 or a year imprisonment, or both for every subsequent liability. Ampovska and Belovski (2015) submitted that non-compliance of any company to fulfill the duties provided by the rule of safety and health at work place, is the lawful basis for liability of employer for damage sustained at work by the staff.

In 2004, a newly defined contributory pension system came into being, majorly to improve the provision of pension services to Nigerian employees (Ubhenin, 2012). The purpose of this reformation was to make contributions to the workers' retirement savings accounts (RSA). As a result of the new scheme, the group life (employer's liability) was emanated from Pension Reform Act 2004. This law makes it obligatory for every Nigerian employer, with minimum five employees to continue group life cover. Section 4(5) of 2014, Pension Reform Act establishes the following: "each company shall keep a Group Life protection in favoring every worker for at least 3 times the annual emoluments of employee and premium shall be paid at the inception of the policy" (National Insurance Commission & National Pension Commission, 2020).

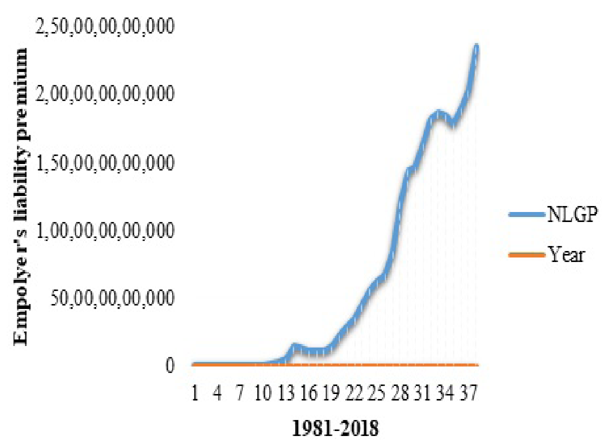

Figure 1: Nigerian Employers' Liability Insurance Premium

Source: Soye, Adeyemo, and Olumide (2021)

Figure 1 depicts the contribution of employers' insurance business portfolio to the Nigerian insurance industry within the period of 1981–2018.

Empirical Review of other Interrelated Literatures

Salleh et al. (2020) critically reviewed manufacturers demanding liability insurance, using an empirical research method. In their study, they analyzed content to review relevant literature. Their findings concluded that the factors that determine liability insurance buying include the nature of businesses, environmental location, safety rules, and past history of claims. Recently, Ikwor and Nkwagu (2020) investigated the post 2014, Pension Reform Act on the economic growth in Nigeria, using regression model, in order to estimate the extracted secondary data. Their findings showed that pension fund administrators, contributory pension system, and RSA have significantly and positively influenced the Nigerian GDP. The study recommended that policymakers, stakeholders, specifically, pension regulatory bodies in the country, such as the Pension Commission, etc., should regulate the investment channels for Pension Fund Custodians in the economy. Hameed, Ramzan, Zubair, Ali, & Arslan (2014) stated that the compensation through pension has affected employee performance. They used regression and correlation analysis to analyze the extricated data from a primary source. The results reveal that compensation does affect employee performance. Further, it was also noted that all the explanatory variables from correlation outputs have moderate positive association with one another.

Parsons (2002) examined rules of liability; systems of compensation; and work safety in European countries. The study examined the connection among the lawful bases of the numerous administrations, the protection schemes they employed, and the incentives they prepared for employees, organizations, including insurance companies. The author concluded by posing a harmonization question: "was there any situation for bringing together of work injury benefit schemes at the level of European and, if it is considered appropriate, to what extent is the real benefit of such coordination truly being brought about?" Ubhenin (2012) empirically researched on how effective is the Nigerian pension reform 2004 law. The author stated that the former pension system was understood to be inequitable, inefficient, and vulnerable in nature. The findings reveal the achievements of the present pension system motivated by the 1981 Chilean ideal, in comparison with the old pension pattern in the country. This is shown by the development of a strong support for the economy of Nigeria, and the growing sureness and compliance in the scheme. However, the new system does not cover a larger spectrum of the country's populous; for instance, workers under non-formal job settings. Finally, the study recommends that there should be institutions strengthening by government to walk the path of maximizing benefits for employees in Nigeria.

Research Methodology

Research design can be referred to as a technical plan that institutes the process of a research study. Orodho (2008) talked about research design as being the blueprint of a study, giving the framework and technique of a research. For this study, we consider an *ex-post-facto* design; the reason for the same is because we used data that have been used in the past too, and which cannot be manipulated, and available for further uses. According to Onwumere (2009), an ex-post-facto research design is suitable, when a study uses data, which the researcher cannot alter or manipulate. The entire quoted non-life insurance organizations that are carrying out business operations in Nigeria are considered to be the population for this study. We adopted regression and correlation model to analyze the secondary data gotten from Central Bank of Nigeria statistical bulletin from and Nigeria Insurers Association digest. Data were taken from 1981 to 2001 and 2002 to 2018, respectively, particularly to investigate the contribution of employer liability insurance business to the gross premium of non-life insurance premium income in the Nigeria economy. Therefore, the research samples size is 38 years, that is, from 1981 to 2018.

ANALYSIS/DISCUSSION

Variables Description

Table 1 gives the details of measurement for both independent and dependent variables chosen for this research.

Mode specification

Linear regression is adopted, and below, is the model:

$$Y=a_0+b_1 x_1 \ldots\ldots+b_n x_n \tag{1}$$

Where, a_0 and b_1 are the model parameters.

$$IGP=f\,(a_0+EMP_1 X_1+\epsilon.) \tag{2}$$

$$LIGP=f\,(a_0+LEMP_1 X_1+\epsilon.) \tag{3}$$

Where:
Y = Log of non-life insurance gross premium (NLGP)
a_0 = Autonomous
x_1 = Log of employer's liability insurance premium income (LEMP)
e = Is error term.

Test of Unit Root

The test for unit root model is carried out before the regression analysis majorly to assert the stationarity of the selected variables.

Table 1: Description of variables for the research

Notation	Dependent variable	Independent variables	Description	Description
Y	Non-life insurance gross premium	Dependent variable	Log of non-life insurance gross premium	LIGP
x_1	Employer's liability insurance premium	Independent variable	Log of employer's liability	LEMP

Source: Soye, Adeyemo, and Olumide (2021)

Table 2: Table of unit root

Variables	ADF t-statistic at the difference	ADF t-statistic value	5% critical value	Probability	Order of integration
LIGP	2nd	–5.907894	–2.951125	0.0000	2 (1)
LEMP	2nd	–8.544328	–2.951125	0.0000	2 (1)

Source: Soye, Adeyemo, and Olumide (2021)

Table 3: Descriptive statistics

	LIGP	LEMP
Mean	6.3900	3.3500
Median	1.8600	2.2400
Maximum	2.3500	1.7000
Minimum	1.9200	5800000
Std. Dev.	7.7000	3.7400
Skewness	0.8741	1.5535
Kurtosis	2.1642	5.8315
Jarque-Bera	5.9450	27.9784
Probability	0.0512	0.000001
Sum	2.4300	1.2700
Sum Sq. Dev.	2.2000	5.1800
Observations	38	38

Table 2 presents unit root test results summary. The ADF results reveal that there is stationarity among the variables at 5% as reflected by the values of their probability. This infers that their probabilities were lower than 1% critical value absolutely.

Data Analysis

Descriptive analysis

The average value of non-life business' gross premium in Nigeria during this research is 6.3900, as shown in Table 3, the standard deviation is 7.7000, while the minimum is 1.9200, and maximum is 2.3500. LIGP with positive sign indicates that the non-life insurance business of Nigeria is by and large profitable. The standard deviation of this gross premium depicts moderate disparities across all companies within the non-life sector.

Table 4: Correlation table

	LIGP	LEMP
NLGP	1	0.4133**
EMLP	0.4133**	1

Correlation analysis

A correlation model was adopted to establish the present relationship between the explanatory variable (x) and experimental variable (y).

Table 4 establishes the current relationship between the employers' liability insurance premium (LEMP) and the non-life gross premium (LIGP) in the Nigeria insurance market. Based on the results shown in Table 4, it may be noted that there is moderate relationship between the two variables. Moreover the strength of association between the two variables is 0.4133** which is within the range of +0.30 to +0.70. Therefore, any change in LEMP will cause significant changes to LIGP in the industry.

Regression analysis

Linear regression model was used to examine and forecast how employers' liability business portfolio would affect and contribute to the gross premium of non-life insurance business in Nigeria. Primarily, to determine the extent at which the explanatory variable (Y) explains the variations when the explained variable (X_1) fluctuates in one unit independently, so that the future association between the variables can be established.

Table 5: Regression model

Dependent variable: LIGP
Method: Least squares
Date: 04/16/21 Time: 18:03
Sample: 1981 2018
Included observations: 38

Variable	Coefficient	Std. error	t-Statistic	Prob.
C	3.54E+10	1.56E+10	2.268908	0.0294
LEMP	85.06939	31.23706	2.723348	0.0099
R-squared	0.170825	Mean dependent var		6.39E+10
Adjusted R-squared	0.147792	S.D. dependent var		7.70E+10
S.E. of regression	7.11E+10	Akaike info criterion		52.86454
Sum squared resid.	1.82E+23	Schwarz criterion		52.95073
Log likelihood	-1002.426	Hannan-Quinn criter.		52.89521
F-statistic	7.416624	Durbin-Watson stat		0.101511
Prob. (F-statistic)	0.009904			

$$Y=a_0+b_1\,x_1\ldots\ldots+b_n\,x_n$$

$$LIGP=a_0+b_1\,LEMP_1\ldots\ldots+b_n\,x_n$$

$$LIGP=3.54000_0+85.06939_1\mathrm{LEMP}_1\ldots\ldots+b_n\,x_n$$

From Table 5, the coefficient of LEMP noted, is 85.06939. This indicates that there is positive connection between LEMP and LIGP, with the inference that every unit increase in buying employers' liability by corporate companies within the economy, will result to 85.06939 units increase in the gross premium income (LIGP) of the insurance sector.

The regression outcome above displays the value of R-square to be 0.170825. This indicates that 17.1% of Y (LIGP) is clearly explained by the predictor (LEMP). The remaining 82.9% changes in Y can be clarified by other elements not considered as part of the independent variables in this study, including general accident insurance, marine insurance, aviation, marine, and glass insurance. The standard error, t-statistic, and the *P*-value of the coefficient in the result indicate that LEMP is statistically significant. The value of F-statistic is 7.416624 with the related p-value of 0.0099 is significant at 1% significant level. This points out that the independent variable (LEMP) has influenced the Nigerian general insurance business gross premium (LIGP) positively and significantly within these years of study.

Table 6: Heteroskedasticity analysis

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	**0.136905**	**Prob. F (1,36)**	**0.7135**
Obs*R-squared	0.143963	Prob. Chi-square (1)	0.7044
Scaled explained SS	0.149563	Prob. Chi-square (1)	0.6990

Post Hoc Diagnostics

Heteroscedasticity test

Breusch-Pagan-Godfrey test result in Table 6 reveals that heteroscedasticity of disturbances hypotheses is failed to be accepted, and homoscedasticity is accepted, since the *P*-value (0.7135) of Fisher's F-statistics is higher than 0.05 significance level. Hence, consistent with the above analysis and judging by the *P*-value of the observed R-squared, the residuals for the model indicate that they are homoscedastic in nature.

Testing of Hypotheses

Employer's liability insurance

Employers' liability insurance is a crucial risk management tool for a business entity, as it helps to protect the organization against any risk associated with bodily injury sustained by an employee or employees as a result of accident or disease during or in the course of working for the organization within the policy year. At the point of eventuality, the underwriter pays the claim that covers the amount the employer is liable to pay legally. According to Bardhi (2016), it is the obligation of the employer to establish a proper and good working condition, particularly in the hazardous activities environment, which demands a peculiar carefulness and attention, both for them, and for third parties that might be affected directly or indirectly, for safety measures to avoid employment risks.

The findings of the analysis in Table 5 show that employers' liability insurance premium (LEMP) generated within the years of this study has significant effect on the gross premium of non-life insurance business (LIGP) in Nigeria. Therefore, we reject hypothesis 1.

CONCLUSION

Employer's liability insurance policy is necessary for every employer of labor to avert and manage any risk that may emanate from adverse effects of injury or disease sustained by the worker in the workplace. Hence, every employer should be adequately enforced by law enforcing agents to take up this policy. Therefore, if this class of insurance business is strongly monitored, it would immensely contribute to the gross income of non-life insurance business in the economy. This study examined how employer's liability insurance portfolio has influenced the income of non-life insurance business. The study concludes that employers' liability insurance income has contributed significantly to the gross income of general insurance business in Nigeria.

RECOMMENDATION

The study recommends:

i. The Nigerian government should enforce strict buying of employer liability insurance policy in all business organizations
ii. The stakeholder in the Nigerian insurance should give proper public awareness and effective sensitization about the benefits of having employer liability insurance policy in place by employer of labor, and the detrimental effects of not having it.

ACKNOWLEDGMENT

For this study, acknowledgment is not applicable, because the authors did not receive any funding from any organization or private individual.

AUTHORS' CONTRIBUTIONS

Insurance sector is a vital tool to manage social risk in any economic, therefore, employment risks within the economy need to be efficiently managed. However, in contrast to the various studies of insurance business portfolio in Nigeria, the number of studies that focus on employer's liability insurance is relatively low. Hence, it is crucial to fill the gap and draw a clear important of employer's liability insurance in the economy. Therefore, this study has contributed to the insurance pool of knowledge.

FINANCIAL SUPPORT

This study did not receive any financial support.

CONFLICTS OF INTEREST

Conflicts of interest do not exist among the three authors.

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