Claims Settlement Efficiency, Cost Management and Profitability Nexus in the Selected Listed Insurers: Evidence from Nigeria

SHONUBI Temitope Grace[1]., DR SALAU, Adeyemi Nurudeen[2]., Prof. TELLA, Adeniran Rahmon Adeniran[3]., and Dr. DANSU Sewhenu Francis[4]

[1](MIVA Open University, Abuja, shonubitemitope6@gmail.com)

[2](Department of Business Administration, Faculty of Management Sciences, Lagos State University, Ojo, Lagos State, Nigeria, adeyemi.salau@lasu.edu.ng, ORCID: 0000-0001-8837-4418)

[3](Department of Business Administration, Faculty of Arts, Social & Management Sciences, Atiba University, Oyo, Oyo State, Nigeria, Email: adenirantella@gmail.com, ORCID: 0009-0007-7113-4822)

[4](Department of Insurance, Faculty of Management Sciences, Lagos State University, Ojo, Lagos State, Nigeria, francis.dansu@lasu.edu.ng, ORCID: 0000-0003-3171-0462)

***Correspondence Author**

DOI: https://doi.org/10.51584/IJRIAS.2026.11070171

Received: 02 August 2026; Accepted: 08 August 2026; Published: 18 August 2026

ABSTRACT

Efficiency in claims settlement is a critical operational skill in the insurance industry, impacting customer satisfaction, claims handling, trust and confidence, and the financial well-being of insurance providers. The Nigerian insurance industry is still plagued by issues of slow claims processing, low insurance penetration and low public trust despite its relevance. This study focuses on the impact of claims settlement efficiency on cost management and financial performance of some selected Nigerian insurance companies. In particular, it focuses on the relationship between claims settlement efficiency and indicators of underwriting cost (loss ratio and expense ratio) and profitability (return on assets, return on equity, and net profit margin). The study adopts the ex-post facto design with the Nigerian Exchange Group (NGX) listed 10 insurance companies from 2014 to 2023. The data collected from audited annual financial reports were analysed using panel regression techniques, while the estimation models were determined using Hausman specification tests and robust standard errors were used to solve econometric problems. The result indicates that claims settlement efficiency is significantly negatively related to loss ratio ($\beta = -0.319$, $p < 0.001$), which means that the efficiency of claims settlement would positively influence the cost efficiency in underwriting. The higher expense ratio ($\beta = 0.227$, $p = 0.013$) indicates that higher administrative inputs are required to process claims timely and effectively. Furthermore, none of the claims settlement efficiency measures had a significant impact on ROA, ROE or net profit margin, indicating that operational improvements do not automatically translate to profit improvements. The study contributes to insurance management literature by revealing that efficiency in claims settlement is more of an operational capability than a direct profit-maximising effort and that it contributes to the enhancement of cost efficiency. The results offer practical implications for insurance managers and regulators regarding the trade-off between the quality of services and cost-control measures to enhance the efficiency of the claims process, as well as the inclusion of claims efficiency benchmarks in insurance supervision frameworks.

Keywords: Claims Settlement Efficiency, Cost Management, Profitability, Panel Data, Nigerian Insurance Industry, IFRS 17.

JEL Codes: G22, G32, L25

ISSN No. 2454-6194 | DOI: 10.51584/IJRIAS |Volume XI Issue VII July 2026

INTRODUCTION

Insurance is an economic tool for transferring risks, protecting businesses and households from financial losses, and encouraging investments and economic stability. However, the credibility and sustainability of insurance companies rely heavily on their capacity to effectively, accurately and promptly process claims. Efficiency in claims settlement is an integral part of the insurance service delivery and impacts customer satisfaction, operational cost, corporate image, and financial outcomes. Late or questionable claims erode trust in the policy and decrease the demand for insurance, while inefficient claims management raises underwriting expenses, litigation costs and reserves for insurers, which diminishes their profitability (Eling & Lehmann, 2021; OECD, 2024). In response to this, insurance companies are keen to enhance the efficiency of claims settlement in a fiercely competitive and highly regulated market.

The insurance sector is in a state of transformation across the globe, as digital technologies, artificial intelligence, climate risks, changing customer expectations and regulatory changes influence the industry. The most significant of these changes is the adoption of International Financial Reporting Standard (IFRS) 17, which has dramatically altered the way insurance contracts are measured and reported, thereby providing a new, consistent framework for valuing and reporting insurance contracts and introducing transparency in the recognition of insurance liabilities. The new reporting framework will mandate insurers to improve the quality of their claims estimation, reserve calculations, and how they operate efficiently because the obligations to pay claims now have a more direct impact on the insurer's financial performance (IFRS Foundation, 2023). As a result, claims settlement efficiency has moved beyond its operational role and now plays a role in financial reporting quality, cost management and corporate sustainability.

The growth of these developments has led to increased academic interest in the performance of insurers and claims management. Recent research has shown that effective claims management can lower operational costs, boost underwriting profitability, foster customer satisfaction and loyalty, and maximize insurers' competitive edge (Alhassan & Biekpe, 2022; Asongu et al., 2023). Digital claims processing, predictive analytics and fraud detection technology have further enhanced claims processing in many developed insurance markets. However, insurance providers in many emerging markets are still facing extended settlement durations, under-provision of claims reserves, claims fraud and poor operational controls, which negatively impact profitability and financial sustainability.

Nigeria is a particularly relevant context for such issues. Though Nigeria is a very populous and growing financial market, the penetration of the insurance industry in terms of percentage of Gross Domestic Product (GDP) is among the lowest in the world (NAICOM, 2024). Persistent issues in the industry include delayed claims settlement, low public trust, low insurance awareness and rising operational costs. These barriers restrict the growth of the industry and of insurers' investment funds in the long term. Furthermore, the introduction of NAICOM's recapitalisation programme and the adoption of IFRS 17 have increased the regulatory burden on areas such as solvency, financial reporting transparency and claims management effectiveness. In such a dynamic regulatory landscape, insurance providers face the challenge of striking the right balance between timely claims resolution and cost management to ensure financial sustainability.

The effectiveness of claims settlement is correlated with profitability since claims cost is the most important part of underwriting expenses. Effective claims management helps to accurately assess losses, minimise fraudulent claims, control administrative and legal expenditure and optimise resources. On the other hand, a mismanaged claims process raises loss ratios, increases operating costs, reduces profitability of invested assets and diminishes shareholder value. Therefore, analyzing a company's efficiency in settling claims using only one financial measure of performance does not provide a complete assessment of insurers' operational efficiency.

Despite extensive studies on the performance of insurance companies, important gaps exist in the current literature. The most common studies conducted internationally include capital adequacy/strength, corporate governance, investment management, enterprise risk management, and underwriting performance, while claims settlement efficiency as a direct driver of profitability and cost management has received relatively little attention (Eling & Lehmann, 2021; Alhassan & Biekpe, 2022). In Nigeria, the majority of empirical studies have focused on premium growth, underwriting performance, firm size, liquidity and corporate governance, and neglected to

pay adequate attention to the operational efficiency of claims settlement. Furthermore, the effects of claims settlement efficiency are often captured through single profitability measures, cross-sectional research designs or relatively short time periods of analysis.

Another constraint is the constantly evolving regulations. Most Nigerian studies were conducted before the implementation of IFRS 17 and the recent recapitalisation reforms introduced by NAICOM. Therefore, the results of the previous research might not be enough to represent the current working environment, where the insurance companies have to comply with more stringent reporting standards, higher solvency expectations, and more pressure to achieve operational efficiency. Moreover, there is limited research that discusses both profitability indicators (Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM)) and underwriting cost management indicators (Loss Ratio (LR), Expense Ratio (ER)) together. Such a financial analysis can provide a clearer picture of the financial performance and efficiency of insurers.

According to the theoretical part of the present study, the Agency Theory states that whenever there is effective monitoring and efficient resource utilization, the agency costs will be reduced and the performance of the organization will be improved (Jensen & Meckling, 1976). Information asymmetry can be reduced, managerial accountability can be increased, and financial discipline can be improved, all of which can increase profitability, by processing claims efficiently. Additionally, this study uses the Stakeholder Theory, which highlights the legitimate expectations of the key stakeholders of organisations, including policyholders, regulators, investors and employees (Freeman et al., 2020). Quick and fair claims settlement is critical to establishing trust with stakeholders, preserving the brand reputation and long-term financial sustainability.

In this context, the effect of claims settlement efficiency on the cost management and profitability of selected insurance companies in Nigeria was investigated empirically in this study, which utilized panel data from 2014-2023. Specifically, it helps to understand how the efficiency of claims settlement affects Return on Assets, Return on Equity, Net Profit Margin, Loss Ratio and Expense Ratio. This study bridges relevant gaps in knowledge, methodology and context in the literature by incorporating profitability and underwriting cost management in a single analytical context under the current IFRS 17 regulatory framework. The results will offer meaningful information to insurance managers, regulators, investors, and insurance regulators for operational effectiveness, financial stability, and public trust in the insurance sector in Nigeria.

LITERATURE REVIEW

Conceptual Review

Claims Settlement Efficiency

Claims settlement efficiency is an insurer's capacity to process, investigate, and pay valid claims in an efficient, timely, accurate, equitable and cost-effective manner. It is one of the most important metrics for operational excellence, as it shows how well insurers are meeting their contractual obligations and keeping themselves financially disciplined. In contrast, delays or disputes in claims settlement affect public confidence, limit insurance penetration, weaken corporate reputation, increase litigation costs, and negatively impact policyholder satisfaction, while efficient claims settlement boosts public confidence and increases insurance penetration (Eling & Lehmann, 2021; OECD, 2024). Efficiency of claims settlement is often measured quantitatively by the claims settlement ratio, which is the ratio of claims paid to the number of claims on which settlement is possible. Qualitatively, it refers to the timeliness, transparency and fairness of the claims process. The IFRS 17 reporting framework introduces a new approach to measuring claims liabilities, which involves current estimates of future cash flows and risk-adjusted discount rates, providing greater transparency and financial significance with respect to claims management (IFRS Foundation, 2023). As a result, inefficient claims processing has direct impact on the reserve adequacy, solvency, and profitability of an insurer. Recent research confirms that claims-handling and fast settlement processes have evolved into strategic competencies that make insurers better positioned to withstand financial challenges and gain a competitive edge in a highly regulated insurance landscape (Eling & Lehmann, 2021; PwC, 2024), with claims costs identified as the key driver of underwriting performance by Harrington and Niehaus (2004).

ISSN No. 2454-6194 | DOI: 10.51584/IJRIAS |Volume XI Issue VII July 2026

Profitability Measurement in Insurance

Profitability is a key measure of the financial strength and sustainability of an insurance provider, demonstrating their capacity to generate sufficient profits from underwriting and investment operations while meeting the needs of policyholders and shareholders. Profitability in the insurance sector isn't just about premiums; it's also about the effective processing of claims and the management of operational expenses. Insurers with efficient claims processing have a higher likelihood of maximising the use of resources, avoiding unnecessary claims-related costs, and securing better financial outcomes (Eling & Lehmann, 2021; OECD, 2024). Hence, this study assumes efficiency of claims settlement as an important measure of operations for profitability.

In order to investigate this correlation, three different measures are used to assess profitability: Return on Assets (ROA), Return on Equity (ROE) and Net Profit Margin (NPM). Return on Assets (ROA) is a ratio that shows the efficiency with which an insurer uses its overall assets to earn profits and is an indicator of management's ability to allocate corporate resources. Efficient claims settlement is anticipated to lower claims processing costs and boost asset utilization, ultimately leading to higher ROA. This proposition is reflected in the first hypothesis:

H_{01}: **Claims settlement efficiency does not have a significant effect on the Return on Assets (ROA) of selected Nigerian insurance companies.**

Return on Equity (ROE) reflects the return earned on shareholders' investments and how management generates value for shareholders. Efficient claims settlement is expected to yield better returns for shareholders through a reduction in unnecessary claims cost, decreased litigation cost, and enhanced underwriting performance (Alhassan & Biekpe, 2022). This relationship provides the basis for the second hypothesis:

H_{02}: **Claims settlement efficiency does not have a significant effect on the Return on Equity (ROE) of selected Nigerian insurance companies.**

Net Profit Margin (NPM) is the ratio of net income to total income after claims costs, operating expenses and taxes have been deducted. Claims settlement efficiency improvements are likely to result in net profitability gains for insurers as claims costs form a significant part of the cost structure. The IFRS 17 reporting framework will lead to greater transparency in the recognition of insurance liabilities, further enhancing the linkage between the claims management practices and the profitability reported by the entity (IFRS Foundation, 2023). Based on this, the third hypothesis is formulated as follows:

H_{03}: **Claims settlement efficiency does not have a significant effect on the Net Profit Margin (NPM) of selected Nigerian insurance companies**.

Collectively, ROA, ROE, and NPM provide a comprehensive assessment of insurers' profitability by evaluating managerial efficiency, shareholder value creation, and overall earnings performance. Their co-application allows a comprehensive assessment of the relationship between claims settlement efficiency and the financial sustainability of insurance companies in Nigeria.

Cost Management in Insurance

Cost management is an important factor in the financial sustainability of insurance companies as it involves handling underwriting and operating costs efficiently while settling claims promptly. Insurance companies face high production costs for claims payments, commissions, policy acquisition, underwriting and administration, whereas manufacturing firms have high production costs. Of these, claims expenses represent the largest portion of the underwriting cost, and claims settlement efficiency is a key strategic lever for managing costs and underwriting performance (Harrington & Niehaus, 2004). Efficient claims settlement will limit fraudulent claims, lower litigation and administrative expenses, ensure the financial stability of insurers, and improve reserve adequacy, while inefficient claims settlement will raise underwriting expenses and compromise the financial stability of insurers (Eling & Lehmann, 2021).

This study measures cost management using two widely accepted underwriting performance indicators: Loss Ratio (LR) and Expense Ratio (ER). The Loss Ratio represents the percentage of earned premiums that are being

used to pay the claims, and is related to the effectiveness of underwriting, risk selection and claims management. Insurers with efficient claims settlement processes are likely to have lower loss ratios because of the effective assessment of claims, quick detection of fraud, and appropriate provisioning. Therefore, the following hypothesis is proposed:

H_{04}: Claims settlement efficiency does not have a significant effect on the Loss Ratio of selected Nigerian insurance companies.

The Expense Ratio reflects underwriting and administrative costs against written premiums and reflects an insurer's efficiency in handling business. Faster claims settlement minimizes claim processing time, legal costs, expense ratios, administrative burden and claim handling delays, enhancing operational efficiency and expense ratios (OECD, 2024). The National Insurance Commission (NAICOM, 2024) reported that claims-related spending remains a large share of insurers' operating expenses in Nigeria, underscoring the critical role of claims management in managing underwriting expenses. In addition, the adoption of IFRS 17 has made insurance liabilities more transparent, which has placed great emphasis on efficient claims administration to ensure cost discipline and financial sustainability (IFRS Foundation, 2023). Based on this, the following hypothesis is made:

H_{05}: Claims settlement efficiency does not have a significant effect on the Expense Ratio of selected Nigerian insurance companies.

The loss ratio and expense ratio give an overall idea of insurers' cost management, since it reflects the efficiency of claims administration and operational spending. Their inclusion allows this study to assess if the efficiency of claims settlement translates into better underwriting performance and financial sustainability for selected insurance companies in Nigeria.

THEORETICAL REVIEW

Efficiency Theory

Efficiency Theory, as proposed by Farrell (1957) and developed by Leibenstein (1966) by introducing the notion of X-efficiency, suggests that firms perform better if they are able to use resources efficiently and have less waste in their operations. The theory differentiates between technical and allocative efficiency, focusing on the efficient use of resources to produce maximum output. In the insurance industry, Cummins and Zi (1998) showed that efficient insurers have better financial performance, and Eling and Luhnen (2010) showed that efficient insurers have lower claims costs and higher profitability. More recently, Eling and Lehmann (2021) highlighted the advantages of digital claims management in terms of operational efficiency and financial resilience. The theory is applicable in this study because claims settlement is the biggest underwriting activity that affects insurers' cost structure. Therefore, it is anticipated that efficient claims settlement would help to lower loss and expense ratios, enhance ROA, ROE and Net Profit Margin, and enhance the financial sustainability of Nigerian insurance companies.

Agency Theory

Jensen and Meckling (1976) created Agency Theory to explain the conflicts that can occur where managers (agents) manage organizational resources on behalf of shareholders (principals). Information asymmetry and self-interest frequently lead to information wars that can lead to agency costs that limit organizational efficiency. Information asymmetry was first recognized by Arrow (1963) in insurance markets and can lead to delayed or inefficient claims settlement, as shown by Dionne and Doherty (1994). More recently, Cummins, Rubio-Misas, and Vencappa (2017) highlighted the importance of good governance and disclosure practices to mitigate agency problems and enhance insurer efficiency. Agency Theory is significant because it helps to understand how governance mechanisms enable accountability and prudent use of resources. According to the study, efficient claims settlement will be considered a governance outcome, which will involve minimization of agency cost, improvement of internal control, underwriting efficiency, ROA, ROE, Net Profit Margin, Loss Ratio or Expense Ratio for Nigerian insurance companies.

ISSN No. 2454-6194 | DOI: 10.51584/IJRIAS |Volume XI Issue VII July 2026

Resource-Based View (RBV)

The Resource-Based View (RBV) is a theory proposed by Barney (1991) that suggests that firms can gain sustainable competitive advantage by owning and utilizing valuable, rare, inimitable and non-substitutable (VRIN) resources and capabilities. The theory focused on internal organizational strengths as determinants of superior performance that was moving the focus from external industry conditions. According to Barney (1991), resources like technology capabilities, managerial skills, knowledge, and operational processes can help firms generate value and maintain competitive advantages over time. Claims settlement efficiency is considered a key organizational ability in the insurance sector as it demonstrates the efficiency and effectiveness of the internal processes, human skills, information systems, and risk management. This theory is pertinent to this study because it indicates that the effective management of claims has the potential to boost operational efficiency, cut underwriting inefficiencies, increase customer satisfaction, and produce better financial results if combined with various other strategic assets.

Stakeholder Theory

Freeman (1984) proposed the Stakeholder Theory, which states that organizations can create sustainable value by meeting the interests of all the stakeholders, such as customers, shareholders, regulators, employees, and society. In support of the theory, Donaldson and Preston (1995) stressed that stakeholder management can improve the legitimacy and long-term success of the organization. More recently, Freeman, Phillips and Sisodia (2020) asserted that a firm that values stakeholder relationships can gain a better reputation, increased customer loyalty, and financial benefits. In the insurance business, policyholders consider efficient claims settlement as the most successful implementation of what is known as an insurance contract. Hence, the timely, equitable and transparent claims settlement enhances customer trust, aids regulatory compliance and boosts the company's reputation. This theory is relevant to the present study because efficient claims settlement improves stakeholder confidence, which translates to better profitability (ROA, ROE, Net Profit Margin) and cost control (Loss Ratio, Expense Ratio) of insurance companies in Nigeria, and consequently, the sustainability of insurance companies in the long run.

METHODOLOGY

The research type used in this study is an ex-post facto research type because this type of research uses financial data that have been reviewed in the form of annual reports without manipulation of the study variables. The population comprises insurance companies listed on the Nigerian Exchange Group (NGX) as of December 2023. Purposive sampling technique was used to select the firms that satisfied the following requirements: continuous listing for 2014–2023, annual reports with audits, active underwriting operations, and sufficient disclosure of information on claims. From this universe, ten insurance companies were chosen for further analysis, resulting in a cross-section of 100 firm-year observations. The study covers the period 2014-2023, encompassing pre-COVID growth, COVID impact, post-COVID recovery and the initial reporting period of IFRS 17. The data were obtained from audited annual reports, NGX filings, NAICOM publications and reports from the Nigerian Insurers Association. The collected data were analysed using panel regression techniques. To select the estimating model, descriptive statistics, correlation analysis, multicollinearity tests, and Hausman specification tests were carried out. To account for the empirical findings, the regression analysis also controlled for within-group effects and time effects to account for firm-specific and time effects.

RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive statistics of the study variables are given in Table 1. The sampled insurance companies achieved a high Claims Settlement Ratio (CSR) of 92.99% in the period of study and settled a high proportion of their reported claims. The mean Loss Ratios (LR) and Expense Ratios (ER) were 52.66% and 64.59%, respectively, and the underwriting activities alone were not sufficient to make a profit. Average values of ROA, ROE and NPM are 4.98%, 13.43% and 9.21%, respectively. Standard deviations are high for most of the variables,

ISSN No. 2454-6194 | DOI: 10.51584/IJRIAS |Volume XI Issue VII July 2026

indicating a high variability among the sampled insurance companies in terms of their operational efficiency and financial performance.

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Minimum	Maximum
CSR (%)	92.99	29.34	28.03	236.14
LR (%)	52.66	26.00	18.20	158.08
ER (%)	64.59	28.86	9.25	152.02
ROA (%)	4.98	5.56	-13.96	17.39
ROE (%)	13.43	17.38	-45.86	117.64
NPM (%)	9.21	11.76	-31.84	55.47
SIZE	18.22	2.02	15.54	23.99
LEV	0.569	0.207	0.144	0.888
PGR (%)	18.90	18.30	-40.78	87.92

Source: Authors' Computation (2026).

Correlation Analysis

Table 2 reports the Pearson correlation coefficients among the explanatory variables. The correlation among the variables is found to be low, with the maximum pairwise correlation of 0.254 between Firm Size and Leverage. None of the coefficients is close to the typical cutoff of 0.80, indicating preliminary evidence against multicollinearity affecting the regression estimates.

Table 2: Correlation Matrix

Variables	CSR	SIZE	LEV	PGR
CSR	1.000	-0.020	0.009	-0.168
SIZE	-0.020	1.000	0.254	-0.022
LEV	0.009	0.254	1.000	-0.133
PGR	-0.168	-0.022	-0.133	1.000

Source: Authors' Computation (2026).

Multicollinearity Test

Table 3 indicates that all the Variance Inflation Factor (VIF) values are well below the threshold value of 5. The mean VIF value of 1.06 shows that there is no strong evidence of multicollinearity among the explanatory variables and that the estimated coefficients are reliable.

Table 3: Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
CSR	1.03	0.971
SIZE	1.07	0.935
LEV	1.09	0.919
PGR	1.05	0.955
Mean VIF	**1.06**	

Source: Authors' Computation (2026).

Model Selection and Diagnostic Tests

The Hausman specification test was applied to identify the best panel estimator for every regression model. The findings show that the Random Effects estimator is suitable for the Loss Ratio, Expense Ratio and Return on

Equity models, and the Fixed Effects estimator is better for the Return on Assets and Net Profit Margin models. In addition, the diagnostic tests showed heteroscedasticity and partial serial correlation. To support robust statistical inference, Driscoll–Kraay robust standard errors were used for the fixed-effects models, while cluster-robust standard errors were used for the random-effects models.

Table 4: Hausman Test and Model Selection

Dependent Variable	Hausman χ^2	p-value	Selected Model
Loss Ratio	6.62	0.1246	Random Effects
Expense Ratio	0.00	1.0000	Random Effects
Return on Assets	31.87	0.0000	Fixed Effects
Return on Equity	6.40	0.1688	Random Effects
Net Profit Margin	11.86	0.0182	Fixed Effects

Source: Authors' Computation (2026).

Panel Regression Results

Table 5 gives the results of the panel regressions. Loss Ratio ($\beta = -0.319$, $p < 0.01$) has a statistically significant negative relationship with Claims Settlement Ratio, indicating that efficient claims settlement contributes to improving the performance of the company on the side of underwriting by reducing claim losses. However, Expense Ratio has a positive relationship with Claims Settlement Ratio ($\beta = 0.227$, $p < 0.05$), indicating that improving claims management can increase operating expenses. However, the efficiency of claims settlement does not have a statistically significant impact on return on assets, return on equity, or net profit margin. The explanatory power of the models varies from 7.5% for ROA to 65.5 % for Loss Ratio. Generally, the results show that efficiency in claims settlement mainly affects the operational efficiency of the listed companies in the insurance industry in Nigeria and not the accounting profitability.

Table 5: Panel Regression Results

Variables	LR	ER	ROA	ROE	NPM
CSR	-0.319***	0.227**	0.022	0.034	0.061
SIZE	2.988***	3.574***	0.733	0.024	1.137
LEV	53.528*	-32.615	-17.507	16.125	-68.356***
PGR	-0.152	-0.383***	-0.007	0.045	-0.066
Model	RE	RE	FE	RE	FE
Model Statistic	Wald χ^2 = 212.944***	Wald χ^2 = 200.901***	F = 1.323	Wald χ^2 = 87.277***	F = 3.682***
R^2	0.655	0.483	0.075	0.302	0.143
Observations	90	90	90	90	90

Notes: ***p < 0.01, **p < 0.05, *p < 0.10.

Source: Authors' Computation (2026).

DISCUSSION OF FINDINGS

The results of this study showed that efficiency in claims settlement has no statistically significant effect on Return on Assets (ROA), Return on Equity (ROE) and Net Profit Margin (NPM) of the selected Nigerian insurance companies. This indicates that fast claims processing is a vital business process but is not enough to improve profitability. The interplay between underwriting performance, investment income, capital position, reinsurance, asset allocation, compliance and macroeconomic variables all influence insurance companies' financial outcomes. Therefore, the efficiency improvements in claims settlement processes may not necessarily result in higher accounting returns, especially in the case of emerging insurance markets where investment earnings can play a significant role in the total accounting earnings. This is consistent with recent studies that have asserted that management efficiency is not the only factor contributing to insurer profitability, meaning that insurer profitability is multidimensional (Boadi et al., 2022; Kwon & Wolfrom, 2023).

ISSN No. 2454-6194 | DOI: 10.51584/IJRIAS |Volume XI Issue VII July 2026

Theoretically, the result is only a partial validation of the Resource Based View (RBV). The RBV implies that valuable organizational capabilities can only result in sustainable competitive advantage if they are effectively leveraged with complementary strategic resources (Barney, 1991). While claims settlement efficiency is an operational capability, the results of the present study indicate that it is not sufficient on its own as a strategic resource for increasing the profitability of a firm. Instead, its financial rewards are likely to be realized when it is supported by better underwriting, investment management, risk governance and capital allocation. The low level of correlation with ROA, ROE and NPM further indicates that operational excellence in claims settlement is not solely a value creation tool but more of an ingredient of a process that creates value.

Conversely, claims settlement efficiency shows a statistically significant negative impact on the Loss Ratio, which means that better claims settlement processes contribute to lower underwriting losses. Insurers who are able to streamline, validate and close valid claims efficiently and on time are more likely to reduce claims leakage, make fewer fraudulent claims, improve claims monitoring and implement more underwriting discipline. This leads to improved claims handling efficiency, which positively affects underwriting performance and overall operational efficiency. This conclusion is consistent with the results of recent empirical studies by Elamer et al. (2023), which found that effective claims management results in improved underwriting outcomes, and the OECD (2024), which identified effective claims administration as an important factor contributing to insurance operational resilience and sustainability.

This finding aligns with the Resource-Based View, which considers the efficient administration of claims, information systems, and human expertise as strategic resources which can give operational advantages to the organization. Faster claims settlement helps build customer confidence, boosts organisational reputation, minimises operating inefficiencies, enhances risk management decision-making, and results in better underwriting outcomes. The high reduction in the Loss Ratio therefore illustrates how claims settlement efficiency becomes a valuable capability of the organization to generate operational value rather than immediate monetary value.

The study also finds that the efficiency of claims settlement is positively and statistically significant to the Expense Ratio. While this may seem counterintuitive, it underscores the reality that efficient, timely, and effective claims settlement frequently demands considerable resources, such as trained staff, digital claims systems, fraud alerts and detection tools, legal expertise, customer support, regulatory compliance, etc. While these investments have short-term operating cost implications, they can create longer-term strategic benefits, including better customer satisfaction, higher policyholder retention, greater corporate reputation and improved market competitiveness. These findings are echoed in the latest insurance industry literature, where digitisation and improvements to service quality were found to drive up administrative costs during rollout, but boost customer satisfaction and operational efficiency (PwC, 2024; Deloitte, 2023).

The results indicate that efficiency in claims settlement has a greater impact on operational performance than on financial profit. Specifically, underwriting efficiency (measured in terms of the Loss Ratio) is its best use value, though it may be at the expense of increased operating costs during the initial stages. The lack of significant impact on profitability measures suggests that insurance companies need to enhance efficient claims processing along with effective investment management, sound underwriting practices, well-developed risk management processes, and strategic capital deployment to maintain sustainable profitability. The results provide an additional contribution to the existing insurance management literature, since it shows that claims settlement efficiency is mainly an operational capability that reinforces the organization's competitiveness and underwriting performance, and that the financial benefits are likely to be indirect over time, given the growth of customer confidence, the reputation of the market, and the strengthening of the organization's resilience.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The results obtained from this study show that efficiency in claims settlement positively affects the operational performance of the insurance companies in Nigeria, but not necessarily the profitability of the insurance firms. In particular, efficiency in claims settlement reduces the loss ratio, a measure of underwriting efficiency and is

ISSN No. 2454-6194 | DOI: 10.51584/IJRIAS |Volume XI Issue VII July 2026

consistent with the Resource-Based View that posits that operational capability can create a competitive advantage by increasing internal efficiency. The positive effects on the expense ratio show that claims that are settled quickly and effectively will incur more administrative and operational expenses (a trade-off between service quality and costs).

The lack of effects on the ROA, ROE and NPM suggests that claims settlement efficiency alone is not enough to increase profitability, as the profitability of an insurance company relies on investment returns, capital structure, underwriting decisions and the overall market condition. The findings also highlight the importance of firm-specific characteristics (firm size and leverage) in relation to financial consequences. The study concludes that 'claims settlement efficiency' shouldn't be interpreted as a means of making a short-term profit, but rather as a strategic operational capability that enhances underwriting performance, increases customer confidence and is a long-term competitive tool.

Recommendations

Based on the findings of this study, the following recommendations are proposed:

1. Insurers need to invest in claims settlement processes, such as claims management software, employee training, and fraud detection tools, to improve efficiency and reduce costs in underwriting.

2. Administrative costs of claims processing should be continually tracked and compared to find the best balance so that improvements made in claims settlement efficiency do not lead to undue operating costs.

3. NAICOM should consider including claims settlement efficiency measures in its supervisory regime and encourage industry-wide implementation of settlement best practices that facilitate the rapid and transparent settlement of claims and build consumer confidence in the insurance industry.

4. To enhance long-term sustainability and profitability, insurance companies should focus on reinforcing their capital bases and risk management strategies, including ensuring adequate leverage ratios and optimal underwriting practices.

5. Further research could broaden the scope to incorporate the post-IFRS 17 reporting period and include other variables like corporate governance, digital transformation and investment performance that could contribute to the link between claims settlement efficiency and financial outcomes.

Contribution to Knowledge

This study makes a meaningful contribution to the existing literature on insurance and financial performance because it offers firm-level panel evidence of the impact of claims settlement efficiency of the listed insurance firms in Nigeria in the period under study (2014-2023). It gives further advancement in methodology by applying powerful panel estimation methods, using the Hausman test and robust standard errors techniques for model selection. The study also shows that the efficiency of claims settlement affects the operational efficiency of an insurance company by lowering its loss ratio and consequently raising its expense ratio, thus presenting an important trade-off that was not considered in the previous studies. Moreover, it offers up-to-date information applicable to Nigeria's current regulatory landscape, including IFRS 17, and the implementation of the recapitalisation reforms by NAICOM.

REFERENCES

1. Alhassan, A. L., & Biekpe, N. (2022). Corporate governance, risk management and financial performance of insurance firms: Evidence from emerging markets. The Journal of Risk Finance, 23(4), 412–429.
2. Arrow, K. J. (1963). Uncertainty and the welfare economics of medical care. American Economic Review, 53(5), 941–973.
3. Asongu, S. A., Nnanna, J., & Acha-Anyi, P. N. (2023). Financial sector efficiency and sustainable development in emerging economies. Finance Research Letters, 56, 104107.

4. Barney, J. (1991). Firm resources and sustained competitive advantage. Journal of Management, 17(1), 99–120.
5. Bassey, F. A., Ankoh, U. E., & Ekanem, B. C. (2024). An analysis of claims settlement and insurance companies' profitability in Nigeria (1981–2022). AKSU Journal of Administration and Corporate Governance, 4(2), 1–12. https://doi.org/10.61090/aksujacog.2024.016
6. Boadi, E. K., Antwi, S., & Lartey, V. C. (2022). Determinants of financial performance of insurance companies: Evidence from emerging markets. Cogent Economics & Finance, 10(1), 1–18.
7. Cummins, J. D., & Zi, H. (1998). Comparison of frontier efficiency methods: An application to the US life insurance industry. Journal of Productivity Analysis, 10(2), 131–152. https://doi.org/10.1023/A:1021825422574
8. Cummins, J. D., Rubio-Misas, M., & Vencappa, D. (2017). Competition, efficiency and soundness in European life insurance markets. Journal of Financial Stability, 28, 66–78.
9. Deloitte. (2023). 2023 Global Insurance Outlook. Deloitte Insights.
10. Dionne, G., & Doherty, N. A. (1994). Adverse selection, commitment, and renegotiation: Extension to and evidence from insurance markets. Journal of Political Economy, 102(2), 209–235. https://doi.org/10.1086/261931
11. Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. Academy of Management Review, 20(1), 65–91.
12. Elamer, A. A., Ntim, C. G., Abdou, H., & Zalata, A. M. (2023). Risk management, operational efficiency and firm performance in the insurance industry. The Geneva Papers on Risk and Insurance – Issues and Practice, 48(2), 255–281.
13. Eling, M., & Lehmann, M. (2021). The impact of digitalization on the insurance value chain and the insurability of risks. The Geneva Papers on Risk and Insurance—Issues and Practice, 46(3), 359–396.
14. Eling, M., & Luhnen, M. (2010). Efficiency in the international insurance industry: A cross-country comparison. Journal of Banking & Finance, 34(7), 1497–1509. https://doi.org/10.1016/j.jbankfin.2009.08.026
15. Farrell, M. J. (1957). The measurement of productive efficiency. Journal of the Royal Statistical Society: Series A, 120(3), 253–290. https://doi.org/10.2307/2343100
16. Freeman, R. E. (1984). Strategic management: A stakeholder approach. Pitman.
17. Freeman, R. E., Phillips, R., & Sisodia, R. (2020). Tensions in stakeholder theory. Business & Society, 59(2), 213–231.
18. Harrington, S. E., & Niehaus, G. R. (2004). Risk management and insurance (2nd ed.). McGraw-Hill.
19. Hausman, J. A. (1978). Specification tests in econometrics. Econometrica, 46(6), 1251–1271. https://doi.org/10.2307/1913827
20. IFRS Foundation. (2023). IFRS 17 Insurance Contracts. IFRS Foundation.
21. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X
22. Kwon, W. J., & Wolfrom, M. (2023). Insurance and climate-related financial risks. OECD Publishing.
23. Leibenstein, H. (1966). Allocative efficiency vs. "X-efficiency." American Economic Review, 56(3), 392–415.
24. National Insurance Commission. (2024). 2024 Annual Report and Insurance Industry Market Performance Report. NAICOM.
25. Organisation for Economic Co-operation and Development. (2024). Insurance and private pensions outlook 2024. OECD Publishing.
26. PwC. (2024). Global Insurance Trends 2024: Transforming claims management through digital innovation. PricewaterhouseCoopers.