

## THE CHALLENGE OF HUMAN CAPITAL IN THE INSURANCE INDUSTRY

Virtually all organizations around the world recognize the importance of people in the successful conduct of business hence the new trend of classifying employees as assets or human capital. In the old economic order, land and capital occupied eminent positions among the factors of production while Labour was essentially required to transform the input of equipment and materials to things of value for use by the market. This situation brought about the laying of emphasis on the manual worker and the conditions of work prevailing at the material time. The economic and social gains of the 20<sup>th</sup> century projected Frederick Taylor's principles of scientific management into limelight as he propounded a basis for the measurement of the productivity of the manual worker. Following series of steps beginning with observing the task involved and analyzing its constituent motions, recording each motions and eliminating those not needed, Taylor was able to offer management a way of determining effective methods of achieving greater productivity though it took him twenty years of

experimentation to work this out.

Economic theory and most business practice sees the manual worker as a cost and as a given in any sound business undertaking, costs need to be controlled and reduced whereas assets need to be made to grow. It was Peter Drucker that, in 1969, first coined the term "*knowledge worker*" in his book "*The Age of Discontinuity*." The knowledge worker is considered a *capital asset* because of the principles of the knowledge-worker productivity. The knowledge worker still has to contend with task but, in knowledge work, the task does not programme the worker as in the experimentation of Taylor's principle rather the knowledge worker takes charge while deploying the best discretion available in the circumstance.

Responsibility for productivity resides mostly with the knowledge worker who enjoys autonomy in organizing himself in tackling assigned tasks in an innovative manner that flows from dedicated sense of continuous learning

and simultaneous impartation of knowledge. In an environment where the knowledge worker operates, the quantity of output is expected to be followed in the same measure by the level of quality that will be evident to end-users.

The human resource management school of thought tends to focus more on the enhancement of the knowledge worker in terms of the philosophy of its theory. The overall goal of effective human resources planning is to provide continuous and proper staffing and to ensure that appropriate skills are available within the work force, when needed, to meet the organization's changing requirements. It also ensures that organizations meet its human resources obligations to society at large. Human resources planning is, or should be, an integral part of the total resources planning for the enterprise, on a par with planning devoted to financial affairs, capital development, materials and equipment purchases, and market development.

Training and development of the workforce now occupies a pride of place in the agenda

of serious organizations. Improved productivity is expected to result from either better-trained workers or better-motivated workers. Employee training programs are designed to provide the knowledge, attitude, or job skills that will help employees perform their present jobs. Training has immediate practical application on the job. On the other hand, development programs are designed to assist employees in preparing themselves for future responsibilities of different nature, or higher degree of proficiency in their present jobs. Whereas training has an early and often visible payoff, development is future-oriented. Consequently, development programs represent an investment, with attendant risks of uncertain returns.

The transformation of the dynamics of the work environment has even posed a high degree of concern to industries in both developed and emerging economies due mostly to the phenomenon of globalization. Lessons are being learnt day by day on the rapid pace of change in the requirement of human capital in the new economy compared to the

old economic workforce. In the new economy, people are now seen as the main source of value creation instead of factors of production. In the old economy, companies were created and lasted long but in the new economy, we witness rapid creation, destruction and restructuring of companies and industries. The issue now is lifelong employability as opposed to lifetime employment that ruled the old economy.

A lot of comments have been passed on the state of human capital development in the insurance industry by stakeholders and watchers of this important sector of our nation's economy. Most of the remarks in this respect have tended to clothe the insurance industry with a pedestrian image among other players in the larger financial services sector. Why is the insurance industry perceived as being careless in this respect and what could be responsible for this negative perception? This article will attempt to deal with these questions and also try to throw more light on some relevant factors affecting the state of manpower in the industry.

## **Measuring the Resources**

The Nigerian insurance industry is made up of primary and secondary operators. Insurance companies are the primary risk-bearers. Other players are reinsurance companies, insurance brokers and loss adjusters. The industry is statutorily regulated by the National Insurance Commission while the Nigerian Insurers Association (NIA) plays the role of a self regulatory organization (SRO) as the umbrella association of insurance companies. Other SROs in the industry are the Professional Reinsurers Association of Nigeria (PRAN), the Nigerian Council of Registered Insurance Brokers (NCRIB) as well as the Institute of Loss Adjusters of Nigeria (ILAN). The Chartered Insurance Institute of Nigeria (CIIN) provides support to the entire industry in terms of intellectual development through the conduct of its professional examinations leading to the award of associate diploma in insurance. The CIIN provides the same kind of service in the Nigerian market similar to what the Chartered Insurance Institute of London (CII) does in the United Kingdom.

Insurance companies command the highest level of resources especially in terms of manpower. Though, availability of information on the activities of the industry is not particularly impressive, the NIA always undertake the yeoman's job of keeping a tab on this area as far as its constituent members are concerned. According to the statistics provided to the public in its 2004 Nigerian Insurance Digest, about 70 out of the over 100 players in the insurance sector furnished the NIA with information on the state of manpower in their companies. Out of the 70 members that responded to NIA's demand, only 23 of them actually provided the information in the specific format demanded by the NIA in terms of breakdown into category of staff along the lines of gender and status. Consequently, evidence shows that all the insurance companies covered by the NIA in its report accounted for over 90% of the volume of business generated by the industry hence representative of the general pattern of the make up of all insurance companies in the country.

A total number of 7,862 Nigerians is reported as

making up the workforce in all the insurance companies. Out of this number, only 10 companies, out of the companies that provided information, accounted for about 50% of the workforce. It is on record that NICON Insurance Corporation has the lion share of the workforce by contributing 15% followed by Niger Insurance Plc which accounted for 5%. It goes to show that just two companies within the population of the players accounted for one-fifth of the workers among the NIA members. The available statistics also showed that the composition of female workers in the insurance companies represent about 35% of the workforce while their male counterpart accounted for 65%. The proportion of female workers in management position is however abysmally low. These facts have grave implication for the distribution of human capital in the insurance industry.

In academic terms, various institutions at the tertiary level in the educational sector of Nigeria offer various degree and diploma programmes in insurance. Notable among these institutions are the University of Lagos, Enugu State University, Lagos State

University, Imo State University and Ahmadu Bello University in Zaria. Others are the Ibadan Polytechnic, Lagos Polytechnic, Institute Of Management and Technology, Enugu and Federal Polytechnic in Offa, Kwara State.

The Chartered Insurance Institute of Nigeria provides the complimentary professional qualification to career workers in the insurance industry in Nigeria. Although the body took over the conduct of professional examinations from the Chartered Insurance Institute of London in the late eighties, it was not until the 26<sup>th</sup> day of February 1993 that it was granted a chartered status by the Federal Government of Nigeria. In addition to maintaining the register of its members, the CIIN was also charged with the responsibility of determining what standards of knowledge and skill are to be attained by persons seeking to become registered members of the insurance profession and reviewing those standards, from time to time, as circumstances may permit. The standard of its professional examination has been adjudged as satisfactory by

various stakeholders in the country as well as the CII of London which continued to offer technical support to the institute. The CIIN is however trailing the CII as it is yet to catch up with the London body by upgrading its various syllabuses to the last standard of the CII London which is more reflective of the modern demands of knowledge and skills required for effective performance of its members in the new global economy.

According to my source in the CII London, the body has in its record, a total of 154 Nigerians that are professionally qualified and are financial members of the institute but resident in Nigeria. However, the CIIN has in its own register a total of 1,055 professionally qualified members that are financial members. The number of Nigerians that obtained their professional qualifications from the CII London, and automatically qualified to be recognized by CIIN, is 533. Although, to practice in Nigeria, it is not mandatory for one to continue maintaining her membership of the CII London, I reckon that the inability of a large number of these qualifiers to continue maintaining their membership

of the London body might not be unconnected with the economic circumstances of the different individuals or lack of intellectual curiosity and disregard for global exposure that membership of the CII confers on subscribers through availability of its various research and developmental materials.

Insurance is a technical business hence the recognition that the attainment of professional status, by those professing to engage in the business as managers, is a sine qua non for competent display of the requisite knowledge and skills in the affairs of organisations offering insurance service in an ideal society. Considering the total registered number of 1,055 professionally qualified members in Nigeria as at the end of 2004, it is quite evident that there is a serious disequilibrium in the knowledge and skills requirement of the insurance industry. Given the nature and structure of insurance business, experience has shown that any serious insurance company desiring to offer quality service to its various stakeholders in the business is expected to possess not less than 15 professionally qualified

members of staff in its organization at different levels at any given time and if this condition was to be measured against the situation of the insurance industry by the base period of end 2004, the industry will do well with not less than 1,500 members given the number of insurance companies that was not less than 100 and considering the fact that the available pool of professionally qualified personnel would be serving both the underwriting and broking arms of the industry.

### **Current State of Human Capital on Service Delivery**

The business of insurance started in Nigeria at the beginning of the 20<sup>th</sup> century by British Merchants who established trading posts on the West Coast of Africa. During this period, general agents were appointed to conduct insurance business and were given power of attorney to accept risks, issue policy, settle claims and undertake insignificant general insurance transaction as representatives of their overseas principals. This practice continued till 1921 when the Royal Exchange Assurance Company Limited

began to operate as a full fledge insurance company in the country.

The history of how the practice of insurance profession has evolved is an interesting one. I recall the story relayed to me by a senior colleague during the formative years of my career in insurance though with a slightly derisive note but quite instructive as to the likely genesis of how we have arrived at the level we are today in terms of human capital development. I was made to understand that after Nigeria gained independence from its colonial masters in 1960, scores of Nigerians found their ways to United Kingdom in search of golden opportunity. The vogue then, as espoused by parents and guardians of those traveling abroad, was to go and come back with academic achievement so that the emerging opportunities for service could be capitalized upon by those that would have enhanced their knowledge and skills through acquisition of certificates in fields such as medicine, engineering and law. So, in England in those days, it happened that those pursuing courses in the

preferred fields mentioned earlier discovered that some of their colleagues were pursuing courses in a subject called insurance. They used to look down on those compatriots of theirs pursuing insurance courses as lacking in the sophistication required to cope with the challenge of studying the more laudable courses such as law and engineering but unknown to them, insurance was going to hold more prospects than ever imagined few years down the line. So, shortly after the civil war in the early 70s, Nigerians abroad began arriving to take part in the rebuilding of the nation and lo and behold, the role of insurance became a strategic importance in the task of revitalizing the nation's economy and it just happened then that the few Nigerians with professional qualification entered into a life of opulence that their certificates conferred on them and they were able to take over management of most insurance institutions from the foreigners that had been holding sway then. You can imagine the envy of the engineers and lawyers as to how the standard of life of these insurance guys suddenly shot up in Nigeria just because

insurance business was regarded as a very special area requiring very special knowledge that only few Nigerians then were initiated in the art of providing the required solution at the time. So the story goes.

It is quite evident from the above story that insurance profession had an enviable beginning in terms of human capital. I do not however believe that that great opportunity was properly utilized for the benefit of generations of insurance professionals that have emerged after the old order. I recall again the experience of another senior colleague who graduated from one of our universities in the early 70s. He was lucky to be among the first ten university graduates that were recruited by an old generation insurance companies shortly after graduation as management trainees. All of them had discipline in social sciences respectively and it was seen then as a way of injecting fresh blood and perspective into the development of insurance business. Unfortunately, most of them had to abandon the insurance career and the progress recorded in their

professional examinations for other areas as they could not withstand the competition that came from their technical oriented bosses who perceived the entrance of those university graduates as a threat to their own prospects in the career. This phenomenon, to my mind, caused a drawback to the insurance industry in the area of human capital development. It would be recalled that not until a few years ago, it used to be a statutory requirement that the chief executive of an insurance company must be an associate of the chartered insurance institute. What that law failed to realize was that training leading to the award of associate diploma in insurance in those days only contained technical related disciplines that are not sufficient to manage the economic challenges associated with business. Only few practitioners in those days pursued their professional courses in insurance to the fellowship level where management related issues were taught and certificated. Unfortunately the few that possessed the management knowledge had to serve under those with technical knowledge and very few

companies really took advantage of the knowledge base. Perhaps, the law then ought to have specified the possession of Fellowship qualification or its equivalent for headship of insurance companies. This probably would have correctly placed more emphasis on managerial competence that is required in combination with technical competence for success at the top as opposed to purely technical knowledge.

There is a big gap yearning to be filled in terms of human capital development for insurance business to regain its rightful position among the comity of actors in the economic landscape of Nigeria. The current commissioner for insurance rightly captured the fact at a forum of insurance leaders recently when he declared that the issue of human capital has never been accorded appropriate priority over the years by various insurance institutions in Nigeria. The current thinking among majority of the operators in the insurance industry is that the problem of human capital in the insurance industry will become a thing of the past once insurance companies

recapitalize to the new levels prescribed by government. I may not share this euphoria with that school thought as my gut tells me that recapitalization may not be an automatic solution to the problem of human capital development.

### **The Way Forward**

In all developed countries, knowledge workers have already become the centre of gravity of the labour force, even in numbers. Nigeria is blessed with population with talented ones in adequate supply. We are however faced with the challenge of deteriorating standard in institutions. Given the compromising quality of graduates being churned out by virtually all tertiary institutions, it behoove the insurance industry to recognize the need for training and retraining of its workforce. There is need for paradigm shift in approach on the side of some participants in the affairs of the insurance industry as I will try to elucidate in the following section.

NAICOM has shown significant interest in reforming the insurance industry for better

performance and increased contribution to the GDP of the nation. In its regulatory function, it should further extend the scope of its mandate to include human capital development. The argument for on-the-job training is very sound especially as insurance is a technical business but the deficiency in this line of thought is that responsibility of most organisations for employee development, which requires investment for growth in a broader sense, is not accorded serious importance. I would like to see a situation whereby NAICOM, in consultation with operators in the industry, agrees to a reasonable percentage of each company's revenue or anticipated gross profit to be invested in training and development of the workforce. NAICOM can further encourage operators by abolishing the annual levy it charges to companies being supervised and, in principle, prescribes that such fund be channeled and be seen to be channeled to investment in human capital. NAICOM, being a non-profit governmental organisation (NPGO), does not actually need this levy being collected

from various players in the industry given the fact that as a government organ, its budget should be taken care of in the federal government's fiscal provisions which the insurance companies contribute to by way of taxes. With virtually all the companies being supervised by NAICOM belonging to one SRO or the other, the companies still contend with payment of levies to these bodies hence this initiative will grant these companies some relief from the danger of multiple taxes that can truly inhibit growth of business.

The NIA also needs to redefine its engagement policy with its different stakeholders. Recent moves by the leadership of the body in representing the interest of its members is quite commendable. While NIA is beginning to show some innovation in its approach, it is advisable that the body should now, more than ever before, attempt to focus on the need to change the leadership orientation of its member companies as far as human capital is concerned. Granted that the body cannot interfere in the day to day running of its members, I strongly believe that NIA can influence its member

companies through persuasion and peer pressure. The purported situation where a full manager in an insurance company, with over a decade's cognate industrial experience and professional qualification, goes home at the end of the month with a total salary of forty thousand naira is not befitting and speaks volume of the human resource management practice of such company and its likes. It is not unlikely that less than twenty percent of current CEOs in the insurance industry can actually fit the mental model of the ideals of human capital development espoused in this article. The question is, what is NIA doing to reach out to this statistical outlier to either shape in or shape out with the attendant risk of their companies being de-listed from its membership register?

The CIIN as a body has come a long way in terms of goodwill within its short period of being granted chartered status. The body however occupies an unenviable position of being benchmarked with the CII London. Of course, there should not be any less basis of comparison since we now live in a global village where the

knowledge and skill required to function in Nigeria is the same that the professional in UK is expected to possess. The challenge for the CIIN is the need to ensure that insurance professionals really live up to the bidding of true professionals in word and in deed. One of the attributes of a true professional that I find very cogent is the need for her to adhere to universally acknowledged standards that guide performance. And that is performance in terms of service delivery to customers and in dealing with members of the public with the highest sense of integrity. At the last CIIN annual conference, a past president of the institute, in evaluating one of the three major structural shifts in civilisation, confirmed that the information or post-industrial society which began in the 1960s is expected to last for many decades. That it is driven by information technology which is the emerging era. He concluded by asking what this holds for insurance? I think for the CIIN, it is for it to organise its machinery in a way that will enhance the quality of its service to members. The body should quickly launch its website and start interacting with its members and

examination students through the revolution that internet has brought about in business management all around the world. This is one of the attractions of the CII London in keeping pace with change and offering quality service to its members in any part of the

world. I look forward to a time in the very near future when CIIN will command the kind of respect that CII London enjoys in the eyes of regulatory authorities, employers and top business schools in Europe just because of its standard of service.

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