The Role of Insurance Towards Sustainable Development In Nigeria.

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ABSTRACT

This paper is on the role of Insurance toward sustainable development in Nigeria. The objective of the study is to find out the issues and challenges and to examine the role of insurance regulation in sustainable development in Nigeria. The study is an exploratory work which reviewed past literature which are secondary source of information including published research, website, books, journals etc. The major findings are that the specific roles of insurance industry in sustainable development are risk carrying risk management and institutional investment. The challenges are lack of awareness, heavy exposure, misappropriation of resources, change in climate and depletion of insurance regulation facilitate access to insurance as an intervention to increase communities' resilience against climate and natural hazards advancement of sustainable development. The paper recommends that the government and insurance companies should emphasize on insurance-related education and awareness and appointment of expert loss assessor and surveyors' and less paper work.

Keywords: Insurance, Misappropriation, Sustainable, development, regulation.

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1. INTRODUCTION

Insurance industry tries to satisfy the present needs of policy holder as well the future needs by providing the necessary services and indemnifying the policy holders whenever needs arise. The activities of insurance are needed to attain the goals of sustainability. The contribution of the insurance to sustainable development relates to its three roles as a financial loss shock absorber, in reducing real risks to assets in safety and health, and as significant investors in the real economy Bacani (2014). Particular areas where the insurance industry is responding to sustainable development challenges are in relation to national disaster, financial inclusion, agency population and the insurance and investment economy, responding heads of the growth economy. According to Bacani (2014) the number and momentum of insurance industry initiatives that promote sustainable development have been growing over the years. They span multiple issues from increasing access to insurance and building disaster resilience, to mitigate and adapting to climate change. As risk managers and investors, the insurance industry has the potential to play a strategic role in securing sustainable development (Bacani, 2014).

The term sustainable development is defined as development to achieve the needs of the present generation without sacrificing the future generation needs, (Kanojia, 2014). Most of the developing countries like Nigeria show its concern towards sustainable development because they realize that their future generation must not suffer from lack of resources which are obviously most vital for the survival.

1.1 Objectives of the study

The broad objective of this study is to examine the role of insurance towards sustainable development.
Other objectives include

1. To find out the issues and challenges of the role insurance and sustainable development
2. To examine the role of insurance regulation in sustainable development

2. REVIEW OF RELATED LITERATURE

Meaning and Definition of Insurance

Insurance is a contract between two parties known as the insured and the insurer who undertake to indemnify loss at the occurrence of the loss insured based on the terms and conditions of the policy (Irukwu 1977). Also Gollier (2003) and chude (2017) affirmed that insurance involve the transfer of risk from one individual to another, sharing losses in an equitable basis by all members of the group. Insurance is a social device whereby uncertain risk of individuals may be combined in a group and thus made more certain, small periodic contributions by the individuals providing a fund out of which those who suffer losses may be reimbursed (Chitty, 2006).

Definition of Sustainable Development

Sustainable development means development to achieve the needs of the present generation without sacrificing the future generation needs. (kanojia 2014). The sustainable development goals are poverty reduction, inclusive and sustainable economic growth, human health and well being, Stewardship of terrestrial and peaceful societies with access to justice, and effective and capable institutions (shah, 2015). Access to insurance in terms of product availability, distribution and constraint engagement remains critical challenges across countries. Key barriers include low level of financial literacy and engagement with financial services as well as a lack of needed risk data, ineffectiveness of products and other regulatory barriers while certain initiatives have had major positive impacts (including the expansion of micro insurance)(Bacani, Bobran and McDaniel 2015). Business owes society an obligations or debt for taking something from the former and so it must give something in return to the later and this would continue to provide fertile grounds for latter's continuous existence (Inyang 2004)

The core business of the insurance industry is to understand, manage and carry risk. By pricing and creating a market for risk, it enables it to be pooled, diversified, managed and reduced, thereby protecting society, and supporting, innovation and economic development (United Nations Environment programme Finance Initiative [UNEPFI), 2012). Without this mechanism, risk would be borne solely by individuals, households, businesses, governments and other societal entities. However, it is important to understand that insurance is not only financial risk transfer instrument; it also supports physical risk management because insurers' carryout risk prevention and risk reduction measures in conducting their business (UNEPFI, 2009). When unexpected losses arise, insurance helps communities cope with the financial hardship associated with them (UNEPFI, 2014).

The term sustainability is a buzzword and the terms such as sustainable development and corporate sustainability are often used interchangeably. Sustainability refers to an organization's activities which are typically considered Voluntary and that demonstrate the inclusion of social and environmental concerns in the business operation (Marrewijk, 2003). In the current scenario, countries are much more likely to experience sustained growth in their line of business, if their insurance markets are well developed. Development of insurance market is closely related to performance and it is true that without the investment of public and private sector in their infrastructure it is impossible for insurance market to develop adequately (Han, Donghui, Fariborz and tian, 2010)

3. ROLE OF INSURANCE INDUSTRY IN SUSTAINABLE DEVELOPMENT

The involvement and contribution of the insurance sector in environmental sustainability concerns are as follows:

Risk carrying: Insurance is a financial loss shock absorber that builds the financial resilience communities, business and households to unexpected losses such as those resulting from natural disasters, currency fluctuations, policy shifts, illness or accidents. This in turn enables investment and supports economic resilience end growth (Bacani, 2014)

Risk Management: The insurance industry's contribution to managing risk extends well beyond the losses it pays out, but includes developing an understanding and reduction of risks in homes, offices, factories, vessel, including as related to emerging industries and issues. Insurers help reduce risk through research as well as advocacy and support at the local level. Insurance pricing and other policy terms and conditions can provide clear risk reduction efforts. (Bacani, 2014)

Institutional investment: Insurers' premiums are pooled and become part of a fund of financial assets, which insurers invest to generate additional funds to meet their obligations to policy holders. Globally, the insurance industry has over USD29trillion in assets under management (The City UK, 2014).

According to Kanojia (2014), other roles are;

- Adoption of technology and online insurance market reduces the paper works which automatically save the environment.
- It improves the standard of living of the society through innovative insurance products.

Bacani (2014), emphasized that critical sustainable development issues (or so called environmental, social and government (ESG) issues) with implications for the insurance industry. Across these roles include climate change and extreme weather events, incasing vulnerability to natural disasters, natural resource degradation, water scarcity, environmental pollution, lack of access to insurance, widening social inequality, human rights, labour standards, aging populations, emerging health risks, trust and reputation issues, lack of accountability and transparency and unfair treatment of customers. Particular areas where the insurance industry is finding new ways to respond to the diverse needs of individuals, government and commercial enterprise and support sustainable development are in relation to natural disasters, financial inclusion, aging populations and the insurance and investment needs of green economy:

Disasters and Catastrophes: Managing Risk and Enabling Resilience
Catastrophe insurance pools and index-based insurance solution facilitate the coverage of disaster risk in highly exposed and vulnerable communities. Insurance-linked securities, such as catastrophe bonds and extreme mortality bonds, can bring alternative capital to cover disaster risk. Governments and the insurance industry have set up public – private partnerships to establish social protection systems at national and regional levels that incorporate insurance mechanism to establish social protection systems at national and regional levels that incorporate insurance mechanisms to increase disaster resilience, Examples include the African Risk Capacity, Pacific Catastrophe Risk Assessment and Financing Initiative and Turkish Catastrophe Insurance pool (Bucani, 2014).

Financial Inclusion: Development of Micro Insurance
Micro insurance has emerged as a means to tackle social inequality and financial exclusion by providing access to affordable insurance. Globally micro insurance covers about half a billion risks (international labour organization impact insurance facility, nd) and up to 4 billion people (swissRe,2010). It provides financial protection to low-income communities by insuring their crops, livestock and assets and providing a means to cover accident, healthcare,

dependents and funeral expenses'. Another form of inclusive insurance is providing coverage for people with HIVIAIDS, people with disabilities and underserved markets

Aging Population: Managing Longevity Risk

For the life and health insurance industry, the question of how to provide for the needs of aging population is becoming urgent in many countries. The global share of older people (aged 60 years or over) increased from 9.2 percent in 1990 to 11.7 percent in 2013 and will continue to grow as a proportion of the world, reaching 21 per cent by 2050. Older persons are projected to exceed the number of children for the first time in 2047 (United Nations, 2013). As population age, health expenses tend to grow rapidly since older persons usually require more healthcares and more specialized services to deal with their more complex pathologies.

The sustainability issues stemming from aging populations include longevity risk -the risk that individuals live longer than anticipated, with consequent shortfalls in income, pensioner poverty and pressure on public support systems, and on employers that sponsor defined benefit pension funds. Funded global longevity risk exposure has been estimated in excess of EUR 15 trillion, based on worldwide pension assets in organization for Economic co-operation and development (OECD) registered countries (Chief Risk Officers Forum, 2010). Longevity risks are being addressed by a growing number of health insurance and retirement funding products from the insurance industry, including critical illness insurance, insurance (or nursing home insurance), impaired life annuities longevity annuities (or longevity insurance). Longevity swaps, longevity bonds and equity releases, which allow home owners to release money from the property they live in.

Resources-Effect Opportunities: Insurance for the Green Economy

In the context of environmental sustainability, there is an increasing range of insurance products that promote the transition to a cleaner and more resource-efficient economy. These include insurance for renewable energy projects (include cover for transit, construction and operational risks), performance warranty insurance for solar panels and wind turbines, insurance for energy and water-efficient buildings, energy-efficient or energy-savings insurance, geothermal exploration risks insurance, insurance for carbon capture and storage technology, insurance for hybrid and electric vehicles, and "pay-as-you-drive" or usage –based insurance.

More sophisticated solutions are being explored such as policy risk insurance to facilitate renewable energy investments by providing a guarantee for investors against any changes in policy that will adversely affect their returns (UNEP, 2009). Other areas being explored includes insurance solutions for low-emission shipping, such as managing risk associated with "save-as-you-sail" financial models to finance the energy- efficiency retrofit of vessels (sustainable shipping initiative, n.d). There are also insurance products that cover rebuilding costs for damaged buildings and homes to bring them to better environmental standards, promote better indoor air quality and use sustainable materials, as well as insurance products that replace damaged appliances with energy-efficient ones. As long-term asset managers, insurers can support sustainable development through their investments across asset classes and geographies. This includes investments in renewable energy, sustainable agriculture and forestry, healthcare, waste management, inclusive finance, sustainable water management, and climate and disaster-resilient infrastructure

Insurance Regulation for Sustainable Development

Effective Insurance regulation facilitates access to insurance as an intervention to increase communities' resilience against climate and natural hazard risks while advancing economic growth, sustainable development and human right (shah 2015). Natural hazard resilience, at individual and collective level, cannot be achieved without access to insurance. While access to insurance is determined by a combination of factors, it cannot be attained without adequate regulation to ensure the financial strength of insurance carriers, recognition of insurance contract terms and enforcement of standards.

Unsupportive or non-existent regulation exacerbates underinsurance with devastating consequences to populations exposed to natural hazards. Duties to protect human rights in the context of natural hazards have been highlighted by the UN General Assembly and other bodies. OECD guidelines (June, 2014) and other instruments reinforce the responsibly of business, private and financial sectors to respect and protect human rights.

In the context of natural hazard risk, insurance systems (operating via public, private or mutual sectors) have the capacity to protect the basic human rights of life, livelihood and shelter in the following ways:

1) 1). providing policyholders (individuals, corporate and sovereigns) with financial protection against losses,
2) Influencing risk reduction and resilience through the condition and incentives of insurance contracts.
3) Enabling financial inclusion, access to credit and creating deeper reserves of investment capital at individual and collective levels.

The role of insurance should receive higher emphasis within legislative frameworks, interventions and implementation to deliver on various policy commitments. The Insurance sector and financial regulators should engage more openly and actively with the policy community to support these developments (Bucani 2014)

4. CHALLENGES TO INSURANCE AND SUSTAINABLE DEVELOPMENT

What follows are views of challenges to insurance and sustainable development

1) Lack of Awareness: Most of the Insurance practitioners in Nigeria are not aware of the need for them embrace the sustainable Development policy. They do not understand the implications ofsuch policy. This makes it difficult for the insuring public to appreciate sustainable Development policy.
2) Heavy Risk Exposure: Insurance practitioners found it difficult to proffer solution to heavily exposed risks, for example, houses and factories on the river banks with flood potential or properties in areas of high earthquake risk.
3) Misappropriation of Resources: Misusing the resources in a very vital manner is not good for the present generation as well as to the future generation is the major issue in this scenario (Kanojia 2014)
4) Change in climate, depletion of resources, excessive inequality, and technological risks are another sustainability challenges that insurance industry is facing today (Kanojia2014)
5) Development of products that support sustainable development is another challenging task in front of insurance companies.(Kanojia, 2014)

5. CONCLUSION

Sustainable Development is very important issue all over the world and every sector of the economy makes efforts for its success. Despite the challenges facing insurance industry, the sector plays great role towards achieving sustainable development. These roles include risks carrying, risk management, institutional investment etc. These roles will provide the needs of the present generation as well as the future generation. Therefore every Organizations and countries should work towards sustainable development.

6. RECOMMENDATIONS

i. The Government and insurance industry should emphasis on insurance-related risk education and awareness by organizing seminars and conferences to educate communities and companies on natural hazard risk and the role of insurance.
ii. Insurance regulation should be prioritized as an essential policy instrument to protect populations and assets from climate risks and natural hazards via private, public and mutual mechanism.

iii. Insurance Industry should appoint expert loss assessors, surveyors and use of new technology to maintain sustainability.
iv. Research should be undertaken to understand the role and relationships between insurance regulation, human rights protections and sustainable development.
v. Insurance companies should adopt paper less documentation system to save the resources through green marketing.

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