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EXAMINING THE CONSEQUENCES OF NON-COMPLIANCE TO BUILDING INSURANCE VALUATION (BIV) AND INSURANCE POLICY IN SELECTED UNIVERSITIES.

Njungbwen, Ernest[1] and Oke, Abimbola Adeoluwa[2]

[1]Department of Estate Management, Faculty of Environmental Studies, University of Uyo,

Corresponding Author's email: njungbwenernest@gmail.com; and Telephone number: 08033534001

[2]Department of Architecture, Faculty of Environmental Studies, University of Uyo,

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ABSTRACT

The non - compliance of staff in the Universities and Estate Surveyors and Valuers practicing in and around these universities to Building Insurance Valuation were sought. The specific objectives of this paper were to ascertain the extent of compliance by the selected universities to insurance policies of public buildings, valuation of the public buildings which are found in the Nigerian University system for insurance purpose. The survey design was used to collect the experienced opinion of estate surveyors and staff of asset and insurance units of some Universities on the compliance to BIV with the use of questionnaires. Data collected for the study was processed through the Statistical Packages for the Social Science (SPSS) and analysed using both descriptive and inferential statistics such as mean score, relative importance index, and Mann-Whitney U test in order to answer the research questions and the formulated hypotheses. The respondents agreed that Loss of property (Ranked 1st), Retardation of investment (Ranked 1st), and Loss of life (Ranked 3rd) are the major impacts that the non-compliance to BIV policy had on the universities.

Key words: Compliance, Building Insurance, Valuation, Building Insurance Valuation (BIV), Nigerian Universities

INTRODUCTION

Nigeria, according to Ogunba (2013), is that valuation exercise has some costing inputs which can be conveniently handled or taken care of by estate surveyors and valuers by mere consultation with the quantity surveyor or the use of building cost indexes. Insured value of the building together with other items is to be carried out by the professional estate valuer. Different categories of assets are to be classified under different groupings based on their vulnerability or

susceptibility to fire hazards. This will normally assist the insurer in risk management assessment and in the determination of premium (Taiwo 2003).

The importance of the study is based on the fact that there has been little or no BIV exposure among the various stakeholders in Nigeria which could be traced to the seeming lack of knowledge of its operating mechanism (Wilson, 2004). Other pertinent issues such as failure of the government to fully implement the BIV Laws, low patronage of the general public in both life and non-life insurance policy in the country, agitation among the professionals in the building industry of whose function it really was to carry out BIV and so on. There is need for proper awareness of BIV in Nigeria Universities, hence this research work seek to assess the knowledge which would enhance awareness in the full implementation of BIV in the study areas and other higher institutions in Nigeria.

Statement of Research Problem

There are many and giant university buildings in the Nigeria University Campuses purposely built for lecture halls, laboratories, library, bookshop, conference centres, administrative offices, information and communication technology (ICT), auditorium, cafeteria, shopping mall, health centre, studios and others. Over the years some of the buildings have suffered from fire outbreaks and other disasters be it man or artificial. Most of these university buildings are specialised purpose buildings constructed to aid educational activities. Also colossal amount of money have been expended in the development and general maintenance of these buildings.

Any time fire disaster takes place, the university suffers loss of life (sometimes) and properties worth millions of naira. Typical examples of universities that have suffered from fire disaster in the country include university of Uyo, Akwa Ibom State that had experienced three incidences of ravaging fire outbreak between years 2013-2015. The first fire disaster occurred on June 12,

2013 and three buildings were affected (the Vice Chancellor's Office and a section of the Offices of the Deputy Vice Chancellor Administration and the Registrar, the entire building hosting the offices of the DVC Academic, Director of Academic Planning, the building hosting Student Record and Senate Secretariat in the town Campus). The second fire disaster occurred on January 10, 2015 also in Town Campus, where the building hosting the Home Management Unit of the Department of Human Ecology, Nutrition and Dietetics was completely razed with all equipment, furniture and personal effects of Students and staff who use the facility was lost in the fire while the most recent fire disaster occurred on January 10, 2015 in a wing of the female students' hostel (WI) in the Town Campus Annexe, where one room was completely razed and two adjacent rooms seriously impacted with massive loss of personal effects of the occupants. University of Jos, plateau State which its fire disaster occurred on October 8, 2016. The library at the permanent site (Naraguta) campus as well as six departments of the faculties of management science and social science was burnt down by fire. Federal university of Technology Minna, Niger State, also had fire disaster that razed down the Community Radio Station of the institution in January, 2013 and others.

The Nigerian Insurance Act of 2003 section 65 (1) of insurance act states as follows: "Every public building shall be insured with a registered insurer against the hazards of collapse, fire, earthquake, storm and flood". This Act mandates all public properties to be adequately covered by insurance. But there are pertinent issues that needed to be resolved as regards the valuation of these government-owned properties for insurance purpose. For example, the average clause in insurance policy clears the insurer of any responsibility of excess payment coming from underinsurance. In addition, over-insurance which may occur due to insurance valuation will lead to over payment of annual premium by the insured. These two scenarios make it complex for adequate insurance value to be arrived at, by the professional Estate Surveyors and Valuers (Salau 2014). It is understood that before the public building or property is insured with a

registered insurer, insurance valuation should have been carried out on the property. There is dearth of information concerning the awareness on insurance policies of public buildings, awareness of valuation of the public buildings which are found in the Nigerian University system for insurance purpose. Thus, it is very important for this research to be carried out to establish whether Building Insurance Valuation (BIV) has been carried out in the public buildings in the Nigerian Universities, whether the buildings have been insured with registered insurers, whether the universities and valuation professionals are aware of the various roles they have to play to ensure the buildings are insured and have they played their role, the functionality of the policy, that is to establish if actually the university did insure the buildings. It is in view of these that the research "An assessment of the awareness of building insurance valuation (BIV) in Nigerian Universities" has become necessary. What is the state of awareness of Building Insurance Valuation (BIV) in the selected universities by staff and the professionals in the study area?

LITERATURE REVIEW

The Concept of BIV

According to Araba (1993), insurance valuation being a subject requires careful consideration before advice is given to a client. It goes beyond cost and value, as there are other vital requirements that need to be put into consideration in its preparation. For instance, these requirements to be considered provide such answers that will meet with some questions like, what is to be insured. What risk or perils can be covered? What provision the policy of insurance contains? And what the basis of insurance should be? According to Ogunba (2013), the method of insurance valuation is essentially replacement cost but there are some variations in the type of replacement cost, depending on the alternative bases adopted. The variations come from an examination of the basic difference between re-instatement value and indemnity as bases of valuation.

1. Indemnity claims are based on depreciated replacement cost. Reinstatement claims are based on under depreciated cost since the objective is to put the property owner in a condition equal to but not better than the condition of a new.

2. Indemnity claims are in respect of the value of the property as at the time immediately before the fire incident occurred whereas re-instatement goes further to cover the inflation in replacement costs up to the time of re-construction. This means that, for re-instatement, it is possible to receive additional claims for inflation from the time of loss to the end of rebuilding.

3. Indemnity is usually paid in cash but re-instatement claims must be authorized on orders for replacement equipment or on proof of expenditure.

4. Indemnity has no restriction in the way the money is spent. In re-instatement, there are restrictions. Usually, the replacement is restricted to the cost of building and the architects and other fees he is only entitled to a claim on indemnity basis.

It is the duty of valuer to determine the basis of valuation very clearly in order to arrive at the sum insured. This is always reflected in the insurance policy drawn by the parties.

Under reinstatement basis, the cost of rebuilding in a condition equal to but not better or more elaborate than its condition when new is assessed. The compensation here is known as new for old.

The calculation on such basis is stated below:

The replacement cost new	xxx
Cost of removal of debris	xxx
Architects fees	xxx
Plan approval charges	xxx
Insurance value	xxx

Data on construction of comparable buildings in the form of unit cost of construction is always being obtained from professional quantity surveyor. Application of such N/M2 to the external dimension area will give replacement cost new in practice. Architect fees, debris removal cost and plan approval charges etc can be obtained at various related offices (Ogunba, 2013).

Indemnity basis is the underlying principles of insurance which states that the insurer undertakes to place the insured after a loss in as nearly as possible the state he/she was prior to the loss by paying monetary compensation or partial repairs. Indemnity basis involves the cost of rebuilding less depreciation. That is, depreciated replacement cost method is adopted excluding the land value. The depreciation allowance under indemnity policy is based on the considered professional opinion of the valuer. For instance when a building which worth N40 million is insured for 30 million and the building is completely destroyed by fire, the liability of the insurer here is.

$$\frac{\text{Sum insured at the time of loss}}{\text{Reinstatement at the reinstatement value}} \times \text{loss}$$

i.e $\frac{\text{N30m}}{\text{N40m}} \times \frac{\text{N30m}}{1} =$ N22.5m

The penalty for under insurance is shown above, the insured will be compensated for the sum of N22.5 million as against N30 million he/she insured for. This is the consequence of insuring below N40 million which would have been the reinstatement value.

In the above example, if the owner insured the same building for N50 million. The over – insurance will be reflected as follows:

$$\frac{\text{N40m}}{\text{N50m}} \times \frac{\text{N50m}}{1} = \text{N40 million}$$

In case of fire outbreak and compete destruction, the insured will be paid N40 million, rather than N50 million of which his/her premium was actually based (Salue, 2011).

The insured value is being used by insurer to determine the periodic premium payable by the insured. Professional estate valuer is to be engaged to determine the accurate insured value in order to forestall the problem of under or over insurance being experienced in practice.

Benefits of BIV

Undertaking an insurance valuation for both private and public estate has some potential because it helps to ascertain the actual economic worth of a property at definite point in time. According to Bolwidt (1997), the two primary benefits goals of insurance valuation of building are:

a. To estimate the value of the fixed assets, real- and personal property, and to determine the amount of insurance for the value at risk. Valuation reports provide a detail record of the property defined by location, building, floor, room, department and or cost centre. Included is a comprehensive description of each asset, installed and operational. All data can be entered into computerised data based programs, to facilitate periodic upgrades.
b. To have value immediately at hand to serve as guides in the event of a loss. At the time of a loss the appraiser can provide necessary data for a documented proof of loss statement. Standard insurance contracts order that the insured is responsible for the proof of loss. Without loss substantiation and further settlement of the claim, there is no value to insurance protection.

In general, Dinley (n.d) outlined the major benefits of (BIV). They include; in a situation where a serious loss occurs, the accurate sum insured will be established thereby ensuring that no financial penalty is incurred.

a. Insurance valuation exercise encompasses an on-site valuation in the first year followed by desk updates that should be provided for the next four years. With this arrangement, subsequent on-site revaluation can be carried out to ensure accurate sums insured is maintained and the initial insurance valuation fees should be compared reconciled with the current economic realities on ground to the protection provided throughout the complete five years period.

b. It will help the client to easily adapt and comply with any sudden change in the Industrial Special Risk Policy wording. For example, the previous changes to the (ISRP) wording make insurance valuations essential especially where a client has more one location.

c. It helps to provide accurate records that will be establishing required evidence both to existence and value of building coverage.

d. Valuations are the evidence of the existence of an asset (building), for insurance underwriters and adjusters so in the event of loss occurring, a professional valuation practice can prepare a detailed claim as soon as possible and at a reduced cost, using the valuation reports and the Valuer's field note. Also additional bases of valuation can be carried simultaneously with an insurance valuation at a minimum cost, for example, market value for the existing use for financial accounting purposes, market value for sale of surplus building.

e. It guarantees an independent professional valuation which protects the personal responsibilities of Directors and officers in an organisation. A professional, experienced valuation practice should provide uniform valuation methods avoiding inconsistencies in valuation opinion, approach and presentation.

f. It helps to discourage erosion of capital from incorrect sums insured. And also, eliminate co-insurance penalties.

According to Bolwidt (1997), building insurance valuation (BIV) helps in the identification of specific areas of high value for estimating Maximum Probable Loss (MPL), Probable Maximum Loss (PML) and Estimated Maximum Loss (EML). Also that it can help in the verification of physical building.

Other benefits of insurance valuation is that is addresses the issue of premium to the advantage of both the insured and the insurer in the insurance contract. It helps to arrive at a fair premium for the profitability and continuity of the business. Also, it prevents under-insurance and ensures steady availability of funds for settling claims for the insured, while it is a basis for advocating full value insurance and to discourage under-insurance for the insurer. Given all the above benefits of insurance valuation, undermining its practice will lead to economic waste, because it is a special concept that touches both the social and economic development of any nation. Unfortunately, and despite these potentials, the move to adopt building insurance valuation (BIV) in Nigeria's private and public sector estate development has been very slow. The few estate professionals that tend to embrace this practice rarely perceive it as a worthwhile strategy for sustainable estate development. The situation appears to worsen in academic institutions even with recorded occurrences of disastrous fire outbreak in Nigerian Universities and Colleges.

The Consequences of BIV Non-Compliance

There are a few studies on the subject. Enu, Osei-Gyimah, Aboagye, Atta-Obeng (2013) studied benefits of fire insurance and consequences of noncompliance in Dansoman community, Ghana to determine the level of public awareness of insurance benefits and to identify the reasons for non- compliance with fire insurance policies. Convenience sampling technique was used in the collection of data. The study indicated that electrical faults, carelessness, improper use of LPG gas and illegal connections cause fire outbreaks. Most Ghanaians do not comply with fire insurance policy; hence they do not know the benefit of fire insurance policy. Ghanaians do not

comply with fire insurance policy due to inadequate education on fire insurance policies and their benefits, insurance companies not being reliable, lack of enforcement of the Insurance Act 2006, Act 724 section 184, and lack of interest in the fire insurance policy. Also the economy experiences unemployment, loss of property, loss of lives, decreases in output and low level of investment whenever there are fire outbreaks. The study revealed that the majority of Ghanaians are not aware of the Insurance Policy Act and its associated benefits. It is recommended that active education about the benefits of insurance and strict enforcement procedures should be followed.

The consequences of BIV non-compliance in one of the study areas in this research was clearly stated by Idaerefagha Allison on the information recently published on the university of Jos website on November 2, 2016 termed UNIJOS: Fire Incidence Impacted on 2016 admission process by the Vice Chancellor who disclosed that the fire incident had affected the on-going admission exercise in some departments as well as the institution's November accreditation activities. He further stated that the library at the permanent site Naraguta campus as well as six departments of the faculties of management science and social science was burnt down by fire. Valuable books and other expensive library and office facilities were burnt completely.

Olaleye and Adegoke (2009) researched into Homeowners' perception of insurance of real estate development in Lagos, Nigeria. The purpose of this paper was to examine the views held of property insurance by homeowners in Ire-Akari and Ikeja areas of Lagos State in Nigeria. It was also discovered that homeowners' attitude was influenced by the poor service culture of insurance companies and crime in the insurance industry. Most property owners both individual and private would prefer to live their buildings uninsured even with full knowledge of the huge consequences and penalties of non-compliance to building insurance policy.

Hofstead (1995) points out that the level of insurance within an economy depends on the national

culture and the willingness of individuals to use insurance as a means of dealing with risk. Another social aspect analyzed by Zelizer (1979) is religion. He noted that historically, religion has provided a strong source of cultural opposition to life insurance with some religious groups believing that a reliance on insurance represents a distrust of

God‘s protective care. This had also extended to building insurance and other non-life insurance policy.

From the Nigerian Bureau of Statistics (NBS) rebased GDP breakdown, Nigeria's insurance penetration was 0.39% in 2013, down from 0.48% in 2010, due to faster GDP growth. When compared with the average for Africa, which according to SwissReSigma, was 3.6% in 2011, there is still ample room for improvement. With gross premium written in Nigeria in 2013 at N314.95 billion ($1.93 billion), we expect this figure to reach N1 trillion ($6.13 billion) by 2019. This represents a CAGR of 21% over 6 years, which is typical of a developing market where premium growth outpaces GDP growth. Consequently, we expect insurance penetration to increase from 0.38% in 2012 to 0.9% in 2019 (rebased GDP growing by 5%, over the next 5 years). Even with this projection, insurance penetration is still low compare with the average of Africa. Even with this projection, that shows increase in GDP over the next 5 years. It still did not have much impact on the economy of Nigeria.

Akanlagm (2011) studied on promoting customer satisfaction in the insurance industry in Ghana, using selected insurance companies in the tamale metropolis to examine customer satisfaction levels among clients’ of insurance companies and the strategies companies have in place to achieve customer satisfaction in the Tamale Metropolis. The method used to collect data were questionnaire and interview schedules from insurance policy holders and branch managers of insurance companies respectively, analysis were through Statistical Product and Services Solutions (SPSS) software that described the variables and presented clear information, for easy

interpretation of results. The study showed that customers' expectations have not been adequately met. Customers expect a high level of service delivery from insurance companies. Granting of discounts, continuous training of staff and the use of ICT are prominent strategies companies use to promote customer satisfaction. Recommendation offered by the study is that insurance companies should aim at building durable teams. Various units and departments of the organizations should work as a team with a focus to satisfy customers. Companies should automate their processes to shorten the time that clients spend trying to purchase insurance or make claims.

RESEARCH METHODS

The survey design was used to collect the experienced opinion of estate surveyors and staff of asset and insurance units of some Universities on the non- compliance to BIV in some Nigerian Universities. Whenever the primary data is sourced from the views and perceptions of members of a particular/selected group, a survey becomes necessary (Ohaja, 2003). Hence this research design helped the researcher to empirically analyse the respondents' opinion on the focus theme.

The study was carried out in Plateau and Akwa Ibom States, Nigeria. These were the states where the federal universities under consideration were located. University of Uyo having experienced three or more incidences of ravaging fire outbreak between years 2013 - till date made choosing the institutions for this kind of study to be a rational decision.

The population of this study was the staff of the asset and insurance unit, heads of physical planning department, works department, board of survey, general administration directorate and the Universities guest house and director of the housing Unit in the Universities of Uyo and Jos. It was also made up of the registered estate surveyors and valuers in Universities of Uyo and Jos respectively. The distributions of the respondents were as shown on table 1 below.

Table.1: Population and Sample Size

Universities Professional Dep't/Unit	University of Uyo	University of Jos	Total Population
Physical Planning	1	1	2
Works	1	1	2
Board of Survey	1	1	2
General Administration/ Guest House	1	1	2
Staff Housing	-	1	1
Insurance unit	4	8	12
Total	8	13	**21**

(Source: Directories of the Selected Universities' Professional Department/Unit)

In addition, the registered Estate surveyors and valuers in Akwa Ibom and Plateau States formed the other part of the population frame which made use of the quantitative form of research only. According to the directories of the Nigerian Institution of Estate Surveyors and Valuers in the two selected study area, they were eighty four (84) and twenty one (21) registered Estate surveyors and valuers in Akwa Ibom and Plateau States, respectively. The addition of these two numbers was equal to one hundred and five (105) as sample size.

The study was carried out using the total enumeration sampling technique. Questionnaire was used as instrument for data collection. The questionnaire was structured into five (5) sections with forty-five (45) items. It used a five-point Likert scale for measurement of perceptions ranging from "very weak" to "very strong" and "strongly disagree" to "strongly agree", "very low" to "very high". The rating to be used was based on a numerical scale of 5 for highest and 1 for lowest. Section "A" addressed the demographic data of the respondents; section "B" dealt with variables on the of awareness of building insurance valuation (BIV). Hence, the number of questionnaire self-administered on the respondents was one hundred and twenty-six (126)

Data collected for the study was processed through the Statistical Packages for the Social Science (SPSS) and analysed using both descriptive and inferential statistics such as mean score, relative importance index, and Mann-Whitney U test in order to answer the research questions and the formulated hypotheses. The Relative Importance Index (R.I.I) technique was such that If R.I < 0.60, it indicates low frequency in use; 0.60 ≤ R.I. < 0.80, it indicates high frequency in use; R.I. ≥ 0.80, it indicates a very high frequency in use.

RESULT AND DISCUSSION

The Impacts of Non-Compliance to BIV on the Universities

Table 1 outlined the result on the impacts of non-compliance to BIV on the universities by the respondents. The Table showed that the respondents agreed that Loss of property (Ranked 1st), Retardation of investment (Ranked 1st), and Loss of life (Ranked 3rd) are the major impacts that the non-compliance to BIV policy had on the universities. The result also showed that since the variables - Unemployment, Increase in students' fees, and Decrease in capital value scored below the 0.60 R.I.I score, the respondents did not agree that they had impacts on the university system.

Table 1: The impacts of non-compliance to BIV on the universities

BIV Non-Compliance Impacts	SA 5	A 4	U 3	D 2	SD 1	Tt*	M.S*	R.I.I	Rank
Loss of property	3	13	1	4	0	21	3.71	0.74	1
Retardation of investment	1	16	1	3	0	21	3.71	0.74	1
Loss of life	1	14	1	5	0	21	3.52	0.70	3
Breakdown of academic activities	0	14	3	4	0	21	3.48	0.69	4
Increase in yearly capital budgets of the institution	2	8	7	3	1	21	3.33	0.67	5
Unemployment	1	7	7	2	4	21	2.95	0.59	6
Increase in students' fees	1	3	9	8	0	21	2.86	0.57	7
Decrease in capital value	0	1	13	4	3	21	2.57	0.51	8

*Tt: Total; M.S: Mean Score; R.I.I: Relative Importance Index
(Source: Author's Survey, 2018)

The study on the impacts of BIV non - compliance among some key staff in the selected Universities in Nigerian Universities system revealed that there was compliance to BIV and the respondents agreed that Loss of property and Retardation of investment and Loss of life were the major impacts that the non-compliance to BIV policy had on the universities. This was in agreement with the study by Enu, Osei-Gyimah, Aboagye, Atta-Obeng (2013) in Ghana where the economy experiences unemployment, loss of property, loss of lives, decreases in output and low level of investment whenever there were fire outbreaks for non - compliance to BIV. The result also showed that the variables - Unemployment, Increase in students' fees, and Decrease in capital value scored below the 0.60 R.I.I score, which meant that the respondents did not agree that they were impacts on the university system. This was the opinion of the respondents in the selected universities as there was dearth of empirical studies of BIV in an academic environment.

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