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Research Paper

Insurance Burden: Risk Transfer, Risk Management and Uncertainty Management Perspective

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ABSTRACT
The main objective of this study was to appraise the influence of insurance burden from the angle of risk transfer, risk management and uncertainty management perspective as a burden bearer, using manufacturing companies in Ogun state as a case study. 200 employees and owners of manufacturing companies were sampled using Snowballing sampling technique.188 questionnaires retrieved were coded, categorized and statistically analyzed using Simple Percentage, Linear Regression and Multiple Linear Regression. Two hypotheses were structured to statistically examine how risk transfer significantly influence the uncertainty of businesses of the insured by the insurance companies and how proper application of risk management and uncertainty management have influenced business risk minimization of the insured by the insurance companies. This study concludes that risk transfer has significant impact on the uncertainty of businesses of the insured by the insurance companies. Also proper application of risk management and uncertainty management have influenced business risk minimization of the insured by the insurance companies and which means that risk transfer, risk management, and uncertainty management are beneficial for the future goal of business risk minimization and uncertainty in any organization. Based on the findings of this study it was recommended that manufacturing companies should always know the policy involvements, the type of cover they are buying and the costs attached to each before going for it. Also, the management of manufacturing companies should be trained and educated on the preventive measures necessary for each predicted risk.The management must also be ready to determine the extent to which the organization is ready to deal with the future, the analyses needed to include matters that could help the realization of business objectives (the opportunities) in addition to those that potentially hamper the objectives (the risks).

KEYWORDS: ***insurance burden, risk management, uncertainty management, risk transfer, insurance, business uncertainties***

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I. INTRODUCTION

Over the years, to increase organizational adaptability or influence and enhance product standard, manufacturing industry in general tend to focus heavily on production activities and advanced management. In contrast, most of the manufacturing sectors with exception of the food and chemical sectors put less emphasis and concentration on the management of risks (Kewley, Patterson, and Neailey, 1999). Despite the fact that project management techniques are incorporated by manufacturing industry within its operations for future profit and for product development, risk reduction or minimization is still considered an anomaly. With regards to risk management and uncertainty management, organization center principally around organization-led and/or government led regulations for safety and health. Compliance with the regulations and standards generally does not require much effort also, it is not sufficient to prevent accidents. To optimize manufacturing plant safety systems, engineer/manager of all manufacturing companies should be educated not just blindly following the regulations but change their reasoning and thinking to constantly strive to make the total system safer (Bahr, 1997). A better working environment and health in the organization can be achieved if other safety-related programs and precautionary practices such as Occupational Safety and Health are properly practiced and implemented. But, most manufacturing companies do not minimize its risks financially, operationally and/or technically, or ensure the smooth running of their organization. Due to the fluctuating patterns of global commerce, manufacturing industry has particularly enormous risks. Regardless of the average global trends in manufacturing, there can be major threats (opportunities) that emerge at the national level, and these are not dispersed equally. The governments of small countries usually seek to actively manage risks because they do not have a diversified or large manufacturing base so they are particularly sensitive. Highly industrialized countries have various forms of risks and likewise capture opportunity through active planning and seek to avert threats. It is pertinent to note that 'risk' refers to both opportunity and threat.

Risk is defined in the latest international risk-management standardas the 'effect of uncertainty on objectives' and specifically includes negative and positive outcomes, or what might more generally be termed threats and opportunities(ISO 31000, 2009). Risk can be used as an integrating factor - risk to environment (workplace), risk to life and health of employees and risk of economic losses (Labodova, 2004). However, the contemporary view of risk includes the chance of opportunity in addition to the chance of loss (Kirchsteiger, 2002). In this view, a risk situation involves potential success as well as potential loss. The greater the possible loss or profit, the greater the risk involved. Risk is the internal and external uncertainties, events, or circumstances that the company must understand and manage effectively as it executes its strategies to achieve business objectives and create shareholder value (Michael and Paul, 2006). The similarities among various definitions of risk are (Islam, 2008): (a) risk tends to have a dual meaning; the probability that a potential hazard will be realized and the probability of the harm itself, (b) risk is associated with the concept of some form of loss, (c) risk, which is always an assigned quantity, is subjective and (d) risk is a threat to organizations as it can affect the manner in which business processes are carried out. There are different types of risk an organization may face, including market risks, credit risks, health and safety risks, environmental risks, fire risks, bomb threats, computer risks, theft and fraud, industrial espionage, technical risks, kidnap and ransom, extortion, accidental and criminal risks and many more (Sadgrove, 2005). However, the subject of this research is confined to the management of risks associated with internal and external operational disturbances which can affect a manufacturing organization; these fall into three categories namely, operational, occupational and economic risk. According to them, top management plays a particularly important role in influencing perceptions that risk is or is not legitimate. Subtle cues from leaders about their preferences regarding risk can powerfully affect the risk perceptions of other decision makers. Thus, to have knowledge of the perceptions of top managers' risk behavior means to have insight into acceptable risk behavior of an organization. We, therefore, conceptualize an organization's perception of risk behavior collectively as its 'risk culture'. Risk culture thus encompasses an organization's appetite and tolerance for risk in its daily operating activities and decision-making processes (Kpodo and Agyekum, 2015).

The basic function of insurance is risk transference; risk is transferred from one party (the insured) to another party (the insurer). The transfer of risk by no means eliminates the possibility of misfortune, but the insurer provides financial security and peace of mind for the insured when the insured risk occurs. In return, an insured pays a premium in a very small amount when compared with the potential losses that may be suffered (Morton, 1999).

Insurance is one of the solutions to the problem of risk in manufacturing companies. It is the transfer of potential losses by businesses, individuals and families to an insurance pool and the redistribution of costs of losses among policy holders of the pool (Dorfman, 2008). In law and economics, insurance is a form of risk management primarily used to hedge against the risk of contingent, uncertain loss (Kelman, 2003; Owolabi, Oloyede, and Akinyede, 2017) Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. Insurance coverage is an association's first line of defense in risk management. Being underinsured can mean disaster, while duplicate coverage wastes dollars better spent elsewhere. "To the extent that a single catastrophe or lawsuit can potentially put an association out of business, insurance is a significant priority, a must-do," said, Jim Dunn. This view is supported by Valsamakis, Vivian and Du, (2005). Insurance represents an important method of meeting the financial consequences of risk. It has been traditionally defined as the business of transforming event (insurable) risks by means of two-party contract. Insurance provides a mechanism for the transfer of the cost of risk rather than the transfer of risk. Insurance contract is a contract in which a party purchases the right to be indemnified by another party for insured losses. Insurance companies are risk transformers. Insurance companies supply financial innovations to their customers that allow the insured to transform their risks (Culp, 2001). Uncertainty management was developed and has been applied considering uncertainty neutral; neither positive nor negative. Although uncertainty was viewed as neutral, researchers of uncertainty management propose that uncertainty can be utilized strategically for beneficial purposes while also acknowledging that the effects of uncertainty can be harmful, espousing an approach that requires examination of each individual situation, the parties involved, the issues at stake, and the desired objectives for determining the best method for managing uncertainty with reduction being one of the many management techniques. Uncertainty is an unavoidable aspect of everyday life. The degree to which one feels uncertain about a situation is relative to the individual. Because uncertainty is dependent upon our own perspective, a person who believes himself or herself to be uncertain is uncertain (Brashers, 2001). However, people have different appetites and tolerances for uncertainty. For some, the existence of uncertainty is stimulating or perhaps even exhilarating, whereas others can be highly motivated to reduce even the slightest degree of uncertainty.

Insurance is vital to a free enterprise economy. It protects society from the consequences of financial loss resulting from mishaps to life and property. The person seeking to transfer risk, the insured, pays a relatively small amount, called premium, to the insurer, which issues an insurance policy in which the insurer agrees to reimburse the insured for any losses covered by the policy. It is the process of spreading the risk of economic loss among as many as possible subject to the same kind of risk and is based on the laws of probability and large numbers. There are many perils that society faces, these are: earthquakes, hurricanes, tornados, flood, drought, arson, theft, fraud, vandalism, contamination, pollution, terrorism. Insurers are able to provide coverage for virtually any predictable loss. One of the smartest moves any business owner can make is having the appropriate kinds of insurance. Not only does this protect cost of business assets from risks that could very well reduce them to nothing if a catastrophe struck, it also safeguards cost of personal assets, which are often on the line, from a liability point of view (Siegel and Yacht, 2010). Organizations like manufacturing companies should consider insurance for effective risk minimization and because of business uncertainties. Saunders and Cornett (2008), also state that modern insurance companies are in the risk management and uncertainty management businesses. They discussed that insurance companies undertake risk bearing and management functions on behalf of their customers through the pooling of risks and the sale of their services as risk and uncertainty specialists. This indicates that management of risks and uncertainty should take the center stage in the operations of insurance companies. In this manner there is a need to inspect the influence of risk transfer, risk and uncertainty managements on the uncertainty of businesses and risk minimization of the insured by the insurance companies.

1.1 Statement of the Problem

Manufacturing companies are facing variety of uncertainties and new risks in business which emanate from the modern society (Arnoldi, 2009).One of the problems encountered in business is the answer to questions of uncertainties in advance. Consequently, a lot of people invest a great deal of effort into reducing uncertainty. There are two problems with this approach (uncertainty). The first is that most manufacturing companies do not understand uncertainty very well, and the second is that profitably opportunities only exist where outcomes are genuinely uncertain.Genuine uncertainty occur when Manufacturing companiesdo not know the possible outcomes in advance, let alone their probabilities and this genuine uncertainty occurs in complex systems, where lots of actors interact over time.Real opportunities for profit only exist in the face of genuine uncertainty. If they want to innovate successfully, they not only have to deal with uncertainties, they must seek it out.

Insurance is a mechanism through which firms can reduce negative financial consequences of an uncertain event or possible financial loss. Blunden and Thirlwell (2010) describe insurance as a contract of fortuity which depends on occurrence of something that is not foreseen, and over which the insured ostensibly has no control. Insurance is a financial contract, and a way of dealing with consequences of risk perceived as external (Levitas, 2005; Adams, Andersson, Andersson, and Lindmark, 2006). Pooling of risk, risk transfer, and law of large numbers are important features of insurance. Pooling of risk entails grouping of homogenous exposures to provide an accurate prediction of future losses; while risk transfer entails shifting of risk from the insured to the insurer (Mutenga and Staikouras, 2007). Insurance is a form of risk management tool. It is a suitable risk transfer mechanism for managing and underwriting risks associated with organizations operations. Risk management strategies available to manufacturing companies in the Nigerian manufacturing industry include: reduction of negative effect of risk exposures; risk avoidance; transferring of risk to another party, e.g. to insurance company; and acceptance of some or all of the consequences of risk exposures (Feridun, 2006; Ale, 2009). Consequently, insurance is a risk management strategy, suitable for managing risks in the Nigerian manufacturing industry. However, not all risks are insurable. An insurable risk refers to risk that is acceptable for insurance by an insurer. This is because insurance is limited to areas and risks where the prospects of loss can be calculated, or where the contingent cost of insurance exposure can be reasonably estimated (Jarvis, 2009). Insurability is, therefore, a litmus test for establishing risks that are acceptable by insurers for insurance purpose (Beck, 2000; Ericson and Doyle, 2004b). Generally, features of insurable risks include: the loss or outcome of adverse events insured against must be capable of being measured in financial terms; the insured must possess insurable interest, i.e. right to insure recognized at law, in the event or risk covered by the insurance; the happening of the event must be accidental in nature; the insurance contract must not be against public policy or the law; and there must be sufficient number of similar exposures (Skipper and kwon, 2007; Stein, 2007; Thoyts, 2010). The principal concern of this study was to ascertain the extent to which risk transfer, risk management and uncertainty management have significantly influenced the uncertainty of businesses and business risk minimization of the insured by the insurance companies.

1.2 Objectives of the Study

The broad objective of this study is to examine insurance burden from the angle of risk transfer, risk management and uncertainty management perspective as a burden bearer while the specific objectives are to:
** ascertain the impact of risk transfer on the uncertainty of businesses of the insured by the insurance companies
**examine the significance of risk management and uncertainty management on business risk minimizationof the insured by the insurance companies.

1.3 Research Questions

** How will risk transfer significantly influence the uncertainty of businesses of the insured by the insurance companies?
** What is the level of effectiveness of risk management and uncertainty management on business risk minimization?

1.4 Statement of Research Hypotheses

Hypothesis One

H_{01}: Risk transfer does not have significant impact on the uncertainty of businesses of the insured by the insurance companies.

Hypothesis Two

H_{02}: The effectiveness of risk and uncertainty management does not have impact on business risk minimization.

II. REVIEW OF LITERATURE

2.1 Concept, Theory and Empirical Framework

Business risk and Business risk minimization: is an umbrella term for the factors and events that can impact a company’s operational performance and income. Business risks can hinder a company's ability to provide its investors and stakeholders with expected returns. However, a company can minimize its exposure to business risk by identifying internal risks and external risksBrian, (2020).Business risk minimization cannot be mentioned without the term insurance coming into place because insurance is a universally accepted mechanism for risk management. **Insurance:** can be defined as the process of a person or persons called the insured to transfer risks which may result to loss to another called the insurer in exchange of a regular payment called the premium to indemnify the insured when loss arises during the indemnity period.

Risk management: the concept was as a result of the need for risks and treats negatively affecting human kind to be minimized and eliminated. Risk is the likelihood that hazard will cause the peril to operate and cause loss (Dall, 2010). Therefore, there is need for the adoption of planned processes and practices to reduce losses. Loss exposure is any situation or circumstance in which loss is possible to occur (Rejda, 2008). Management involves designing and maintaining individuals working together in order to achieve goals and objective (Ogedegbe, 2014).

Business uncertainty:“The only certainty is that there is nothing certain.” Nowhere is this more evident than in the ever-changing world of business. Today’s managers are faced with a bewildering array of uncertainties as their business environments change at an increasing rate. All business enterprises are inevitably subject to uncertainty, including internal and external threats arising from technical, management, operational, and commercial issues. But uncertainty can also be positive. It can lead to opportunities — opportunities that can only be exploited if they are recognized early enough. Indeed, it can be argued that business exists to take risks (avoiding threats while exploiting opportunities), since rewards can only come through successful risk-taking. This is why risk management has developed as an important weapon in managers armory. The aim of risk management is to deal with uncertainty by reducing threats and maximizing opportunities, vital requirements in today’s business world.

Risk transfer: is a risk management and control strategy that involves the contractual shifting of a pure risk from one party to another. One example is the purchase of an insurance policy, by which a specified risk of loss is passed from the policyholder to the insurer.

Insurance burden: This is interpreted to mean that the insurer bears the *burden* if there is any ambiguity in any terms of the contract.

Uncertainty: is an unavoidable aspect of everyday life. The degree to which one feels uncertain about a business (situation) is relative to the individual. Because uncertainty is dependent upon our own perspective, "a person who believes himself or herself to be uncertain is uncertain."

Uncertainty Management:represents the processes involved in seeking or avoiding information to correct reduced levels of knowledge when more knowledge is desired. In general, uncertainty management recognizes that uncertainty is managed differently based on information, uncertainty, and knowledge.

Decision theory: is concerned with calculating the consequences of uncertain decisions.This science has been present ever since Pascal came up with the idea of calculating expected value for uncertain decisionsin the 17th century. Ever since, decision theory has evolved and is now used to describe decision making processes in various fields. As risk management is concerned with making decisions to manageuncertainties and their consequencesand decision theory is concerned withevaluating choices people make, it would seemthat these two disciplines share acommon groundand are often used jointly (Versluis, 2019).

Agency Theory: This extends the analysis of the firm to include separation of ownership and control, and managerial motivation. In the field of corporate risk management agency issues have been shown to influence managerial attitudes toward risk taking and hedging (Smith and Stulz, 1985; Wang and Fan, 2011). The theory also explains a possible mismatch of interest between shareholders, management and debt holders due to asymmetries in earning distribution, which can result in the firm taking too much risk or not engaging in positive net value projects (Mayers and Smith, 1987).

Uncertainty Management Theory: Uncertainty Management Theory (UMT) was developed by Dale Brashers, an Associate Professor of Speech Communication at the University of Illinois at Urbana Champaign. Brashers died in 2010 after spending more than 20 years researching uncertainty management.This theory recognizes the various ways in which individuals can seek information to correct his/her level of knowledge, and seeks to explain why in some cases individuals seek more information about particular events, problems, or situations, and how this desire for information is managed in an ongoing process (Brashers).

Hameeda and Al Ajmi (2012) carried out a study on conventional and Islamic banks in Bahrain. The objective of the study was to find out the risk management practices of these banks. Their study found out that banks in Bahrain had a clear understanding of risk and risk management and also had efficient risk identification, risk assessment analysis, risk monitoring and credit risk analysis. In addition, they established that credit, liquidity and operational risk were the most important risks facing both conventional and Islamic banks in Bahrain. The risk management practices were determined by the extent to which managers understood risk and risk management, efficient risk identification, risk assessment analysis, risk monitoring and credit risk analysis. From the study, Islamic banks were found to be significantly different from their conventional counterparts in understanding risk and risk management. Islamic banks were found to have significantly higher risks than conventional banks.

Ogilo (2012) carried out a study that sought to establish the impact of credit risk management on financial performance of commercial banks in Kenya and to find out if there exists a relationship between the credit risk management determinants by use of CAMEL indicators and financial performance of these banks. The study used secondary data from the CBK publications. Multiple regression analysis was used for data analysis. The study found a strong impact between the CAMEL components on the financial performance of commercial banks. The study also established that capital adequacy, asset quality, management efficiency and liquidity had a weak relationship with financial performance whereas earnings had a strong relationship with financial performance.

Ongore and Kusa (2013) conducted a study on the determinants of financial performance of commercial banks in Kenya. The authors used linear multiple regression model and Generalized Least Square on panel data to estimate the parameters. They found out that the financial performance of commercial banks in Kenya was driven mainly by board and management decisions, while macroeconomic factors have insignificant contribution. They found out a weak relationship between financial performance and risk management. The empirical review is not clear on the relationship of risk management and financial performance.

This study has traced the effect of risk transfer on uncertainty of businesses with risk and uncertainty management on business risk minimization down the memory lane and has also provided a comprehensive account on the relationship among them. Various research works that have been done which is significant to this study have also been reviewed as well as the theories that serve as a guiding principle to place this study in a proper perspective.

Most scholars or authors (Hameeda and Al Ajmi, 2012; Ogilo, 2012; Ongore and Kusa, 2013) that have worked on risk transfer on business risk minimization made use of banks as case study but this present study make use of manufacturing companies. Moreover, there are contrasting findings in developed and developing countries in regarding insurance burden from the angle of risk transfer, risk management and uncertainty management perspective as a burden bearer hence a need to conduct a further research. It is from the above identified gaps that this present study is conducted to evaluate the influence of insurance burden from the angle of risk transfer, risk management and uncertainty management perspective as a burden bearer.

III. METHOD

The researcher adopted an explanatory cross sectional census in this study. Questionnaire was chosen as instrument for collecting data for this study from 200 employees of manufacturing companies in Ogun State. To ensure consistency of responses, logical completeness and reliable analysis, analysis of data was performed with SAS 9.3 (Statistical Analysis System), The research made use of inferential and descriptive statistics.

IV. DATA ANALYSIS.

Hypothesis One

H_{01}: Risk transfer does not have significant impact on the uncertainty of businesses of the insured by the insurance companies.

Table 4.1: Summary of Regression Analysis of Risk transfer on uncertainty of businesses of the insured by the insurance companies[a]						Model Summary[b]	
Variable	Label	Parameter Estimate	Standard Error	t Value	Pr > |t|		
Intercept	Intercept	0.51014	0.05618	9.08	<.0001	R-Square	0.7901
	Risk transfer	0.64524	0.02439	26.46	<.0001	Adj R-Square	0.7890

a. Predictor: (Constant), Risk transfer.

b. Dependent Variable: Uncertainty of businesses of the insured.

Table 4.1 reveals the impact of risk transfer on the uncertainty of businesses of the insured by the insurance companies; it shows that risk transfer has 79.01 percent effect onthe uncertainty of businesses of the insured by the insurance companies while the remaining 20.99 percent is explained by other exogenous variables that are excluded in the model.

As depicted in Table 4.1, the estimates of the model coefficients for β_0 (Intercept) is 0.51014, and β_1 (Risk transfer) is 0.64524. Therefore, the estimated model between Risk transfer and the uncertainty of businesses of the insured by the insurance companies is presented thus:

Uncertainty of businesses of the insured = 0.51014 + 0.64524 (Risk transfer).

This regression equation shows that 0.51014 is the average value of uncertainty of businesses of the insured by the insurance companies when risk transfer is not considered; it is evident that risk transfer has 64.52% influences on the uncertainty of businesses of the insured by the insurance companies. Table 4.1 reveals that risk transfer has positive effect on the uncertainty of businesses of the insured by the insurance companies.Since t-calculated = 26.46> t-tabulated = 1.97266270. The researcher rejects the null hypothesis.In conclusion, the results of the regression confirm with 95% confidence that "risk transfer has significant impact on the uncertainty of businesses of the insured by the insurance companies".

Hypothesis Two

H_{02}: The effectiveness of risk and uncertainty management does not have impact on business risk minimization.

Table 4.2: Summary of Regression Analysis of Risk Management and Uncertainty Management on Business Risk Minimization[a]			
Root MSE	0.25277	R-Square	0.9363
Dependent Mean	2.23404	Adj R-Sq	0.9357
Coeff Var	11.31460		

Table 4.2 depicts the relationship between the independent variables (risk management and uncertainty management) and business risk minimization; it indicates that 93.63 percent of variance in business risk minimization is explained by risk management and uncertainty management. Consequently, this means that other factors not studied in this research explain 6.37 percent of business risk minimization. The adjusted R^2 of 0.9357 means the explanatory power of the independent variables is considerably high.

Table 4.3: Analysis of Variance					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	2	173.88170	86.94085	1360.70	<.0001
Error	185	11.82043	0.06389		
Corrected Total	187	185.70213			

Dependent Variable: Business Risk Minimization.

Predictors: Risk Management and Uncertainty Management.

Since F calculated = 1360.70 > F tabulated = 3.04477057 it suffices to reject the null hypothesis.

In conclusion, the results of the regression confirm with 95% confidence that "effectiveness of risk and uncertainty management have impact on business risk minimization.

V. CONCLUSION

Risk minimization and uncertainty of business should be handled with all seriousness by every manufacturing company since manufacturing industry is one of the subsectors that is most lucrative in almost all countries' economy. This study conducted a qualitative analysis ofinsurance burden from the angle of risk transfer, risk management and uncertainty management perspective as a burden bearer using manufacturing companies in Ogun State as a case study in order to find out how to improve the effectiveness of risk minimization and uncertainties on manufacturing companies in Nigeria. Through extensive literature review, concept of insurance and risk were identified. According to the literature reviewed, manufacturing industries are influenced positively by appropriate risk handling. This study concluded that insurance risk transfer with risk and uncertainty managements are beneficial for the future goal of manufacturing firms. As a medium of managing risks, manufacturing companies have reasons for embarking on uncertainties and risk minimization through insurance. To ensure the success of any business operations a good risk and uncertainty management strategy is necessary. An effective uncertainty and risk management strategy is imperative for any business entity; a business entity without an effective uncertainty and risk management strategy is restricting its opportunity to expand the business and jeopardizing its operations.

VI. RECOMMENDATION

Based on the researcher's findings of insurance as a burden bearer from the angle of risk transfer, risk management and uncertainty management perspective, the researcher hereby makes the following suggestions to manufacturing companies:

** The type of cover any manufacturing companies will buy should be known by them, the costs attached to each cover and the policy involvements should be understood before going for it.

**A fertile environment should be created by insurance industries for the insurance policy buyers; this can be done by developing a new type of relationship to restore the individual's confidence.

** Putting the nature of manufacturing companies into consideration, insurance products should be provided to specifically cater for the needs of manufacturing companies. So, that insurance will be more attractive and thereby serve its purpose to protect manufacturing companies.

** Because of the problem of exemption of some geographical environments which is due to high risk occurrence or inherent, insurance covers should be provided for every geographical area to solve its problem.

** The management of manufacturing companies should prepare the mind of their staff about likelihood of risk also they should be educated and trained on the preventive measures necessary for each predicted risk.

** Risk of negligence should be avoided by manufacturing companies, since risk of negligence can cause more severe loss to manufacturing companies, they should always protect themselves from it.

** The management must be ready to determine the extent to which the organization is ready to deal with the future, the analyses needed to include matters that could help the realization of business objectives (the opportunities) in addition to those that potentially hamper the objectives (the risks).

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