REGULATION, INTERPERSONAL RELATIONSHIP AND DEMISE OF A PROMISING COMPANY: THE CASE OF GREAT AFRICAN INSURANCE COMPANY

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Abstract:

The case delineates the crass managerial ineptitude of the top management of a promising insurance company that cost the owners the very existence thereof. Taking advantage of a somewhat virgin insurance industry with weak competitors and an ineffective supervisory regime, the management of The Great Africa insurance company was able to augment premium income and market share in the industry, almost leading the industry within a decade and a half of its existence. However, brewing internal conflicts and authoritarian leadership style on the part of the chief executive officer culminated in the issue of a supplier's bond with a value in excess of the capital employed of the insurance company to a dubious client .Unable to pay the third party claimant for guaranteeing their client's faithful performance, the National Insurance Commission; the regulator of insurance businesses in Ghana compulsorily liquidated the company.

Keywords: *Insurance, regulation, commission, liquidation.*

1.0 General Background

Insurance in Ghana began in the colonial era in the early 20th century with the establishment of the Royal Guardian Exchange now called the Enterprise Insurance Company which was British owned, the British by then being the colonial masters. The first indigenous private insurance company, the Gold Coast insurance company was established in 1955 followed after independence by the State Insurance Corporation, now The State Insurance Company since 1962. Eleven more insurance companies were established in 1971. Five years later in 1976, seven more companies were established together with one reinsurance company and two brokerage firms.

In December 2011, close to forty insurance companies were actively competing for policyholders in the Ghanaian insurance industry. The industry could also boast of a number of brokerage and actuarial firms, reinsurance companies and independent loss adjustment firms inclusive of thousands of intermediaries. Before parliament passed the 2006 Insurance ACT 724, insurance companies in Ghana were classified into three categories namely life: insurance, non-life insurance and composite insurance companies. Two companies Gemini Life insurance company and The United Life Insurance Company were solely in life insurance services and three companies namely Enterprise Insurance, Ghana Union Assurance and New India Assurance engaged exclusively in nonlife insurance products of fire, burglary, marine, aviation, good in transit, cash in transit and the like as in December 1979. Twelve companies engaged in composite insurance and underwrote all type of business in both life and non-life insurance. With the advent of the new Insurance law Act 724 of 2006, insurance companies ought not be composite but be either life or non- life. The drafters of the Act, considered the life business to be a specialized, long-term area of insurance which should not be combined with short term non -life businesses as far as general management and the investment of premium income were concerned. Section 26 of the Act captioned "restriction on licensing composite insurance companies and specialization" stipulates among other provisions that the National Insurance Commission shall not issue a license that authorizes the insurer to operate a composite business. The implication of this provision was that composite companies which existed prior to the passage of the ACT had to incorporate life subsidiaries and transfer their life insurance portfolios to the newly formed life offices. These companies just added the word "Life" to their formers names for the names of the new life insurance companies they incorporated after the passage of Insurance ACT 724 and the word " General" to their already existing names for the general insurance companies that dealt in non-life insurances. Before Act 724, the 1989 Insurance Law, Provisional National Defense Council (PNDC) Law 227 established the National Insurance Commission, the regulator of insurance companies and intermediaries in Ghana. Currently government regulation through insurance laws in Ghana is mainly by Insurance Act 724, 2006 complemented somewhat by PNDC Law 227 of 1989 that covers both financial guarantees to be provided and the legal and technical reserves required. Prior to PNDC Law 227 of 1989, the regulation of insurance business in the country was generally weak and whatever form of regulation then took the shape of trying to enforce provisions in outdated insurance legislative instruments and the licensing of insurance companies . A desk for that purpose was situated in the offices of the Ministry of Finance under the direct supervision of the Minister. This innocuous regulatory regime provided opportunities for existing companies to under-price their insurance products and also created leeway for the entry of financially weak insurance companies into the industry. The resultant sunken image of the industry affected companies aimed at doing good insurance business.

A provision under The National Redemption Council Decree 95 of 1972 required no person to carry out insurance business in Ghana unless no less than 40% of the shares or other proprietary interest therein was owned by Ghanaians; this was also reiterated in the PNDC Law 227 which further stated that at least 20% of the capital or other proprietary interest in that business be owned by the government.

Act 724 provides for the regulations of the investment of insurance funds, insurance company investments being now regulated with respect to the types of investments, quality and percentage of total assets or surplus that can be invested in different investment instruments. The basic purpose is to prevent insurers from making unsound investments that may threaten the company's solvency and harm the policy owners. Life insurers typically invest in shares, bonds, policy loans and real estates. Property and casualty insurers are also enjoined to invest in shares, government and corporate bonds, short-term investments and cash with a relatively small percentage of assets invested in real estates. In both life and non-life, a substantial percentage of assets need be invested in liquid securities that can be sold quickly to pay claims if a catastrophe loss occurs, according to ACT 724.

Section 26(2) of Law 227, 1989 provides that in respect of life insurance, the investment of insurance funds shall be made up of 50% in government securities and 50% in such investment as shall be approved by the commissioner of insurance. In addition, a life insurer is required to publish its valuation at least every three years and a certificate of solvency to that effect be signed by a qualified actuary.

Regulation of insurance business by the National Insurance Commission is necessary to serve the public interest through a reduction of market imperfections. Characteristically, the insurance market is a far cry from a perfectly competitive market which has large numbers of sellers and buyers, low cost of entry and exit, low cost of information on cost and price. The insurance market place is plagued with considerable information inadequacy about product quality, insurer reputation, solvency and experience. Most consumers do not have sufficient information for comparing and determining the monetary value of different insurance contracts. It is difficult to compare dissimilar policies with different premiums because the necessary price and policy information is not readily available. Without good information, consumers cannot select the best insurance products. This failure reduces the impact that consumers have on insurance markets as well as the competitive incentive of consumers to improve product quality and lower price.

Thus, regulation is necessary to produce the same market effect that results from knowledgeable consumers purchasing products and services in highly competitive markets. In other words, it is needed to correct market imperfections and move market conduct closer to the competitive ideal especially in an era when the free market ideology is gaining considerable currency. Regulation is necessary to compensate for inadequate consumer knowledge.

The unregulated market does not provide adequate information and this necessitates regulation. It is difficult for consumers of insurance to obtain information about the quality of insurance in an unregulated market and this accelerates the risk of some consumers buying insurance from low quality and deceptive insurers. In Ghana the late 1980s to the late 1990s (a decade in the insurance history of this country) witnessed the rise and fall of a number of deceptive insurance companies often labeled derogatively by the then insurance commissioner on many platforms as "cow boys" and " buccaneers".

The regulatory function of the NIC as regards licensing of insurance companies as stated under section 2(2) is further explained under Section 22 of the Act which provides that the NIC may issue an insurer's license to an applicant after being satisfied, among other provisions, that the applicant is qualified to carry on the insurance business for which the application is made and that each director and principal officer of the applicant is qualified to be concerned with the management of the class of business for which the application is made. Also mentioned under this section is the requirement that the organization, management and financial resources of the applicant be adequate for the carrying on of the class of business for which the application was made and that the insurance business will be conducted in accordance with sound insurance principles.

2.0 The Great African Insurance Company

The Great African Insurance Company burst onto the insurance industry in Ghana in 1985 as an aggressive composite insurer that awakened already existing sleepy companies with its aggressive functional-level strategies. Led by a team of seasoned insurance practitioners who had practiced insurance in the United States of America for decades, the emergence of the company revolutionized the Ghanaian insurance industry with its innovative marketing and product development practices.

Within the space of a decade spanning 1985 to 1995, the Great African Insurance company became a household name not only in the Ghanaian financial services industry but also in the manufacturing sector as well as among the generality of the people. With a blend of both American and locally trained human resource base, the company posed a formidable threat to other players in the industry both in terms of market share and as an employer of choice to insurance and non-insurance professionals.

With a not too strong regulatory framework within this period under reference as regards claims payment and premiums charged to policyholder, the company made considerable strides on the back of this regulatory fissure, increasing its cash inflows of premium income and minimizing its cash outflows of claims. This somewhat positive business environment oiled the wheels of the company in growth terms over this decade, the astute directors actualizing their mission of being in every nook and cranny of the market. Former Ghanaian work colleagues of some of the American trained directors with whom they worked in the United States were attracted to resign their posts in the US to work with the Great African Insurance Company. These were put on salary scales with notches comparable to where they were in the US. The result, in human capital terms, was a mixed bag of experienced, contented professionals with morale flying in the highest skies in readiness to assist the company in driving to its mission and vision. As at December 1995, the numerical staff strength of the company stood at three hundred and twenty-two spread out in all the ten regions of the country with employees sitting and earnestly working in head and branch offices throughout the country for their beloved company.

The company's directors had a mental picture of being a holding company with subsidiaries in the neighboring Anglophone countries in the West African sub-region. Two executive directors in charge of finance and operations respectively, visited the Gambia and Nigeria in mid 1994 spending a month in each of the countries to scan the business environment and identify potential opportunities and threats in connection with the long term plans of the company. Their vivid report was reported to the Board of Directors in September 1994.

2.1 The Chief Executive officer

A rather shrewd businessman he was. A Ghanaian who lived and practiced insurance in the United States of America for fifteen years, rising to the position of a senior manager in charge of marketing in a reputable American insurance company in Ohio; Owusu Boakye had a Master’s degree in Business Administration(Marketing option), a first degree in Economics and was a fellow of CPCU, that is Chartered Property and Casualty Underwriters, USA. After his first degree in Ghana, he worked with the Audit Service for five years where he acquired hands-on experience in auditing and internal control as well as in general administration, after which he proceeded to the United States for his second degree and professional insurance qualifications.

As an outgoing person with a dominant personality, he readily doubled as the marketing director of the company. Affectionately called the “show boy” by junior workers, he always demonstrated the American culture in his actions of wanting to do things in grand showy styles. He believed in personally reviewing all requisitions for company expenditures even if approved by the financial controller before authorizing payments. Having incorporated the company with Boakye Ofori upon their return to Ghana, he saw the company as his own brain child and as such would always be at the center of the making of decisions that went to the root of the company.

As an articulate strategic thinker, he demonstrated to all the trajectory he had outlined for the company to 2020 and sought the support of everyone in the noble course.

2.2 Director of operations

Boakye Ofori was also in the United States, a Ghanaian practicing insurance during the period Owusu Boakye was in the States too. He had a bachelor’s degree in insurance with actuarial science in the United Kingdom. As an associate of the Chartered Insurance Institute UK, he had a stint with the insurance industry in UK for one year after which he travelled to Chicago for a Master’s degree in actuarial science. He worked with an insurance company in the New York City and Cleveland offices for seventeen years in their underwriting and claims departments, rising to the position of vice president, operations. A rather phlegmatic personality, he was cut for the back office technical aspects of the operations of the Great African insurance company. He had an analytical mind, always looked before he leaped and as such abhorred unnecessary intrusions into his work. He was liked by some of the workers and disliked by others who felt he was steeped in red-tapeism. His penchant for calculation was brought to bear on every facet of his work.

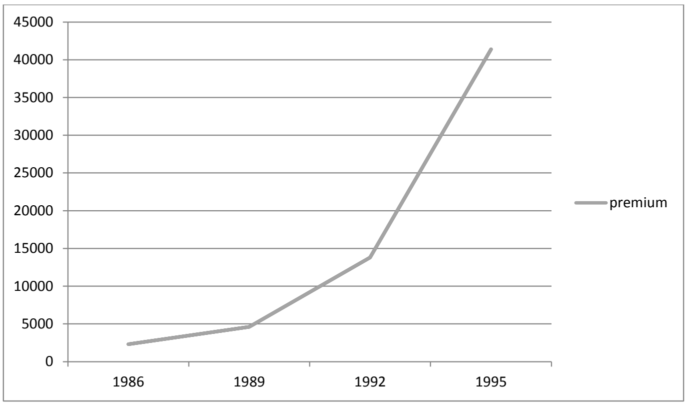
2.3 Marketing department

Kwasi Akyeampong, a locally trained seasoned marketing professional headed the marketing department since the inception of the company. Having himself already worked within the insurance industry seven years before joining the Great African insurance company, Kwasi Akyeampong was acquainted with the insurance industry and knew ‘ how the system was wired’. He was therefore on top of his job, albeit, to his disenchantment, he had to work under the constant instruction of his boss, Owusu Boakye who dictated to him the tactics on the ground as regards how to optimize client base.

Between 1985 and 1990, thirty-three first degree holders were recruited as marketing officers all of whom were trained for two months in marketing of financial services at the company’s fully furnished guest house tucked away in the south western part of the city of Accra . Within this period, the marketing team embarked upon an aggressive approach to increasing market share by three hundred per centum. Regional and countless district marketing and agency offices were established manned by selected marketing officers who were given monthly targets to achieve. The approach, in grand design also entailed targeting the virtually virgin institutional clients for ‘hard selling’ to possibly convert them from insureds of other insurance companies to insureds of the Great African Insurance company. Letters written and signed by the chief executive officer, Owusu Boakye were routed through regional and district marketing offices to potential institutional clients introducing the company and its products and intimating the desire to do business with these institutional clients at rebated premiums and the provision of excellent customer service.

On many occasions Owusu Boakye, personally, had to be at the marketing presentations to “big” institutional clients where he met top management of these institutions, negotiated deals with them and also sat in the presentations of his marketing officers to the general workers of these potential institutional clients who needed to be educated during their lunch breaks on the need for personal line insurances. Teachers in educational institutions, nurses in hospitals and christians in churches on Sundays were among the targets of this great approach for life and motor insurances. This approach was coupled with intensive catchy television(TV) and radio advertisements one of which showed on TV a cat dropped from a three-storey building which landed on its feet with a voice over to the effect that in life there were occasions when one may accidentally drop from heights they had attained. But if they did, the Great African Insurance Company would assist them land on their feet like the cat.

Between 1986 and 1995 as shown in figure 1, the company’s premium income increased exponentially from US$2300 in 1986 to US$41,400 in 1995 to the contentment of both management and staff. This trickled down into their conditions of service. By December 1996, the Great African Company limited was among the top three highly capitalized insurance companies in the country, its stated capital and reserves standing at US$800,000.



(Source of data: The Great African Insurance Company Directors’ annual reports-1986-1995)

2.4 Technical Department

Both the underwriting and claims sections were structured to be housed under the same room labeled technical department, manned by fifteen officers under the headship of James Quaye, a Ghanaian who schooled in Canada for professional insurance qualification of the Insurance institute of Canada. Also a graduate of the Kwame Nkrumah University of Science and Technology where he obtained a BA (Hons) in Arts, James Quaye had wide experience in insurance underwriting and claims having worked in the Ghanaian and Canadian insurance industries before his engagement with the Great African Insurance Company. He had excellent working relationship with Boakye Ofori but experienced occasional abrasions with Owusu Boakye in his line of work. Between 1995 and 1996, he had unpleasant working experiences at the Great African Insurance respecting claims approved for payment by himself and his boss but the files were held up in the chief executive officer’s office for ‘ Heaven Knows what’. His incessant complaints to Boakye Ofori would always receive the response ‘my hands are tied’.

Another area of discomfort to James Quaye pertained to underwriting. On a number of occasions pressure had been mounted on him by Owusu Boakye to issue policy documents forthwith when he had intimated to him that the underwriting section needed some time to meticulously assess the risk before going on cover. Owusu Boakye would always retort that marketing people needed to deliver the policy document to the clients and receive the premiums to forestall the business being taken over by other insurance companies. Boakye Ofori could not intervene in any of these situations as the operations director, his hands in his own words “were tied”.

3.0 The Suppliers’ Bond Debacle

On the 13 of March 1996, the marketing department sent a completed proposal form to the Technical department from JB and Sons Ltd for the issue of a suppliers’ bond in respect of two ship loads of rice on the high seas from Thailand to Ghana. JB and Sons Ltd, a company in the export and import business and wholly owned by two foreigners started insuring with the Great African insurance from June 1993 in the areas of motor and fire insurance. A somewhat healthy relationship had developed between the two companies, having found expression in prior reciprocities of Christmas hampers in December 1993 and 1994 in a spirit of good comradeship and business.

JB and Sons Ltd approached CEE Enterprises Ltd to sell them the rice upon arrival at the Tema harbor and requested that CEE Enterprises paid them upfront before arrival of the rice in order that they could import more rice for other customers. To protect themselves against any adverse circumstances, as prudent business men, CEE Enterprises Ltd demanded a suppliers bond from a reputable bank or insurance company before paying the contract sum of $1.2 million to JB and Sons Ltd.

Owusu Boakye telephoned James Quaye at 9.00 am on the 14 of March 1996 from his office to instruct his officers to issue the suppliers’ bond to JB and Sons Lt without delay to forestall the business being snatched by competitors since the premium was huge and the company badly needed to receive it in early course. James Quaye responded to say that his technical team needed to look into the matter a little bit before going on cover and that they were contemplating doing a background check on the financial position of JB and Sons from their bankers, among other things, since the sum insured was colossal. In a fit of anger, Owusu Boakye telephoned Boakye Ofori and demanded the suppliers’ bond from him through his technical manager within two hours for onward delivery to the client. Boakye Ofori summoned James Quaye to his office and calmly requested him to ask his officers to prepare the bond for his signature and delivery to the CEO, adding ‘sometimes one has to bend rules for peace to prevail. This is even a trivial matter compared with what Adelaide told me two weeks ago. He has been going to the cash office almost every Friday to take premiums paid by policyholders to spend at weekends. You remember the big United States Dollar denominated fire business we won from Wahome Steel Ltd?, she told me he went to her on a Friday and took the $1200 premium paid by the policyholder before the money was sent to bank and spent it over a weekend. And as if that was not enough, she said a fortnight ago he again went to her for 2.2 million Ghana cedis premium paid by Ankamah and Associates for their Contractors’ All Risks business. She said he would storm into her cage and rant “ how much money do you have today?. At her mention of the amount he would just demand a substantial part of it. You know a number of policies have been badly underwritten already thanks to his unnecessary interference. So please just go ahead and ask your boys to issue the policy for my signature”.

With apparent reluctance, James Quaye obliged, did as told by his immediate boss an handed the bond documents in a folder to Boakye Ofori at 10.37 am who circumspectly reviewed, signed, sealed and also handed over to Owusu Boakye at exactly 10: 51 am. Owusu Boakye remarked exhilaratingly upon receipt of the bond “yes, we need to be ahead of our competitors and do things differently you know”. He telephoned Kwasi Akyeampong to ask one of his boys to proceed to his office to collect the bond for ‘his necessary prompt action’, meaning he had to do a letter, raise a debit note in the name of JB and Sons for the premium due and have them dispatched to the client together with the bond without delay.

The two ships carrying the rice worth $1.2million were due to arrive at the Tema port on 31 March 1996 but by May 16 the ships had still not arrived. In the meantime, JB and Sons Ltd had closed their offices since 1 April 1996 and investigations revealed that the key managers had flown out of the country and never returned. Boisterous effervescence and turmoil then commenced in the offices not only of CEE Enterprises Ltd but also in those of the Great African Insurance Company Ltd.

CEE Enterprises Ltd filed a claim at the Technical department of the Great African Insurance company on 31 May 1996 claiming a whooping sum of US$1.2 million.

4.0 The New Insurance Commissioner

Aygekum Pianim was appointed by the government in December 2005 to succeed Ohene Kyei, the then Commissioner of insurance, an elderly man. An LLM holder and a lawyer specialized in Insurance law, Agyekum had practiced law in the UK for almost a decade after which he returned to Ghana, his motherland in June 1995. His hobnobbing with politicians back home was facilitated by the fact that a number of his old school mates were already in government, some of whom held ministerial positions.

Bent on revolutionizing the insurance industry and awaken it from the then inertia with regards to regulation, he injected considerable dynamism and fever into the industry. Agyekum Pianim indicated on several platforms after resuming office that his preoccupation was to redeem the sunken image of the insurance industry in the eyes of the Ghanaian populace which was that of subterfuge and unwillingness to pay claims but a quickness to receive premium from clients. He would reiterate on those platforms that the raison d'être of insurance was the payment of claims and that public confidence in insurance hinged on claims handling and entreated the companies not to trifle with claims payments. A strength of Agyekum Pianin was his excellent interpersonal skills and command of the English Language, he was indeed a orator. Within months of taking office, he was able to establish rapport with all the Chief executive officers and senior managers in the industry. He was however, a quick tempered and no nonsense man. He introduced the motor insurance sticker system into the industry wherein insurance companies issued adhesive stickers indicating the expiry dates of the motor insurance held by motorists, to be displayed on their windscreens. The commissioner also introduced, during his tenure of office, the motor tariff system which forestalled the hitherto price under-cutting then widespread in the industry. To date, motor insurance is tariffed, the National Insurance Commission (NIC) issuing and reviewing premiums for the various classes of motor vehicles plying the roads in Ghana.
On the 11 of September 1996, the management of CEE Enterprises Ltd was at the complaints section of the National Insurance Commission to fill the complaints form for the Great African Insurance Company's delay and failure to pay their suppliers' bond claim. The sequel was a number of stakeholder meetings which culminated in Agyekum Pianin commissioning PMC Consult, a firm of management consultants specialized in organization development to investigate the matter in the offices of the Great African Insurance Company and report to the NIC by 30 October 1996.

At the management meeting of the National Insurance commission held on 25 November 1996 and chaired by Agyekum Pianin, it was resolved that Compulsory Liquidations proceedings had to commence at the Great African Insurance Company in accordance with the provisions of the then Insolvency Act of 1962 and that a liquidator be appointed accordingly who would oversee inter alia, the payment of all claims outstanding in the books of the Great African Insurance company. The company was ordered not to accept any more insurance proposals during the period of liquidation effective 31 December 1996. Employees' monthly salaries were halved between March 1997 and June 1997 by the liquidator. Between July and December 1997 workers were put on a quarter of what they were earning as of January 1997. By March 31 1998, liquidation had been completed and the Great African Insurance Company Ltd had been struck off the books both the National Insurance Commission and the Registrar of Companies. By March 2000 a good number of former employees of the company including senior managers were still unemployed for a variety of reasons ranging from lack of employment opportunities in the country generally to The Great African Insurance Company blemish.

QUESTIONS

1. In what way and to what extent did the personality and management style of Boakye Ofori contribute to the liquidation of the Great African Insurance Company Ltd? Contrast this with that of Owusu Boakye.
2. Identify the strategic focus of the management of the Great African Insurance company before the liquidation.
3. Outline the relationship between:
   a) Owusu Boakye and James Quaye
   b) Owusu Boakye and Boakye Ofori
   c) Owusu Boakye and Kwasi Akyeanpong
   d) Boakye Ofori and James Quaye.

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