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Evaluation of the Approval of 2.1b Naira Equity Share Capital to Royal Exchange Insurance: Analysis Insurance Policy.

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Abstract

This paper examines the implications of the approval to raise N2.1b equity share capital to Royal Exchange insurance company in Nigeria by the commission. It Evaluate its implication to the customers, Insurance Company, competitors and employees. It also reviewed some related literature and made some findings, which include that the equity share approval is not in favour of the company,. We recommend the company should embrace fundamental restructure of the administrative, financial and management apparatus by injecting competent, credible, innovative and specialist personnel to handle the management of the company, to avoid future request for another approval.

Keywords: Equity, share capital, Fund, innovative, Insurance.

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Introduction

Royal Exchange Insurance Company is an insurance company that is licensed to offer life and non-life insurance, African financial (2008), Royal exchange Insurance (2022). The company started operation in Nigeria represented by Barclays Bank DCO in 1918 as branch of Royal Exchange London.

The company was elected to split its operation into life and general business in (2007) recapitalization. It is also one of the few insurance company in Nigeria that secured an oil and gas treaty .Treaty is the agreement between the insurer and the reinsurance company stating the type or classes of business that the reinsurer will accept from the insurer (Chukwudi 2018), Ezekwe, jimoh and Ezenwa (2012).

The Royal Exchange General Insurance Company has an authorized share capital of #5.3678b made up of 5.367b ordinary share of #1each and issue paid up capital of 5.367B. as at December 31, 2018. The share capital holder funds stand at #8.8858 with total assets of #23.31b Royal Exchange Insurance (2022).

Royal Exchange Insurance upon recording the company success also has its negative or failure records that have posed as lot of challenges to the company's goals and achievements. Ebere (2016) stated that the insurance industry in the face of economic recession plaguing business in Nigeria is faced with two critical challenges, the challenges of huge claims as a result of climate change and economic recession. Chris (2011) opined that there is a lot of crisis going on in the system, crisis over corruption, crisis of non-payment of claims, crisis of poor awareness creation and so on. All these crises and challenges have affected the company for years and left the company with no option than to look for alternative means of surviving and reviving the industry's financial strength by having a good financial structure. Bhutta & Hasan (2013) contends that financial structure is an instrument that concern itself on decision making about component of both capital and short term financing. In other for the company to have a good financial strength and structure hence the request to raise N2.1b equity capital, which was approved through rights subjected to regulatory approvals for the rejuvenation and revival of the company. That subject to obtaining the approval of the regulatory authorities, the directors of the company (the directors) are hereby authorized to raise equity capital of #20161,055,431 (Two billion, one hundred and six-one million, fifty five thousand, four hundred and thirty one naira only) by way of issuing to existing shareholders 3,087,222,044 ordinary share of 50 kobo each on the basis of the three (3) new ordinary shares for every five (5) ordinary shareholder in the company (Rights issue) on such other terms and condition as the director may deem fit to determine that the provisionally allotted share be offered to existing shareholders at a price of 70 kobo per share (Modester 2022).

The Importance of Equity share capital to the company

Running Business requires a great deal of capital Fisher (1904p.393) cited in English source of 1730, 1750 and 1759 that all capital are sum of money advanced by a trading company or the money which merchants first brings into trade on his own account, capital takes different forms, from human and labour capital to economic capital. They are two forms of capital that company can use to fund operation; debt capital and equity. Claire (2022) stated that equity capital is generated through the sales of shares of company stock rather than through borrowing. Equity finance is the process of raising capital through the sales of shares, Caroline (2022). Equity comes inform of cash in exchange for company ownership, usually through stock selling. Royal exchange insurance company considered equity share capital as the best option for rejuvenating and reviving the company because of the followings:

- Raising of capital: Equity capital is one of the means through which organization raise capital from the general public by selling of share. Such funds raise proves effective at time when the company is faced with restrictions to keep its regular operation active.
- Permanent capital: - Equity Share holders provide the permanent funds of a company. There is no fixed commitment to return money or that predetermined rate of which divided will be pay.
- High Credit Stand: The amount of equity share in the capital structure determines the credit worthiness of the company. Credit worthiness is improved when an organization has more equity share capital.

- Huge Fund: By issuing of equity share a company can raise a huge amount of fund because the denomination of equity share is very small, people from all income groups can invest in equity share capital. The company can mobilize huge funds from investors belonging to different income groups.
- Lower Risk: Raising capital through equity share capital have much lower risk to the business, the shareholder cannot force the business to pay interest on shares as been demanded by creditors or bank loans. The shareholders cannot force a company to bankrupt if it fails to make profit unlike creditors if the company fails to pay interest.
- Flexibility of Investment: The money raised through sales of shares can be used by company however it wants. Therefore are no stipulations or requirement attached to the funds.

Empirical Review

Dudycz (2021) constructed a research on the impact of share capital on company performance and accounting information. The research was conducted on a sample of initial public offering (IPO) companies debating on the war saw stock exchange. The result shows that a large percentage of share capital in equity reduces capital flexibility but can also be a signal to improve company's market performance. The study concluded that after an IPO, the market information efficiency diminished, which means, among others things, that Pre IPO accounting information has a negligible impact on the companies market performance. The research was conducted on a sample of IPO companies debuting on the war saw stock exchange.

Jeong-Bin (2013) examined the relation between financial development and cost of equity capital in Chinese domestic listed firms. The finding of the study show that (i) stock market development in general reduces the cost of equity, consistent with it role in equity provision, information, asymmetry reduction and risk diversification helping to reduce systematic risk.

Banking development only weaken and with the pervasive state of Ownership in large Chinese banks and low banking competition constraining their efficiency. The study concluded that the relation between stock market development and cost of equity is more pronounced in region with lower accounting quality, weaker law enforcement, or lower market integration and in period prior to split share structure reform.

Study by Ashraf (2022) on the raising capital amid economic policy uncertainty, investigating three step sequential frame work over a sample of 6834 publicly listed U.S non-financial firms. The result found out that during periods of high economic uncertainty, firms raise capital more frequent with a preference toward debt financing. The empirical finding suggest that firms prefer debt financing over equity financing to avoid ownership dilution and high equity premier.

Paul (1982) on the choice between equity and debt capital using the security unissued by UK companies between 1959 and 1974 focused on how companies select financing instrument at a given point of time. The result indicate that companies are heavenly influenced by market conditions and the past history of security prices in choosing between debt and equity. The study concluded that the result are consistent with the motion that those target debt levels are themselves a function of the company size, bankruptcy and asset position.

The Implications of the approval of 2.1b to Royal Exchange Insurance Company on its customers

The implications are as follows

i. Diversification of attention: Selling of equity share has time implication. Because of it short target, the shareholders need to be up to date with the information. Inquiring from the company manager and executives the extent of the equity sales and other relevant matters attached to it. Struggling to provide constant update information to the interested parties will make the company focus their business activities on issues surrounding sales of equity share and less attention to the customer's needs and wants.

ii. Greater choice for the customer: The company can offer more value added service to their customer as they have ample resources to provide a wide range of service to the customers .But the customer may be neglected because of multiple streams of works placed on the desk of the employees or workers, who strive to coordinate and complete their daily task.

iii. Higher Liability: The company may neglect and delay claim settlements and other customers' needs as a result of issuing a huge number of share to the public in other to raise fund, this will lead to the chances of gaining large number of investors that will be a burdened to the company when trying to pay a greater bulk returns as dividend to the shareholders.

iv. Discount Benefits: The funds raised through selling of shares will help the company to be able to offer discount on purchase, sale lower price against other competitor's price to their customers

v. Proper management personnel's: By raising funds the company can afford to employ more specialists to assist in the planning coordinating and managing the business activities and functions better and also provides the customer with efficient and effective services.

The implications of the approval of #2.1b to Royal Exchange Insurance Company competitors.

The implication of approval of 2.1b on competitors can result to the following

i. Negative effect on smaller Insurance Company: The huge fund that will be raised by offering equity share to the public, will help the company to diversify and develop the business, these will result to gaining more customer and smaller industries, may find it difficult to compete with them.

ii. Low price- Other competitors that may want to remain in business, will be force to reduce price and allow discount to their customers. Also some of the competitor may initiate good motivational tools to encourage their workers to work harder in other to maintain the standard in the market.

iii. Impact on the decision of other insurance company: This may make other insurance company to copy from the Royal exchange insurance mode of operations. Copping them may likely affect the company decision making, goals and objectives and also change the company narratives unprepared.

iv. It may result to unhealthy Competition:- Some of the competitors may try to destroy the company good reputation, causing direct financial loss or simple sabotaging, the business by using the company name to perpetrate or committee claim that is against public acceptance.

v. Pressure to improve: The smaller insurance company may be force to improve their business; by improving good and quality customer service efficiency and effective management that will assist them to maintain the market standard.

The implications of the approval to raise N2.1b equity capital by Royal Exchange Insurance Company on the employee

The implications on employee are as follows:

i. Financial security: The approval to raise 2.1b equity share capital by Royal exchange insurance will help the company to have enough cash flow to keep the salaries or monthly payment and other entitlements of the employee assured. Though, the employee will be face with a lot of challenging task in order to ensure that the company goals and objective is achieved.

ii. Tedious task for the employee: The employees in the company are the people that are helping the company to achieve the goals and objectives. They have to work harder to ensure that customers are not neglected, make sure that the company market the products make profit on daily basis to meet up with the demands of shareholders.

iii. Little time for themselves: Becaue of the changes in the company as new shareholder will be allowed to join. New ideas and instructions will be stream lined, given the employee little time to take care of themselves and love ones, as for many of them may be working over-time in order to clear the desk for new works.

iv. Multiple directives: Continues issuing of directive restrict the initiative of the employee and make them to struggle in coping with creative job function in the company. Raising share capital may lead to different resolution by the chief executive and this may also increase the ordering about by the executives.

Critical evaluation on the approval to raise N2.1b equity share capital by Royal Exchange Insurance Company

The Report by Felix Kuye on 14 February, 2023 on the guardian Newspaper stated that the Royal Exchange plc, has been authorized by shareholders to raise equity share capital of N2.1b for rejuvenation and revival of the company.

The question remains

i. What are the problems that lead to financial crisis of Royal exchange plc Is selling of equity share capital by the company the best option to rejuvenate and revive the company

ii. What are best ways for the Royal Exchange plc to approach, its problems for effective and efficient operation of the company.

The approval to raise fund through equity share capital by Royal Exchange Insurance Company signifies that the industry is undergoing, financial, management and administrative challenge. It also indicate that the company is indebted, have outstanding claims settlement and other financial crisis that is negatively affecting the organizational goal. Considering the approval to sell equity share capital as the best option for to raise fund may look good to the company, because equity share capital does not attract fixed repayment requirement which need to be made at specific interval and for specific amount like debt repayment. But instead shareholders are rewarded for their investment through dividend normally paid annually or as agreed by the company. Also on the other hand equity share capital have some negative aspect that may affect the company operation negatively.

They include the following;

i. Reduce Ownership: Selling equity share capital by the company is effectively taken to selling of tiny pieces of its ownership and control. As a small shareholder in the firm, an equity investor has opportunity to use their voting right to influence the company's policies. Also with their voting right, they can remove the current leadership and bring in new leader of their choice.

ii. Hostile takeover: Competitors of the company can indirectly acquire the majority of the voting share and put obstacle for management by manipulating and organizing themselves to liquidate the company.

iii. Higher rate of returns: for the fact that shareholders take more risk than creditors in the event of the company going bankrupt, shareholders expect a higher rate of returns on investment than creditors, therefore the company typically losses more stock for a lower price to shareholders to compensate them for the risk.

iv. Cost implication: Equity share capital is expensive to execute and a lot of fees have to be paid whether or not the share are purchased or not. This includes cost of advertising, underwriting agreement with an underwriter to purchase share that are not purchased by the investors and payment for legal advice etc.

Therefore instead of the company to continue with the approval that attract more problems associated with raising fund through equity share. The company needs to look back at the reasons behind the setback first before raising equity shares

The company need to critical examine the management, financial and administrative structure to know where to fix it right.

The Management structures: There is need to employ specialist, innovative thinkers, and competent managers that are endowed with managerial skill to carry the company forward.

Financial structure: This has to do with company department that deals with finance. The company must entire that the people in the sector are free from corruption, inappropriate embezzlement of funds and mismanagement of fund, so that the company will be assured that the remaining capital and the fund raised fin will not be embezzled.

Structuring administrative and management work is a challenging and complex job. Therefore the management need to divide tasks evenly among employees. It shall decide how the chain of command function in the organization will be achieved and setting of policies on how standards of behavior are to be enforced during operation.

If the company can be able to improve efficiently and effectively in the administration, financial and managerial structure, this will save the company from further request to raise equity share capital and also help the management in proper growing of the company's financial capital strongly.

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Conclusion

Equity found rising may have some attractive feature such as providing the company permanent capital with no fixed commitment to return money or predetermine rate of dividend. But the company should also consider its negative effects which have the tendency of allowing the competitors to take over the company and liquidate it. Also it divide the company's ownership into multiple streams according the shareholder right to vote and make decisions, which in returned may not be to company advantage.

Recommendation

The company fundamental issues need to be addressed. This includes the company financial, administrative and managerial structure.

The company should ensure that the administrative, financial and managerial structure are handled by competent credible, innovative and specialist personnel's, that are capable of managing the new equity funds raised by the company through selling of equity share capital. This will make them avoid future request for another approval to raise share through equity. This will hereby save the company from risk associated with equity fund raising

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