Vol. 2 (3) September 2011

Mediterranean Journal of Social Sciences

journal homepage: www.mcser.org

DOI: 10.5901/mjss.2011.v2n3p63 ISSN 2039-2117

Global Economic Meltdown and the Performance of Insurance Industry: Implication for Career Opportunities

Festus M. Epetimehin Ph.D

Joseph Ayo Babalola University
Ikeji –Arakeji, Osun State
Email: festusworldwide22@yahoo.com

Abstract *The economic and financial crisis, which started in the United States in September 2008, has rattled markets and economies developed, developing and underdeveloped around the globe, and because the world is linked inextricably by globalization the crisis has continued to dominate discussions on global economy. Many countries are experiencing severe closure of companies, loss of jobs, crash of share prices, squeeze in consumer credit facilities, crumbling mortgage facilities among others. In the case of the developing countries of which Nigeria is one, the implications are noticeable in the areas of crash in share prices, dwindling revenues, few direct investments from developed countries, dwindling remittances from Nigerians abroad and possible erosion of foreign resources among others. This paper therefore provides a clarification of the term Global Economic Meltdown, the causes and the performance of the insurance Industry under this situation and the implication for career opportunities..*

Keywords: *Economic Meltdown, Globalization, Insurance, Recession, Crisis*

1. Introduction

The term Economic Meltdown refers to the severe economic recession that is used to describe the current global economic crisis. The concept epitomizes the current economic scenario where virtually all countries of the world have been severely affected. Consequently, the gross domestic product (GDP) of countries has gone into the negative zone, as a result of severe liquidity crunch, giving rise to diverse economic intervention programmes.

Global economic meltdown is a topical issue because of the universal effect. It connotes near catastrophic circumstances necessitating scarcity or unavailability of otherwise available resources, thereby incapacitating many countries from meeting their targets, plans and programmes (.Dieter, 2009) It has many implications for both developed and developing economies. It is characterized by severe closures of companies, loss of jobs, the crash of share prices and squeeze in consumer credit facilities and crumbling mortgage facilities. Also a decline in income growth, declining remittances and budget pressures due to the drastic fall of revenue from various exports of primary product that has led to reduce government spending.

The universality of the impact of the crisis is a direct consequence of the information and communications technology revolution, which unified the world through the internet, and revolutionary technologies like the mobile phone, iPod, phone and so on. These have facilitated interconnectivity of banks, insurance and stock exchange markets universally given that the world is now a global village where what affects one entity quickly impacts the neighbours. It should be noted that economic conditions in every country are strongly influenced by the development of the world economy. It makes itself felt through international trade, global production and international finance.

Consequently, there is a tendency for interest rates or the prices of securities, bonds, and shares in one country to be affected by interest rates and financial prices in others. So instead of a country's interest rates being wholly determined by its own conditions, they become the outcome of world forces. (Larosiere, de.J 2009).

2. Causes of Global Economic Meltdown

The global economic and financial crisis has become a major concern for political leaders, economists, and managers of financial institutions around the globe. Addressing the crisis would, however, require knowing the root causes. There are some disagreements as to what constitute a crisis but as related to the issues in discourse, Eichengreen et al (2004) have defined crisis as a sharp change in asset prices that leads to distress among financial market participants. Analyst and scholars have noted myriad causes of the global financial crisis including excessive and corrupt practices of subprime mortgage lending, greed and unregulated capitalism and the massive funding of the war on terrorism and the erroneous belief that the free market principle is perfect, fair and efficient (Bradford,2008). It has, however been noted in academic journals that financial instability is caused largely by inconsistent monetary and fiscal policy, politicians spending and borrowing excessively, inconsistent and unsustainable macroeconomic policy, weak financial systems and institutions and poor structure of international financial markets (Eichengreen, 2008).

The present global financial meltdown began in august 2007 when the growing payment mortgage deficit, put millions of debt obligation in danger, which was guaranteed and sold to investment banks. The crisis has it root in a banking practice called sub-prime lending or sub-prime mortgage lending in the United States. Sub-prime mortgage is granted to borrowers whose credit history is not sufficient to get conventional mortgages lending or who do not qualify for market interest rate owing to various risk factors such as income level, size of the down payment made, credit history and employment status. This sub-prime mortgage lending is designed to make these categories of individuals own a house at an affordable rate. These mortgages packaged by banks into mortgage backed securities (MBS) and sold to two financial institutions created by US government namely: Federal National Mortgage Association and Federal Home Loan Mortgage Corporations; so as to free banks fund for lending to more prospective homeowners.

These two government institutions in turn repackage the loans and sold them to individual investors, financial institutions like banks, pension funds, hedge funds around the world. In 1994-2004, the US housing market experienced boom, of which sub-prime borrowing was a major contributor to an increase in home ownership rate and demand for housing. Home ownership rate increased from 64% in 1994 to a pack of 79.2% in 2004 (Krugman, 2009). This increase in the demand for home ownership resulted to corresponding rise in house prices and consumer spending. And most homeowners used the increased property value experience in the boom to refinance their home with lower interest rate and take out second mortgage against the added value of using the fund for consumer spending. By 2006, a number of factors like rising gasoline price, the hurricane Katrina, the war in Iran and Afghanistan, the rising food prices due to the global food crisis, led to rising unemployment and decline in business activities. This macroeconomic turbulence translated into increasing default by homeowners, hence, increasing foreclosure rates. Rising foreclosure rate coupled with over building during the boom years led to over rising housing and these led to decline in housing price. US household debt as a percentage of income rose to 130% as at 2007. Some homeowners were unable to finance the loan and they began to default on their loan as it attracts higher interest rate and payment amounts. Other homeowners with limited accumulated equity chose to stop paying their mortgage loan. They were essentially 'walking away' from their property and allowing foreclosure. Most of the defaults or foreclosure was sub-prime mortgages. As at October 2007, 16% of these loans were in foreclosure proceedings. By May 2008, it rose to 25% and during the third quarter of 2008, it rose to 45%. Since most of these mortgages were sold to financial institution and individual investors around the world, Mohammed (2008), said it exposed them to the US housing market crisis especially the sub-prime mortgage debtors. Meaning that the mortgage backed securities became a bad loan in book of banks, other financial institution and investors who bought these securities, the bad loan resulted to huge loss by the financial institutions and eventually bankruptcy.

According to the Wikipedia the free encyclopedia (2008), the global financial crisis began in July 2007 when a loss of confidence by investors in the value of securitized mortgage in the United State resulted in a liquidity crisis that prompted a substantial injection of capital into financial markets by the United States Federal Reserve, Bank of England and European Central Bank.

In his own contribution to the cause of the crisis, Samuelson (2008) noted that at the beginning of the decade, financial firms moved beyond their traditional roles of advisors and intermediaries and seemed to treat the client as mere source of profitability. By investing clients or shareholders funds to purchase stocks, bonds and other securities in what are called principal transactions. Krugman (2009) in his own submission said the profession's blindness to the very possibility of catastrophic failures in the market economy was based on the belief system and economic theories which held that free markets would by and large always hold or at least quickly recover their stability if shaken.

According to Oyesiku (2009) economic recession doesn't just occur; certain factors which include dollars collapse, oil price rise, inflation, housing bubble, loss of consumer confidence, excess buying are normally responsible. This current global financial meltdown which began with the US housing bubble in 2006 was aggravated by low interest rates and increased global liquidity. The subprime or near-subprime loans being initiated and sold to banks by the US real estate brokers, as well as the hedge funds, the Structured Investment Vehicles (SIV) and financial instruments such as Collateralized Debt Obligations (CDO), Credit Default Swaps (CDS) and other derivatives were the bane of the crisis. Other factors included the under estimation of the liquidity risk and the employment of short-term oriented incentives schemes. A combination of these factors imposed deleterious effects on the US financial system, which in turn, got translated into the global economy, owing to the wrong decision by the US government not to intervene at a most crucial time.

In view of this, much of the global economic crisis traceable to inefficient regulation of financial factors as well as the needless post-crisis foot-dragging in government intervention, which made the meltdown that, could have been limited to the US economy, to snowball into a global financial dilemma. The far-reaching implication of this US-induced economic quagmire is manifest in a host of recession symptoms, which have already spread not only to other developed economies of the world but also to emerging and transition economies

3. Nigeria and Global Economic Meltdown

Most Nigerians got to realize that the country has begun to take its share of the global financial crisis when the Nigerian stock Exchange starts to record unprecedented losses in the value of shares of companies listed on the market. In 2008, the Nigerian Stock Exchange lost about N556 billion when because of the economic meltdown foreign nationals who had invested in Nigeria pulled out their money to shore up their native economies. Apart from the mega losses by investors in the Nigerian Stock Exchange, other areas in which the current global economic chaos affects Nigeria include:

A general credit crunch from lending institutions for businesses requiring short and long-term money, including banks lending to each other. Even credit-worthy individuals were denied access to bank credit that they had made use of before the crisis. Parallel to the concept of sub-prime mortgage problem abroad is the rife phenomenon of marginal borrowing and lending in Nigeria, whereby investors borrow money from banks to invest in other financial instruments (particularly IPO's of other banks) with the hope of making profit all around.(Ogunleye, 2009) This may have been Nigeria's own "sub-prime" problem version, resulting in an exploding domestic stock market and astounding bank profits without commensurate physical development in the country. Huge sums of money were trapped because the stock exchange bubble burst and marginal-borrower--investors failed to realize the anticipated profits.

The economic and social impact of the current global financial crisis is enormous. It has damaged global markets and economies around the world. It has affected business operations and investments by way of reducing domestic and international demand for goods and services and pushing up unemployment as many industries and organizations are shedding off workers. The crisis has also affected national income and budgets, exchange rates and interest rates and slow down economic growth in societies around the globe.

The naira has sharply depreciated against the US dollar and other major currencies around the world. The major thing Nigeria export is oil; that is the major source of foreign currency. And when this source is threatened, there will be a pressure on external reserves which in a fixed exchange regime gets eroded in order to maintain the exchange rate. Long –term effect might exacerbate Nigeria/s longstanding social and economic problems.

The global financial crisis has affected both poor and rich nations; the severity of the impact on individual countries will vary according to their economic, social, political and cultural settings.

According to Agaba, et.al (2010), the Nigerian economy has long been in recess before the meltdown due to a number of factors. First, Nigeria has been over dependent on petroleum as a source of income, according to the CBN Governor, Nigeria gets over 95% of its revenue from oil a trend that has been observed since the 1970's.

Second, in recent times the activities of the Niger-Delta militants has worsened the situation as the barrels of crude oil produced per day dropped due to militant activities which include kidnapping, stopping operations and damage to oil wells and facilities.

Third, is the high rate of importation; that has been a great menace to the Nigeria economy as many commodities are imported and on the long run other economies benefit from Nigeria. For example, many electronic products are imported from industrialized economy. This has its roots in the inability of the country to engage on genuine industrialization programme.

Fourth, the debt game at all levels. Nigeria as a country is still heavily indebted to The World Bank and International Monetary Fund (IMF).

Fifth, the changing dynamics of over population has also affected the Nigeria economy because adequate plans have not been put in place for the nations increasing population.

Sixth, outright corporate greed exhibited by various companies and service provider have also contributed greatly to the economic situation in the Country.

Seventh, people migrates to major cities like Lagos, Abuja, Port Harcourt causing these cities to be overpopulated and few people left to farm in the states.

Eighth, growing gap between the elite and the impoverished also has its fair share on the nation's economic meltdown. Other factors are the erosion of human dignity.

4. Effects of the Economic Meltdown on Insurance Industry

The reverberating effects of the meltdown have been felt in the insurance industry, banking industry, and other sectors as exemplified by the collapse in investment.

In the wake of the global crisis, the Nigerian Insurance Industry prided itself as the sector that will salvage the Nigerian economic scene from the turmoil of the financial crisis. As risk bearer, the insurance Industry was of the opinion that it will serve as a hedge to the other sectors.

However, with the unprecedented losses that characterized the financial statement of most insurance companies during the 2008 financial year, observers of economic trends are worried that the risk bearers may be facing far risk. The financial performance of most insurance companies has revealed the impact of the global economic meltdown on the sector, as the result showed a drastic reduction in profits.

Insurance companies traditionally have thrived more on investment income than core underwriting business. Competitive pricing and below par risk rating have been protected by shrewd investment decisions. Current global recession and consequent economic crisis has put a lid on this maneuverability. Falling prices in real estate sector and nose-diving stock markets have already depleted shareholders' equity and moved the investment portfolio of insurance companies in red zone. Insurance industry follows closely the fortune of the financial sector and is directly impacted by the movements at the macro-economic level. New construction and infrastructure projects have dried up and ongoing projects have been stalled due to inadequate cash injection in the market. Banks are not releasing installments to firms even on limits which were agreed prior to this crisis. This has impacted the engineering class of business in the insurance sector. Inquiries for CAR (Contractors' All Risks), EAR (Erection All Risks), Machinery Breakdown and Equipment Insurance have almost dried up in the last few months. Construction, infrastructure projects by governments and energy projects by private as well as governments have either been shelved or being delayed and insurance industry will have to live without large premiums for a while.

Continued recession shall have impact on property class of business too. Cost-cutting in the corporate sector may lead to reduced expenditure on insurance. Falling market prices of property shall further bring down the premium volume on property insurance. Business Interruption or Loss of Profit premiums also shall go down due to reduced profit forecasts for most companies. Life insurance sector is likely to see even bigger erosion in volumes and profits. Employee benefit schemes, Workmen's Compensation, Medical Insurance, Group Life and Personal Accident Insurance, etc. are likely to take maximum hit. With the investment portfolio almost gone, most unit-linked policies, Pension Funds and other investment backed insurance products shall show negative NAV (Net Asset Value) and consumer confidence shall further nosedive. Policy holders are already requesting cancellation of their policies in order to preserve cash in this moment of crisis. Retail insurance sector has similar problems. Low consumer confidence and stringent lending norms for retail customers by banks have led to reduced demand for products and services.

Automobile companies are struggling to keep afloat due to negative sales growth. This directly affects motor insurance premium. Travel industry including airline companies are witnessing lower traffic resulting into reduced travel insurance premium. Reduced sale of property is resulting in reduced premium income on mortgage insurance. Declining international trade and consequent reduction in export and imports have resulted in inflated inventories and consequent redundancy of work force has increased job loss claims. Reduced international trade has also impacted marine cargo and marine hull insurance businesses and premium incomes have dropped substantially.

It has also charged the risk assessment approach of the insurance companies, all the necessary doctrine of insurance and undaunting philosophy are now call into play before a risk is given a cover to forestall a payment for fraudulent claims:

The current crisis has the potential to increase cancellation and reduction in scope of insurance policies as people choose to save money in difficult economic conditions. Additionally, the crisis has the potential to increase not only fraudulent but inflated claims. In its report, the British Insurers Association (ABI, 2010) gave the detected and prevented fraudulent claims related to general insurance increasing by 30% since 2008.

In his book Leadership in the era of economic uncertainty, Charan (2009) writes "Management challenges don't come any bigger than this. It is not just your business or industry that is in a down turn: the entire global economic system has been wounded".

This statement directly impacts the way insurance leaders operate and therefore need to adjust their most fundamental thoughts about what business will look like and how it will be in the present situation. This will enable the leader to explore changes in assumptions, expectations and perspectives leading to deep change

Ogunbiyi (2009) agreed that there are many challenges facing the operation and management of insurance companies but concluded that adapting innovative techniques experience and new knowledge, insurance will be able to achieve sustainability and visibility in the long term.

Oshin (2009) was of the opinion that if insurance has to play its role in reflating the economy, certain products needs to be in place and they include Credit Swap, banc assurance, mortgage insurance, professional indemnity insurance as well as fidelity guarantee insurance. Insurance companies need to take a cue and concentrate on really good underwriting before it is hit by its own "sub-prime". New products should be developed and niche markets need to be looked at rather than fighting for the same space.

Hard times must be negotiated with a changed business strategy. Competition should give way to collaboration amongst insurance carriers. The events in recent months have shown that completely free economy and unhindered competition needs to be moderated. The industry must build local capacity. Despite our capital raising efforts, we seem to retain too little in the Nigerian market in some cases.

5. Implications for Career Opportunities

The instantaneous and caustic effect of the economic meltdown on several organizational systems worldwide is the inability to maintain the current productive capacity owing to inadequate finance. The global economic crisis is expected to lead to a dramatic increase in the number of people joining the ranks of the unemployed, the working poor and those in vulnerable unemployment.

Based on her development in the labour market and depending on the timeliness and effectiveness of recovery efforts, global unemployment in 2009 could increase over 2007 by a range of 18million to 30 million workers and more than 50 million if the situation continues to deteriorate (ILO, 2009).

The ILO report also said that in this last scenario, some 200 million workers, mostly in developing economies could be pushed into extreme poverty.

The ILO message is realistic. We are now facing a global crisis many governments are aware and acting but more decisive and coordinated international action is needed to avert a global social recession.

The current economic situation is bad but there should be no reason to lose hope as there are opportunities in crisis. There are possible job and career opportunities in this global crisis. The key is finding these opportunities and grabbing them even when more people are joining the ranks of the unemployed. One can still find great job and career opportunities if you are proactive and strategic in finding a job or looking for a career.

- **Be strategic in your approach**. This involves a critical look at or observation of the economic situation, understanding your own economic position and what you want to get out of it in terms of job and career development. Take pain to search the internet. It is more time efficient and costeffective. We need to apply to as many organizations as possible without actually zeroing on one or two; this helps in deciding which job interview to prioritize and ultimately which job offer to accept. One cannot afford to be lazy in this period; one should continue sending those resumes.

- **Refine your resume** to highlight knowledge, skills and other professional strengths that will add value to the organization you are eyeing. Focus on your competency highlights. Now more than ever, it is important for professionals to explore online networking opportunities by joining social networking sites or creating their own online career portfolio to showcase their skills and experience. They should consider starting a blog on their area of expertise or creating a website that showcases samples of their work. Professionals can also make an effort to meet other professionals online by communicating through relevant blogs or social networking profiles. When interacting online, it is important that you manage your online reputation to ensure that they always present themselves in a positive, professional manner.
- **Be proactive**. Be the solution. Apply to organizations you deemed would. Need your expertise even if they were not hiring. Most progressive companie. With good Human Resources Management Department usually gives. Chances to people who present themselves as problem solvers.
- **Make professional contacts.** Now more than ever, networking is a critical step towards career advancement. It is important for professionals to build a strong network of business and personal contacts because these relationships can help identify and secure new jobs or career opportunities. Professionals should also maintain positive contact with previous managers, supervisors and co-workers. Along with building a great list of references, these relationships can also be leveraged when searching for a job.
- **Go Niche.** With the competition for jobs increasing, and available jobs decreasing, job seekers are going to find it necessary to seek alternative ways to find job openings. Niche career opportunities are a valuable, yet sometimes overlooked, resource to connect with employers through highly relevant career searches and networking tools. When searching for jobs online, it is beneficial for job seekers to broaden the search to include both generic and niche job sites. Because niche sites are tailored to specific industries and locations, they can prove to be very helpful for candidates who are looking for local jobs or jobs in a specific industry.

6. Suggestions for Responding to the Crisis

Nigeria should begin now to take very seriously investment in education and skill training as no nation can compete effectively in the emerging global market place with poorly educated and unskilled graduates. The leading factors of production in the new world economy are said to be technology, knowledge, creativity and innovation. How much land or mineral resources a nation has no longer determines the wealth and progress of nations, but the quality of their human capital. The policy makers should redesign and implement effective monetary and fiscal policies to provide good incentives to individuals and organizations to invest in the economy, and encourage proper competition to increase the quantity of good services.

In the insurance industry, they are concerned with the maximization of returns on their investments through the process of management of both the material and human resources The inability to satisfy or manage effectively the aspect of human resources often leads to disharmony. Hence it is therefore in the interest of the Insurance Industry to find means of balancing this. Adapting innovative techniques, coming out with new products marketable at this period, experience and new knowledge acquisition, will assist the insurance Industry to achieve sustainability and visibility in the long term.

Continued depressed market and resultant decline in premium volumes (and consequently reduced profits) is likely to put pressure on the management of insurance companies. As they struggle to satisfy their shareholders by providing similar returns as in the past, this could lead to rate cutting, imbalanced portfolio and compromised underwriting. A prudent board and shareholders of the insurance companies would do well to advise the management to concentrate on quality rather than volume of business Regulators too, have a big role to play under such extraordinary circumstances. Supervision needs to be thorough rather than routine. Emphasis should be on ratios and reserves rather than procedural issues. Solvency ratio and liquidity ratio must remain healthy and technical and other statutory reserves must be robust. There is an eerie silence across insurance industry globally as economic outlook remain uncertain. Economists predicted return to normalcy by the end of 2010. Even if this optimism actually fructifies, the benefits of normalcy to insurance industry can only accrue in 2011 as the financial environment is yet unstable.

7. Conclusion

The intensity of the severe economic crisis across the world that is still continuing especially in the real sector makes it urgent to seek remedial steps. The world has witnessed the limits of financialization as a sustainable part of economic sustenance.

Government needs to create the base for real sector expansion by re-orienting the pattern of investment incentives, possibly with direct controls on speculation by moving far away from the high-risk/ high-return profits to the ground reality of real sector development.

Periods of economic meltdown require leaders with purpose and vision. It requires leaders with the qualities of creativity, innovations and vision. Such leaders must be capable of harmonizing resources to bring about progress.

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