DOES INSTITUTIONAL OWNERSHIP IN INSURANCE COMPANY MOTIVATES INSURANCE DECISIONS?

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ABSTRACT

The purpose of the paper is to explore influence of institutional ownership in insurance company on firms' insurance decisions. The study is motivated by lack of empirical evidence on impact of institutional ownership in insurance company on corporate demand for insurance. The study aims to expand the domain of factors influencing corporate demand for insurance by establishing that institutional ownership in insurance company can impact firms' insurance purchase decisions. Using responses of survey of 264 respondents and elite interviews in Nigeria; the study explored the question: Does institutional ownership in insurance company motivate insurance decisions? The paper provides empirical insights about how institutional ownership in insurance company can influence firms' insurance decisions. Overall, the findings suggest that institutional ownership in insurance company influence firms' insurance decisions. It noted that purchase of insurance by firms from parent or sister insurance companies do not contravene principle of risk transfer, provided professionalism and good practices are upheld. The paper highlights implications for practice in that it is essential that insurers should prudently underwrite risks accepted from parent or sister firms' in order to prevent adverse selection and ensure payment of equitable premium. The policymaking implications centred on the need for firms to purchase and use appropriate insurance policies to manage their risks. This paper contributes to knowledge by establishing that institutional ownership in insurance company can impact corporate insurance purchase decisions. This is plausible as the literature does not indicate that institutional ownership or interest in insurance company influence corporate insurance demand.

Keywords: *Insurance, Institutional ownership, Corporate demand for insurance, Insurance purchase practices, Insurance decisions, Risk management*

1. INTRODUCTION

This study explored the impact of institutional ownership in insurance company on insurance decisions in Nigeria. The study focused on one of the salient findings of the work of Fadun (2015). The most valuable finding that emerged from the study is that: institutional ownership or interest in insurance

company influence firms' insurance purchase practices. This suggests that there is a positive correlation between a firm ownership and/or interest in insurance company, and insurance company from which the firm purchase insurance. This implies that it is more likely that a firm would purchase insurance from its parent or subsidiary insurance company.

Insurance decisions refers to wide range of activity involving firms' decisions to purchase or not to purchase insurance to manage risk exposures. The term 'insurance decisions' has a similar meaning with 'corporate demand for insurance' and 'insurance purchase practices'. Consequently, the term 'insurance decisions', 'corporate demand for insurance' and 'insurance purchase practices' are used interchangeably in the paper.

This paper is the first to document that institutional (corporate) ownership in insurance company influence insurance decisions. The study contributes to our understanding of factors influencing corporate demand for insurance by exploring the impact of institutional ownership in insurance company on corporate demand for insurance.

2. THEORETICAL FRAMEWORK

Economic growth and development depend on effectiveness and efficiency of production of goods and services activity. The service sector offers auxiliary services to support primary and secondary sectors. The Financial Services Sector (FSS) is part of the service sector, thereby enhancing production and economic activities. The Nigeria's FSS is dominated the banking industry. In 2011, the Central Bank of Nigeria (CBN) suspended the universal banking regime; and introduced a new structure for the banking sector which ordered Deposit Money Banks (DMBs) to divest from all non-banking operations or set up a holding group structure (Popoola, 2012; Sarpong, 2013). The suspended universal banking framework allows banks to undertake businesses or own subsidiaries outside their core function of financial intermediation (Agbedo and Ugoji, 2010; Omoh, 2010; CBN, 2010). The new structure requires banks in Nigeria to either divest from non-banking businesses and focus solely on commercial/merchant/specialised banking (mono-line or specialised banking); or set up a holding company structure (holding group) if a bank desires to retain its non-banking (insurance, asset management, stockbroking, microfinance, and others) subsidiaries (Alabadan, 2010; Anaesoronye, 2011; Ifeakandu, 2010; Moses-Ashake, 2010; Agabi, 2011). Prior to CBN directive to banks to divest from non-banking operations or set up a holding company structure, about 12 banks solely own or hold substantial stakes in insurance subsidiaries; and about 16, out of the 49 insurance companies, were owned by DMBs (IAN, 2012; Popoola, 2012;

Sarpong, 2013). After the CBN directive, some banks divested from their insurance subsidiaries; and some banks set up holding company structures, thereby retaining their insurance and other non-banking subsidiaries (IAN, 2012; Popoola, 2012; Sarpong, 2013). Considering the importance of the FSS, it is essential that risks associated with FSS operations should be managed effectively.

Risk is at the centre of life and economic activities. There are several ways through which risks associated with the firms can be managed. Several studies seek to emphasised that insurance is an important risk management mechanism suitable for managing risk of severe unanticipated losses (e.g., Mayers and Smith, 1982, 1987, 1990; MacMinn, 1987; Froot *et al*., 1993; Fadun, 2013a, 2015). Based on primary purpose of the study, it was envisaged that risk management is undertaking in the context of corporate risk exposures, objectives and resources. Corporate risk management practices are commonly regarded as risk mitigation in terms of choice among four basic alternatives: risk avoidance, risk reduction, risk transfer, and risk retention. Moreover, the study is based on the rational that firms' risks can be measured and managed, according to Knight (1921) description of risk, as chance or measurable probability, and future outcome.

Institutional ownership is the fraction of a firm's shares held by institutional investors. For the purpose of the study, institutional ownership refers to ownership of substantial stake by a firm in insurance company, compared to shares or stakes held by non-institutions (i.e., individual investors). Generally, institutions with substantial shares or stakes in a company can exert considerable influence upon the company's management. Hence, the study empirically explores influence of institutional ownership in insurance company on firms' insurance purchase practices.

3. METHODOLOGY

The study population is the Nigeria's FSS. Two data collection methods are used for the study: survey (structured questionnaire) and elite interview. Hence, both quantitative and qualitative methods are engaged to facilitate critical examination of impact of institutional ownership in insurance company on corporate demand for insurance. The survey and elite interview procedures adopted in this study are discussed in Sections 3.1 and 3.2.

3.1 Survey

The survey instrument is a structured questionnaire. The questionnaire was pilot tested on the same type of survey participants, 12 participants in July 2012, by post to ensure that its content (i.e. questions and scale items) are

suitable for the study. All the pilot survey participants returned the questionnaire with comments which are implemented based on aim and objectives of the study. 420 participants were selected from FSS through purposive sampling for the study. In October 2012, 420 postal questionnaires together with prepaid addressed envelope, survey consent letter, and non-technical written explanations of survey were dispatched to participants through their organisations' head offices within Lagos metropolis in Nigeria. Two reminders were sent to participants on 10 December 2012 and 25 April 2013 through telephone calls, mobile text messages (SMS) and emails notifying them that completed questionnaires are being awaited. By the end of May 2013, 272 completed questionnaires were received out of the 420 administered questionnaires, representing 65 per cent response rate. Specifically, the following steps were taken to enhance response rate of the main survey: (1) objectives and relevance of the study were duly communicated to the respondents to ensure that they appreciate importance and benefits of the study, (2) participants tasks were clearly highlighted to ensure that questionnaire are duly completed and returned promptly, (3) respondents' were assured of confidentiality and anonymity, and (4) respondents' were contacted (before and after) regarding the survey via telephone calls, mobile text messages (SMS) and emails to enhance the survey's response rate. Out of the 272 completed questionnaires, 264 were valid and 8 were invalid; hence, the survey yielded 264 usable questionnaires, representing 63 per cent usable response rate.

Characteristics of the Sample

The characteristics of the sample are summarised in Table 1. The respondents consist of 58 per cent male and 42 per cent female. The respondents consist of three statuses, 25 per cent top level management, 64 per cent middle level management and 11 per cent clerical lower cadre. Regarding years of experience of respondents in terms of involvement in risk management and insurance purchase decision-making: 22 per cent have above 20 years' experience, 30 per cent have 15 - 20 years' experience, 30 per cent have 10 - 15 years' experience, and 18 per cent have 5 - 9 years' experience.

Table 1: Characteristics of the sample

	Number	Per cent
Respondents' Gender		
Male	153	58
Female	111	42
Total	**264**	**100**
Respondents' Status		
Top level management	66	25
Middle level management	169	64
Clerical/Lower Cadre	29	11
Total	**264**	**100**
Years of experience in risk management activity		
Above 20 years	58	22
15 - 20 years	79	30
10 - 15 years	79	30
5 - 9 years	48	18
Total	**264**	**100**

Source: Developed by the researcher
Note: N = 264

3.2 Elite Interview

The section discussed elite interviews results to substantiate or refute the survey findings and clarify matters arising there from. The term 'elite' connotes several things in different contexts, as people can gain and lose elite status over time. In the context of the study, elite was defined through knowledge as communication of knowledge is the key point of characterising 'elite interview' (Kezar, 2003; Dexter, 2006; Harvey, 2010). Hence, for the purpose of the study 'elite' referred to people who possessed relevant knowledge and have significant decision-making influence within their organisations. Elite interview was considered suitable for the study in that it enhanced structure and findings of the study. This is because the interviewees' notions of what is most relevant can be engaged, rather than relying on the researcher's notions of relevance. Moreover, lack of empirical research on the influence of institutional ownership in insurance company on insurance decisions would appear to provide, in principle, justification for adoption of elite interview for the study. It was decided in advance that elite interviews would be focused interviews to ensure that basic research questions are sufficiently addressed in order to secure interviewees' views on the influence

of institutional ownership in insurance company on insurance decisions. All the elite interviews were conducted by telephone; and each interview lasted for 40 and 50 minutes. These interviews focused on pre-determined questions to ensure expansive and explanatory responses. The interviewees were furnished with descriptive details of survey results and outline of interview questions to enable them have insight into purpose of the study before interview sessions. Decisions on questions asked during interviews are based on findings from the literature and survey.

For logistic reasons, six elite interviews were conducted. Specifically, six interviewees' representing three (3) major stakeholder groups, directly or indirectly involved in risk management and/or insurance purchase decision-making, were interviewed. Three of the interviewees' represented financial services firms (FSFs), two represented insurance companies, and one represented the Nigeria insurance regulatory authority - National Insurance Commission (NAICOM). Furthermore, other relevant features of survey results were also considered when recruiting individuals (interviewees) for elite interviews. For instance, two (2) of the three (3) interviewees' representing FSFs are employees of holding groups which have subsidiary insurance companies. Similarly, one (1) of the two (2) interviewees representing insurance companies is a Chartered Insurer and employee of insurance company which is a subsidiary of holding group. The individual representing the insurance regulator is a top-level manager and employee of the NIACOM. The interviewees were assured anonymity; hence, they were identified by codes allocated to them as shown in Table 2.

It was envisaged that it would make more analytical sense to interview the interviewee who represent the insurance regulator after interviewing the first two groups (i.e. FSFs and IU representatives/interviewees) so as to clarify information gathered from interviewees representing the first two groups. Consequently, the first two groups (FSF and IU interviewees) were interviewed before interviewing the IR interviewee.

Table 2: Identification of Interviewees

Group	**Code**	**Stakeholder Group**
Group A	FSF1	Financial Services Firm
	FSF2	Financial Services Firm
	FSF3	Financial Services Firm
Group B	IU1	Insurance Underwriter
	IU2	Insurance Underwriter
Group C	IR	Insurance Regulator

4. EMPIRICAL ANALYSIS

4.1 Measurement of Dependent and Independent Variables

The independent variable (institutional ownership in insurance company - IOIC) is measured by the degree of influence on firms' insurance decisions. There are eight dependent variables. Table 3 outlined the measurement of dependent variables.

The Cronbach's Alpha for the dependent variables ranges between 0.74 - 0.83 which are well above the threshold of 0.65 which is the minimum acceptable value of alpha in the literature (Field, 2009; Spiliotopoulou, 2009: Tavakol and Dennick, 2011; George and Mallery, 2012). This implies that the observed scores are consistent and devoid of measurement errors. Furthermore, the model of variables suggests the following model for firms' insurance decisions in terms of influence of institutional ownership in insurance company:

The demand for corporate insurance or purchasing practices of insurance by corporate firms' variables (PINS) is a function of Institutional Ownership in Insurance Company (IOIC) defined as follows:

$$PINS_{ki} = f\,(IOIC_i) \quad (1)$$

where
$PINS_{ki}$ = Insurance purchasing practice variable k for Firm i
$IOIC_i$ = Institutional Ownership in Insurance Company by Firm i

Insurance purchasing practice variables include IRTRMT, ISMFR, FRMPS, FRMDUS, SOPI, PIFMR, FIOIC and PIASI as defined in Table 3.

Table 3: Measurement of Dependent Variables

Dependent Variables	Measurement
Insurance is a risk transfer and risk management tool (IRTRMT)	All Dependent Variables are measured on the scale of 1 (strongly disagree) and 5 (strongly agree) based on respondents' response
Insurance is suitable for managing Firms risks (ISMFR)	
Firms' risk management policy or statement (FRMPS)	
Firms' risk management department/unit/section (FMDUS)	
Statutory obligation to purchase insurance (SOPI)	
Purchase of insurance by firms to manage risks (PIFMR)	
Firms' interest in or own insurance company (FIOIC)	
Purchasing of insurance from associate or subsidiary insurer (PIASI)	

4.2 Survey Results and Discussion of Findings

First, we test the relative importance of suitability of insurance and insurance purchase practices among firms by comparing differences in means; hence, *T*-test was implemented. Table 4 shows the rank order of relative importance of suitability of insurance and corporate demand for insurance in Nigeria based on: (1) insurance as a risk transfer mechanism and risk management tool, (2) suitability of insurance for managing risks associated with firms' operations and activities, (3) firms' having risk management policy or statement, (4) firms' having risk management department/unit/section, (5) statutory obligation on firms' to purchase insurance, (6) purchase of insurance policies by firms' to manage their risks, (7) firms' having interest in or ownership of insurance (parent or subsidiary) company, and (8) purchase of insurance by firms' from associated or subsidiary insurance companies.

Table 4: Relative Importance of Insurance and Firms' Insurance Purchase Practices

Rank	Level of Risk Management Practices	Mean	SD
1	Suitability of insurance for managing firms' operational and activities risks	3.99	0.51
2	Insurance as a risk transfer mechanism and risk management tool	3.94	0.47
3	Statutory obligation on firms to purchase insurance (compulsory insurance)	2.97	0.41
4	Firms' having risk management department/unit/section	2.97	0.36
5	Firms' interest in or ownership of insurance (parent or subsidiary) company	2.96	0.50
6	Firms' risk management policy or statement	2.95	0.36
7	Firms' interest (minor or major) in insurance (parent or subsidiary) company	2.79	0.41
8	Firms' purchasing insurance from associated or subsidiary insurance companies	2.76	0.43

Source: Developed by the researcher
Notes: N = 264

(a) The mean is the average on the scale of 1 (strongly disagree) to 5 (strongly agree);
(b) SD = standard deviation; and
(c) Mean scores are significantly different on one-sample t-test ($p < 0.01$).

The median measure as shown in Table 4 is exceeded by all the eight levels of suitability of insurance and insurance purchase practices among firms, in that the mean of the results indicated that: insurance is suitable for

managing risks associated with firms' operations and activities (3.99), insurance is a risk transfer mechanism and risk management tool (3.94), there is statutory obligation imposed by Law/Edicts on firms' to purchase insurance (2.97), firms' have risk management department/unit/section (2.97), firms' have interest (minor or major) in or own insurance (partly or wholly) company (2.96), firms' have risk management policy or statement - documented or otherwise (2.95), some firms' have financial interest (minor or major) in insurance (parent or subsidiary) company (2.79), and some firms' purchase insurance from associated or subsidiary insurance companies (2.76).

The finding that firms in Nigeria agree that: insurance is suitable for managing risks associated with firms' operations and activities, and insurance is a valuable risk transfer mechanism and risk management tool are ranked as the most important in terms of suitability of insurance and insurance purchase practices among firms in Nigeria. The findings are not much of a surprise because insurance is part of wider and integrated risk management system. Moreover, this is consistent with the literature that indicated that insurance is a risk management tool suitable for managing risks with extremely large severity of potential losses (Dickson, 2000; Dorfman, 2003; Hamid, 2010; Fadun, 2013a). This implies that insurance is suitable for managing risks associated with firms' operations, as it facilitates shifting cost of risks to external parties - insurance companies (Boland *et al.*, 2009; Thoyts, 2010, Rejda and McNamara, 2012; Fadun, 2015). Furthermore, risk financing through insurance has long been a technique for spreading risks and reducing cash flow volatility among firms and multinational corporations (Skipper and kwon, 2007, Vaughan and Vaughan, 2014; Fadun, 2015). This is possible because insurers have more diversified portfolios of exposures which facilitate reduction of unexpected losses and spread risk among insureds, including firms'. The implication is that insurance enables firms to transfer negative financial consequences of risks associated with their operations and activities to insurers. Hence, insurance facilitates transfer of a firm's economic risks to an insurer, while actual risks remain with the firm (Rejda, 2011; Butterworth, 2013; Vaughan and Vaughan, 2014).

The result revealed that statutory obligation imposed by Law/Edicts on firms to purchase insurance (compulsory insurance) is an important factor which influencing corporate demand for insurance. This is not surprising as firms are expected to comply with the law. The result also suggested that: most firms' have risk management (centralised or decentralised) department/unit/section, and risk management policy or statement - documented or otherwise. A possible explanation for this may be due to the fact that most firms have mission statement; and a firm's risk management policy or statement is an integral part of its mission statement. The implication is that a firm's risk management policy or statement highlights the firm's risk

management purpose now (mission) and what it would like to become (mission statement). A mission is broad declaration of the firm's purpose which identifies its product, market, and technological focuses. Mission reflects the firm's values, priorities and strategies to achieve its objectives. In essence, mission statement distinguishes a firm from its competitors by establishing the firm's goals to ensure positive direction and higher levels of performance (Czinkota *et al*, 2011; Wheelen and Hunger, 2012). In practice, a good risk management policy should assist the firm to manage risks associated with its operations. This is consistent with the literature which emphasise the need for firms to be aware of their exposures (risks); identify who owns or takes responsibility for managing these risks; and consistently develop and improve their operational and technical practices to manage their risks (Carvalho, 2000; Feridun, 2006; Apostolik *et al.*, 2009). In the context of Nigeria, possible explanation of the results is that risk management policies of much of firms in Nigeria are part of firms' strategic policies, and not stand-alone policies. This is reasonable as it enables firms to integrate risk management activity into strategic planning, thereby maximising firms' values. This is also consistent with the theoretical framework of the study, based on Knight (1921) view of uncertainty in terms of possibility of managing risks as firms must assume business and operational risks to exploit potential opportunities and maximise firms' values. Likewise, the view is reinforced by management theorists' perception of risk management who argue that risk management is an integral part of strategic management that promotes continual exploration of new sources of advantages through economical and efficient risk-taking activities (Chatterjee *et al.*, 2003; Garven, 2007). Strategic risk management is an integrated continuous identification and evaluation of risks which may prevent firms from attaining their financial and operational objectives (Verbano and Kenturini, 2013). The implication for practice is that integration of risk management into a firm's strategic policy can enhance evaluation of strategic alternatives thereby ensuring that potential benefits commensurate with associated risks (Beasley and Frigo, 2007; Di Serio *et al*., 2011). Hence, it is essential that firms should pay more attention to strategic risk management, as much of firm's operational losses often result from strategic failures (Acgaryya, 2010). However, the essence of risk management is not to eliminate risk, but to manage risk by way of risk reduction, risk avoidance and risk transfer. Hence, risk management does not eliminate uncertainty; but, it minimises financial consequences of uncertainty. Moreover, it is possible for risk management to fail to meet its objective, thereby resulting to risk management failure (Fadun, 2013b). The implication for practice is that risk management does not mean always getting things right; instead, it means getting them less wrong, less often, with less detrimental consequences (Buchler *et al*., 2008; Fadun, 2013b).

The results indicated that several firms: have interest (minor or major) in or own insurance (partly or wholly) company, have financial interest (minor or major) in insurance (parent or subsidiary) company; and purchase insurance from associated or subsidiary insurance companies. Consequently, the findings suggest that institutional ownership in insurance company motivate firms' insurance decisions - firms' insurance purchase practices. Specifically, seventy-nine per cent of the survey respondents indicated that firms have parent and/or subsidiary insurance companies; but twenty-one per cent indicated otherwise. This implies that some firms in Nigeria have interest or stake in insurance companies (parent or subsidiary). Furthermore, the results suggest that firms are more likely to purchase insurance from parent or subsidiary insurance companies. The theoretical and practical implication is that firms which have stake or interest in insurance companies purchase insurance, partly or wholly, from subsidiary or associated insurance companies. This indicates that that institutional ownership in insurance company motivate the insurance decisions. Furthermore, Table 5 shows a summary of Spearman Rank correlation matrix for the dependent variables and the independent variable (IOIC). As a rule of thumb, a correlation coefficient of 0.6 or more suggests the possibility of multicollinearity. The correlation matrix table indicates that the correlation coefficients between each pair of variables are less than 0.6; hence, multicollinearity was not an issue in this study.

Table 5: Pearson Correlation Matrix: Dependent Variables ($PINS_k$) and Independent Variable (IOIC)

Variables	A	B	C	D	E	F	G	H	I
A) IRTRMT									
B) ISMFR	0.077								
C) FRMPS	0.010	- 0.041							
D) FMDUS	0.079	- 0.051	- 0.036						
E) SOPI	- 0.024	- 0.004	- 0.041	- 0.031					
F) PIFMR	- 0.094	0.071	- 0.046	- 0.034	0.065				
G) FIOIC	0.012	0.043	0.065	- 0.086	0.056	0.031			
H) PIASI	0.022	0.058	0.134*	- 0.092	0.042	0.061	0.709**	0.768**	
I) IOIC	0.299**	0.120**	- 0.026	0.227**	0.170**	0.167**	0.129**	0.037	0.236**

Source: Developed by the Researcher
Notes: No. of case: 264
Significance level: *p < 0.05 and **p < 0.01

The foregoing suggests that there is positive correlation between firms' ownership and/or interest in insurance companies, and insurance companies from which firms' purchase insurance. This suggests that institutional ownership in insurance company motivate the insurance decisions; consequently, institutional ownership or interests in an insurance firm is an important factor influencing firms' insurance decisions - insurance purchase practices. This is a plausible finding and valuable contribution to knowledge as the literature reveals that managerial (not institutional) ownership and growth options influence corporate insurance purchase (Daniel and Paul, 2005; Zou and Adams, 2006; Hamid, 2010). In other words, the literature does not indicate that institutional ownership influences corporate demand for insurance. However, the findings of study suggest that institutional ownership in insurance company can motivate a firm to purchase insurance; thus, influence the firm's decision to purchase and use insurance to manage its risks. From this, three salient questions that emerged are: (1) Is it prudent for a firm to purchase insurance from its parent or subsidiary insurance company? (2) Considering the fact that a firm can purchase insurance from its sister or subsidiary insurance company; does this practice contravene the principle of 'risk transfer' and insurance practices? And (3) what is the implication of such practice on reinsurance obligations of the parent or subsidiary insurance companies. These questions are addressed during the elite interview.

4.3 Elite Interview Results and Discussion of Findings

The interviewees' views on survey results were taken in the course of the interview. This is beneficial as the survey findings constituted useful information for elite interviews, and the interviewees do not participate in the survey. The interviewees were asked to indicate whether insurance is suitable for managing risks associated with firms' operations and activities. FSF1 noted that insurance is suitable for managing risks associated with firms' operations. He (FSF1) corroborated his view by illustrating that insurance is part of wider and integrated system of risk management. In this regard, FSF1 commented as follows:

"*Insurance is part of wider and integrated system of risk management..., based on experiences over the years in risk management and compliance directorates/divisions of firms…I have seen insurance policies being used by financial services firms to managing risks that threaten their survival and continual operations. Therefore, I do not hesitate to confirm that insurance is suitable for managing risks associated with financial services firms' operations in Nigeria*".

Likewise, FSF2 indicated that insurance is suitable for managing FSFs risks. He emphasised that:

"*…there and several benefits accruable to firms for purchasing insurance policies to managing risks associated with their operations in Nigeria… it is easier and faster for firms in Nigeria to place or purchase insurance*".

FSF3, whilst indicating that insurance is suitable for managing firms' risks, he commented that several firms in Nigeria do engage services of insurance agents and/or insurance brokers to place (purchase) insurance policies from insurance companies. FSF3 also emphasised that firms can benefit from purchasing insurance through an insurance broker; thus, benefiting from expertise and experience of insurance brokers. Insurance brokers are firms of insurance experts who act as intermediary between FSF (insured) and insurance company (insurer or underwriter). Insurance brokers utilise their in-depth knowledge of risks and insurance market to find and arrange suitable insurance policies for their clients. FSF3 commented that:

"*Insurance is appropriate for managing risks faced by firms. However, it is advantageous for firms to arrange insurance policies through insurance brokers so as to benefit from brokers expertise and experience. Ordinarily, benefits of placing insurance through insurance brokers' stem from brokers expertise and experience of insurance market and practices. This is because insurance brokers are insurance professionals who represent and place insurance on behalf of firms with insurance companies or underwriters*".

Closer examination of FSFs interviewees' views revealed that all FSFs interviewees indicated that insurance is suitable for managing risks associated with firms' operations. Possible reasons for this may have something to do with the interviewees' involvement in risk management and insurance purchase decision-making in their organisations. Furthermore, IU and IU2 also indicated that insurance is suitable for managing FSFs risks. As experienced insurance underwriters, both IU1 and IU2 emphasised the need for firms to purchase appropriate insurance policies based on nature and types of firm's activity. The following comment made by IU2 probably captures opinions of insurance underwriter interviewees:

"*Notwithstanding usefulness and suitability of insurance for managing a firm' risks, it is imperative that appropriate insurance policies should be arranged to ensure that protections afforded by insurance policies purchased actually cover risks intended to cover by the firm…, hence purchased insurance policies must be fit for intended purpose".*

Similarly, IR noted that insurance is suitable for managing risks associated with firms' operations. IR reinforced the view of FSF3 by emphasising that firms can derive several benefits from purchasing insurance through insurance brokers. IR also noted that some holding groups in Nigeria have registered insurance agency and/or insurance brokers subsidiaries through which they purchase insurance policies from insurers. As a matter of fact, IR described the Nigeria's insurance market as a brokers-dominated market because insurance brokers control about 90 per cent of the industry premium income. This suggested that insurance brokers' play important role in firms' insurance purchase practices in Nigeria. Furthermore, IR noted that beside conventional insurance policies, it is possible for a firm to purchase customised insurance policies (packages) depending on type and nature of the firm operations. In this regard, IR statements clearly capture his views:

"*Insurance is ideal for managing and financing risks that militate against effective operation and profitability of firms in Nigeria. Due to technicality of insurance business, I believe that it is beneficial for firms to engage services of insurance brokers in placing insurances. Insurance brokers play important role in the insurance industry. As a matter of fact, the Nigeria's insurance market is brokers-dominated market because insurance brokers control about 90% of the industry premium income…It is also possible for insurers to offer customised insurance policies to cover multiple risks associated with firms' operations*".

Analysis of interviewees' responses regarding suitability of insurance for managing risks associated with firms' operations are similar to those of survey results. Although, insurance does not eliminate risk and uncertainty; but it provides institutional frameworks for managing risks associated with firms' operations (Blunden and Thirlwell, 2010; Biggs and Richardson, 2014). Hence, insurance is a risk transfer mechanism through which firms' can transfer risks associated with their operations to insurance company (Mutenga and Staikouras, 2007; Biggs and Richardson, 2014). This implies that insurance facilitates financial intermediation; thereby, promoting corporate risk management by way of risk transfer from a firm to insurer, and indemnification of the firm following the occurrence of insured events based on terms and conditions of the policy (Ward and Zurbrugg, 2000; Atindehou *et al*., 2005; Dalis, 2010). Additionally, purchase and use of insurance by a firm to manage its risks is beneficial as it: is a less expensive risk financing method; promotes indemnification of insured loss(es) caused by insured perils; facilitates access to insurers risk management services; and facilitates reduction of tax payable through premiums tax-deductible (Thoyt, 2010: Rejda, 2011). Some interviewees were of the opinion that some firms'

normally purchase insurance through insurance brokers. There are three major ways through which firms can place or purchase insurance: directly from insurance companies; through agents or representatives of insurance companies; and through insurance brokers. An insurance broker is a firm of insurance professionals with in-depth knowledge of risks, insurance market and insurance practices. Hence, benefits accruable to firms for purchasing insurance through insurance brokers include: access to professional services and advice, save time and ease firms' burdens, facilitate purchase of appropriate insurance policies, facilitate payment of reasonable and competitive premium, and prompt professional claim handling (Rejda and McNamara, 2012; Vaughan and Vaughan, 2014).

The interviewees having indicated that insurance is suitable for managing risks associated with firms' operations; they were asked to indicate whether firms' purchase and use insurance to manage their risks. Generally, all the interviewees' indicated that firms do purchase and use insurance to manage their risks. FSF1 emphasised by that some firms' purchase and use insurance to manage their risks; however, he identified a key reason why firms in Nigeria purchase and use insurance to manage their risks. FSF1 commented that:

"*…I am quite sure that some firms purchase and use insurance to manage risks because firms in Nigeria have since adopted insurance as a valuable risk management tool. I think that one of the reasons why firms purchase and use insurance to manage their risks is that insurance is less expensive, compared to other readily available risk management tools in Nigeria*".

FSF2 also indicated that he is aware that several firms in Nigeria purchase and use insurance to manage their risks. He also highlighted that firms may secure premium discounts if the firm purchase several insurances from an insurance company; thereby, reducing the firm's insurance premium and risk management expenses. From experience, FSF3 pointed out that in the interest of firm (insured) and insurance company (insurer), instalment premium payment can be arranged between the parties. Specifically, FSF3 stated that:

"*I know that firms can purchase and use insurance to manage their risks…as an officer in a financial services firm risk management and compliance directorate, I am also aware that it is possible for firms in to pre-arrange payment of premium on instalment basis with insurance companies…to spread premiums payment over an agreed period within the period of insurance…for example, within say three or six months*".

Analysis of FSFs responses indicated that all FSFs interviewees' views on firms' insurance purchase practices suggests that firms' in Nigeria purchase and use insurance to manage their risks. They also supported their views with potential benefits of purchasing insurance to manage firms' risks. The reasons why the FSFs interviewees hold this view about firm's risk management and insurance purchase practices might be attributed to FSFs interviewees' awareness of usefulness and suitability of insurance for managing business risks.

Additionally, IR highlighted that although insurance is suitable for managing firms' risks; however, insurance does not always provide full indemnity as the insured is often required to bear part of every loss, known as policy excess or deductible. The essence of policy excess or deductible is to make the insured to act reasonably as if he is uninsured. In this regard, IR commented that:

"*Notwithstanding the suitability of insurance to managing firms risks...insurance does not provide full indemnity because insureds have to bear part of losses (policy excess) settled by the insurer*".

The interviewees were also asked to indicate whether firms in Nigeria have insurance companies or subsidiaries. Generally, all the interviewees' indicated that some firms owned insurance companies, wholly or partly. The FSFs interviewees' opinions were similar to those of survey findings which suggested that some firms have stake or interest in parent or subsidiary insurance companies. In this regard, FSF2 highlighted some reasons why some firms owned insurance company subsidiaries for some reasons:

"*...reasons why firms or group of firms have insurance company subsidiaries include: to secure benefits arising from large number of customers; to secure benefits arising from large volume of information on their customers; and to maximise competitive advantages arising from high level of client acquisition*".

Similarly, IU1 noted that insurance industry is an integral of the financial system, and FSF "*is far more aggressive than that of the insurance industry*". On the other hand, IU2 expressed concerned that:

"*…firms or group of firms' whole ownership or substantial stake in insurance companies may induce unethical practices and unhealthy competition among insurers and within the insurance market*".

He (IU1) also expressed concern regarding possibility of unethical practices and unhealthy competition within a holding (group of companies) groups due to full ownership or substantial stake in insurance company. For instance, this may result to compromise of ethical practices and unprofessional conducts within the group; say among its banking, insurance, asset management, stock-broking, microfinance, and allied subsidiaries. This is because financial services activities are highly interrelated in nature. Moreover, holding group structure in Nigeria allows a group to undertake businesses or own subsidiaries outside its core function of financial intermediation (Alabadan, 2010; Ifeakandu, 2010; Moses-Ashake, 2010; Agabi, 2011; Anaesoronye, 2011). It is, however, possible for a holding group to promote professionalism and good practices by embracing good and ethical practices within and across the group operations. In this regard, the insurance regulator interviewee (IR) explained that issues of unethical practices and unhealthy competition have been addressed by instrumentality of financial regulation and corporate governance frameworks to protect the FSS stakeholders. Generally, the findings of the study indicated that institutional ownership is an important factor influencing firms' insurance decisions (insurance purchase practice or demand for insurance). The implication is that firm's interest or ownership (partly or wholly) in insurance company can influence the firm's insurance decisions (insurance purchase practices).

4.4 Discussions and Implications of Findings

The study set out to address the question: Does institutional ownership in insurance company motivate the insurance decisions? The findings suggest that 'institutional ownership or interest in insurance company influence corporate demand for insurance. This would tend to suggest that there is a positive correlation between a firm's ownership or interest in insurance companies, and insurance company from whom the firm purchase insurance. The literature revealed that managerial (not institutional) ownership and growth options influence corporate demand for insurance (Daniel and Paul, 2005; Zou and Adams, 2006; Hamid, 2010). In other words, the literature does not indicate that institutional ownership influences corporate insurance purchase practices; but, the findings of the study indicated that institutional ownership or interest in insurance company (partly or wholly) influence corporate demand for insurance. Consequently, institutional ownership in insurance company motivate firms' insurance decisions. This is plausible findings and valuable contribution to knowledge as the literature does not indicate that institutional ownership or interest in insurance company influence corporate demand for insurance.

The implication for practice is that institutional ownership in insurance company can influence firms' demand for insurance by way of insurance

purchase practices in terms of insurer from whom a firm purchase insurance and willingness to purchase insurance policies to manage risk associated with their operations. This has important practical and theoretical implications for firms as the findings also revealed that some firms have interest or stake in insurance companies (parent or subsidiary). This may be a possible explanation or reason why firms' purchase insurance to manage their risks; particularly from parent or sister subsidiary insurance companies. The findings also have managerial and theoretical implications for firms, business managers, the insurance sector, the FSS and the economy. This is because it makes both business and economic senses for a firm to purchase insurance from its insurance company (parent or sister) subsidiary. This implies that members (firms) or subsidiaries of holding group can derive several benefits from purchasing insurance policies from subsidiary insurance company. These benefits include: payment lower premium and reduced overhead expenses due to the law of large numbers; large volume of information in terms of financial capacity; group competitive advantage through high level of client acquisition; and possibility of reinvesting insurance underwriting profit within the group for future expansion. However, professionalism and good practices should be upheld by the parties involved in insurance contracts in order to protect the stakeholders (i.e. firms or members of holding groups and insurance subsidiaries involved).

Purchase of insurance by firms from parent or sister insurance companies does not contravene principle of risk transfer and insurance practice; however, it is imperative to avoid adverse selection against the insurance subsidiary. Hence, it is essential that the insurance (subsidiary) company should prudently underwrite accepted risks to prevent adverse selection and ensure payment of equitable premium. Adverse selection against insurer is a tendency of presenting a substandard (higher-than-average) risk as a standard (average) risk for the purpose of insurance (Rejda 2011; Vaughan and Vaughan, 2014). In practice, the insurance subsidiary can control adverse selection through: collection of material information; prudent underwriting; and incorporation of necessary policy terms and conditions. Furthermore, insurance does not operate in isolation as the principle of risk transfer must be sustained, even under reinsurance contract. Consequently, the insurance subsidiary must reinsure a part of risks underwritten under primary insurance contracts with reinsurance companies. The implication is that insurance (subsidiary) company that singularly underwritten its holding group members (i.e. parent or sister firms) risks may encounter serious problems in securing reinsurance treaties at an average rate and terms, if its underwriting portfolios are not fair and prudently managed. To minimise reinsurance placement challenges, the insurance (subsidiary) company must underwrite its primary insurance contracts prudently thereby preventing adverse selection and

ensuring payment of equitable premium. Likewise, prompt payment of equitable premium by parent or sister firm to the insurance (subsidiary) company is necessary to promote ethical underwriting practices.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The study has explored the impact of institutional ownership in insurance company on insurance decisions. Specifically, the study explored the question: Does Institutional ownership in insurance company motivate the insurance decisions? The study was motivated by lack of empirical evidence on influence of institutional ownership in insurance company on corporate demand for insurance. Overall, the results suggest that institutional ownership in insurance company influence corporate insurance purchase practices. The paper is the first to document that institutional ownership in insurance company influences corporate demand for insurance. It indicated that there is a positive correlation between a firm's institutional ownership or interest in insurance company, and insurance company the firm purchase insurance. This constituted originality and contribution to knowledge by way of discovery of new facts because the literature does not indicate that institutional ownership or interest in insurance company influence corporate demand for insurance.

The study highlighted that purchase of insurance by firms from parent or sister insurance company does not contravene principle of risk transfer and insurance practices. It indicated that insurance is suitable for managing risks associated with firms' operations. It also emphasised that purchase and use of insurance by firms to manage their risks is beneficial in that it: is a less expensive risk financing method; promotes indemnification of insured losses caused by insured perils; facilitates access to insurers risk management services; and facilitates reduction of tax payable through premiums tax-deductible. The study emphasised the need to avoid adverse selection against the insurance subsidiary by ensuring prudent underwriting on the part of the insurance (subsidiary) company in order to prevent adverse selection and ensure payment of equitable premium. However, insurance does not eliminate risk and uncertainty; but it provides institutional frameworks for managing risks associated with firms' operations and activities.

5.2 Recommendations

Based on the findings, the following are recommended:

1. Firms should integrate risk management into their strategic policies so as to promote critical evaluation of strategic alternatives and appraisal of potential benefits with associated risks.

2. Having established that some firms purchase and use insurance to manage their risks; it is recommended that firms should ensure that appropriate insurance policies are purchased to manage intended risks.
3. Considering the fact that purchase of insurance by firms from parent or sister insurance company does not contravene insurance practices; issues of professionalism and good practices should be addressed by the state and stakeholders' in order to protect parties (firms) involved in insurance contracts.
4. The insurance regulatory authorities should strengthen regulation and supervision of insurance practices to ensure adequate and effective enforcement of insurance laws.
5. It is recommended that further study could be carried out to explore importance and extent of influence of institutional ownership in insurance company on corporate demand for insurance countries and regions.

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