

## **Abstract**

This study will survey a critical review of the accounting system in Nigeria's insurance industry. This study as a case study is an attempt to review the problems of accounting system in industrial and general insurance company limited. It has become necessary because of proper understanding and correct treatment in various items in the account. This study will make a fair contribution towards the understanding of the treatment of various items by insurance companies. In collecting the data for the study, the researcher will made use of the tools like structured and in structured interview and question will form primary method data collection while secondary will consist annual report, accounts, journals, insurance year book, and text books etc. Finally, the conclusion will be that though there are lack of proper understanding and correct treatment of various items in the accountant of the insurance companies, however, the problem can be solve if the researcher can bring to light the difference in the treatment of various items by insurance companies and its effect on intra and inter-company comparison.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **Background of the study**

Insurance accounting as relates to insurance company is a distinct and specialized account that is always referred to as "specialized Accounting" just like taxation is a specialized area. Though it employees the general accounting principles, concepts and conventions, there in need for a clear understanding of its preparations. In the days of "T- forms" presentation of financial statements an insurance company account could be easily recognized form the sides of the "T" to which income and expenditure items are placed. They were reversed and therefore not in conventional form. The convention was placing revenue items to the right of the "T" insurance company revenue, profit and loss account had the revenue items to the legit of the "T" and expenditure items to the right.

Nowadays, the vertical forms of presentation are adopted and this peculiarity of reversal of sides is no longer these. However, there are other features that distinguish accounting system in insurance industry or company from other accounting system.

There are:

Requirement by law for remitting of quarterly and annual returns to central Bank of Nigeria (CBN) and Nigerian insurance supervisory Board (NISB).

Prescription by law of the type and level of investment.

iii. Requirement by law for the maintenance of margin of solvency.

Requirement by law for rendition of returns to the Nigerian insurance supervisory board (NISB) with stated deadline.

Requirement by law of the maintenance of Reserves known as "TECHNICAL RESERVE" Comprising of insurance fund, Reserves for outstanding losses, reserves for incurred but not reported and contingency reserves. All these are in addition to rendition of the required returns to the corporate affairs commission (CAC) being an incorporated company under or pursuant to the companies and allied matters decree (CAMD) 1990. From the above, it can therefore be seen that without a proper understanding of intricacies involved in both the interpretation of the decree as well as the items that makes up insurance account and right treatment is accorded the financial statement generated will not give a true and fair view of the statement of affairs and of profit and loss for the period. Having read and studies about insurance industry, the researcher fact it worth caring out a detailed researcher work in order to benefit those who have no accounting orientation of formal training in accounting before. The emergence of industrial and general insurance company Ltd (IGI) on Nigeria's insurance landscape of dynamism and innovation into insurance practice Nigeria. With a carefully selected board of Directors comprising of distinguished and reputable Nigeria's Who have made their marks in their chosen fields likes Yakubu Gowon, Remi Olowode, Ola O. Vincent, Apostle Hayfor I. Alile and many others. From the inception of the company, the

company has a crop of highly skilled and motivated company of today and the future. IGI has, within the 6 years of its existence stamped it identify on the market as a leading professional insurance company in the provision of the highest standard of financial protection and risks management service. In 1996 IGI became the first private insurance company in Nigeria to hit the N1 Billion market in premium income, and also the targets in terms of volume, and also the targets in terms of volumes of business. IGI's N500 million authorized share capital of which N200 million is fully paid –up is also the biggest for any private insurance company in the country. IGI's computer backed under writing and claims management systems, guarantee prompt and efficient services to customers. The company's reputation as a friendly insurance firm derives, in part form the simply format and content of its policy documents which are couched in simple language devoid of unnecessary technical and legal terms. Today IGI had become a leader not only in General insurance, but especially in the specialized. Areas like oil, Energy, Engineering, Aviation, medical, insurance and industrial risk management. The giant studies taken since inception reflect the result –oriented approach of the company and the robust touch it has brought to bear on the practice of insurance in Nigeria. The company's commitments to quality services are total, as clients needs come first at every point of services delivery. Besides, the culture at IGI is to make deliberate efforts to understand individual client's peculiar needs, to assess the risk which the client is exposed to and advice accordingly. The company has also established an enviable reputation as the foremost sports friendly insurance company in Nigerian.

## **STATEMENT OF THE PROBLEM**

The growth in the volume of transaction as well as the increase I the total number of insurance companies in Nigeria make it important to have an adequate and practical understanding of the various items and their treatment, in the accounts as they relate to insurance company. Despite the role-played by the industry in the economy, hence. There is needed to make research in the problems facing the industry as regard

accounting. These problems are the following below:

Lack of proper understanding and correct treatment of various items in the account.

The problem of computing unimpaired risk, outstanding losses incurred but not reported and contingency reserves.

iii. Treatment of investment income and commission.

Non – availability of accounting standard that is SAS/SSAP2/IAS: 1:Disclosure of accounting policies

The problem of inadequate qualified staff to man important post.

Misinterpretation of the various aspects of the insurance Decree 1991

vii. Problem of defining gross premium, net premium are their treatment in the accounts.

viii. Inadequate on-the –job training for staff.

### **OBJECTIVE OF THE STUDY**

The objective of this research work is to find solution to the above-mentioned problems and at the same time explain and illustrate some of the items so as to practically assist staff in the account department of the industry. The objectives are:

To bring to light the differences in the treatment of various items by insurance companies and its effect on intra and inter-company comparisons.

To expose the need of having an accounting standard for insurance industry.

To bring to limelight, the mistakes in insurance company are financial reporting and placing it on a solid platform.

To explain the various forms of computation and treatment of various forms of reserve.

To assess financial statement presentation in insurance industry and arrive at the standard way of presenting financial statement.

To evaluate the various interpretations of gross, net premium and under writing profit.

### **1.4 RESEARCH HYPOTHESES**

## **Hypothesis One**

**HO:** there are no differences between treatment of various items by insurance companies and its effect on intra and inter-company comparisons

**HI:** there are no differences between treatment of various items by insurance companies and its effect on intra and inter-company comparisons

## **Hypothesis Two**

**HO:** there are no forms of computation and treatment of various forms of reserve.

**HI:** there are forms of computation and treatment of various forms of reserve

## **SIGNIFICANCE OF THE STUDY**

The industry keeps growing, which shows an increase in the public funds placed in another person's hands in form of premium. There is then the need for proper and adequate reporting so that confidence in the industry can be established. Capital market internalization distress in the economy and subsequent need for merger and acquisition as a means of survival calls for proper understanding as well as treatment of items upon which the financial statement is based which will be used for all these. The insurance Decree 1991 has a lot of stringent conditions that must be complied with by the industry as it relates to the account which if not treated may cost the industry more than expected. The users of financial statements are numerous hence if the preparation is faulty, it becomes misleading to the users and public at large. The industry also has a state in the economic developments of a company performing such roles as institutional investor, risk bearers, employer of labour as well as wealth creator. For an industry performing such roles enumerated above it is expedient to consider preparation and presentation an almost importance and real value to the industry.

## **1.6 SCOPE AND LIMITATION OF THE STUDY**

The project is basically an overview of accounting system in insurance industry and as such it will be limited to that it will involve visiting a couple of insurance companies and general insurance company limited (IGI) to actually assess their work and the

preparation of their accounts. The researcher encounters some constrain which limited the scope of the study;

**a) AVAILABILITY OF RESEARCH MATERIAL:** The research material available to the researcher is insufficient, thereby limiting the study

**b) TIME:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

## **1.7 DEFINITION OF TERMS**

For easy understanding some operational terms in the insurance accounting are hereby defined

**REVENUS ACCOUNT:** – This is used to determine the gross profit or loss in the connection with trading result in insurance industry.

**BALAANCE SHEET:** – A summary of financial statement of affairs as at a particular date.

**CREDITOR:** – A company or an individual to whom something of monetary value is owned or indebted to.

**DEBITOR:** – A company or person who owes another something of monetary value to somebody.

**COMMISSION:** – Charges to a person who act as an agent or brother, which is normally based on premium.

**DEPRICIATION:** – The proportion of a fixed asset that is written of through were and tear in an accounting year.

**7 BROKERAGE:** – This is commission paid to broker.

**BROKER:** – A person who buys and sells share for others in the stock market.

**9. OUT STANDING CLAIM:** – A summary of unsettled claims at the end of the financial year.

**PREMIUM:** – A charge for covering risks usually based on percentage of value insured.

**UNEARNED PREMIUM:-** This is the portion of premium meant for the risk period not yet expired.

**CEDED PREMIUM:-** This is the portion of risk that is given to other insurance companies. The percentage given in form of risk will be given as premium. This is in form of Re-insurance

## **A CRITICAL REVIEW OF ACCOUNTING IN NIGERIA INSURANCE INDUSTRY**

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