RISK ATTITUDE AND THIRD PARTY MOTOR LIABILITY: AN EMPIRICAL STUDY OF COMMERCIAL BUS DRIVERS IN LAGOS STATE, NIGERIA.

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Abstract
This research focused on the effect of risk attitude on the purchase of third party motor liability insurance by commercial drivers in Lagos State. The purpose of the study is to investigate whether risk attitude of commercial drivers in Lagos State affect demand for third party liability insurance. Cross sectional survey research design was adopted while Multi-Stage sampling technique comprising of stratified, purposive and quota sampling was used to select the sample size from the population of study. Data collected from the respondents were analysed with simple regression analysis using statistical package for social science (SPSS) version 21. Two hypotheses were formulated and tested. Results revealed that there is a significant relationship between commercial drivers’ attitude in Lagos and purchase of third party liability insurance. Therefore, sensitization on importance of third party liability insurance cover will improve the moral and morale hazards of commercial drivers in Lagos State. Therefore, the study recommended among other things that commercial drivers in Lagos State should be sensitized in order to improve moral hazards. This will lead to increase in the purchase of third party liability insurance claims and in the long improve their risk attitude towards motor risks.

Keywords: Commercial Drivers, Risk Attitude, Third Party Motor Liability.

1. Introduction

Driver’s attitude on Nigeria’s roads had been an unpleasant experience compared to driving norms and tenets in some other developed countries (Federal Road Safety Commission) (FRSC) (2008). Atubi (2012) attributes driver’s attitude in Nigeria as a major cause of morbidity and mortality rate. According to FRSC (2007) and Obinna (2007), Nigeria has the highest rate of death from motor accidents in Africa, leading 43 other nations in the number of deaths per 10,000 vehicles. FRSC (2017) further asserts that an average of 13 deaths is recorded daily on Nigerian roads over the last decade. In 2017 alone, 4,410 accidents were recorded. Interestingly, larger chunk of recorded road accidents were traced to within and around Lagos State. This is because the state is the most heavily motorized urban metropolitan city in Nigeria (Atubi, 2010b).

The Federal Road Safety Commission (FRSC), (2009) lists causes of Road Traffic Crashes (RTC) to include human, mechanical and environment factors. However, about 90% of the crashes were attributed to drivers’ attitude orchestrated by human factors. The drivers’ attitude according to World Health Organisation (2006)’s training manual for road traffic injury prevention include exposure to demographic and economic; inappropriate and excessive speed; drinking and driving; unsafe road design, fatigue, and post-crash injury outcome.

In terms of the personal safety problem, Filani and Gbadamosi (2007) assert that Nigeria and indeed Lagos State is a high risk traffic region with an average of 32 traffic deaths per 1,000. Commercial drivers however account for the high road accident recorded in Lagos State. Though, the reason for road accident may include mechanical fault, a large hunk of it is traceable the drivers’ attitude which is further known as moral hazards. The resultant effects of these had always been argument between the negligent drivers and the third party involved. Commercial drivers result to begging the affected third party or pay out of pocket, neglecting the important role of Third Party Liability Insurance cover.

In reference to the above, effort of the government had been geared towards protecting innocent third party through third party only policy with the enactment of Third Party Act of 1945 which according to Akintayo (2004) covers insured’s (driver’s) legal liability to third party and solicitors fees for legal representation of the insured. The level of patronage and compliance according Ajemunigbohun and Oreshile (2014) are still very low. This however may be deduced from to attitude of road users, mostly especially commercial drivers towards risk and insurance cover.
Objectives of the Study

The main aim of this study is to investigate the effect of risk attitude of commercial drivers in Lagos State on demand of third party liability insurance. Specifically, the study intends to:

i. Investigate whether availability of third party liability insurance affects the risk attitude of commercial bus driver in Lagos State.

ii. Evaluate the degree of relationship between third party liability insurance cover and moral hazard effects of commercial drivers in Lagos State.

Research Questions

i. Does availability of third party liability insurance affects the risk attitude of commercial bus driver in Lagos State?

ii. What is the degree of relationship between third party liability insurance cover and moral hazard effects of commercial drivers in Lagos State?

Research Hypotheses

The following two hypotheses are generated for the study:

$H_{01}$: Availability of third party liability cover does not affect the risk attitude of commercial in Lagos State.

$H_{02}$: There is no significant relationship between third party liability cover and moral hazard effects of commercial drivers in Lagos State.

2. Literature Review

Concept of Automobile Insurance

Williams (2004) describes motor insurance as a policy purchased by the owners of a vehicle to cover losses due to accident, theft or liability from third party. Like other non-life insurance, Aduloju, 2008 posits that motor insurance contract covers the insured (driver) against future cover(s) through the exchange of consideration known as premium in order to indemnify the motorist in the event of the contingency insured against. The contingency according to Akintayo (2004) and Gonulal (2009) could either be accidental collision, fire, external explosion, lightning or burglary, theft, injury to third party, medical expenses and solicitor’s fees. Freeman and Pellatt (2002) further grouped contingency cover arising motor insurance policy into four depending on the requirement by the insured. They include: comprehensive cover, third party fire and theft cover, third part only cover and act only cover.

Comprehensive motor insurance policy offers the widest coverage ranging from cost of repairing the vehicle, the cost of a new vehicle if it is stolen or damaged beyond economic repair as well as legal liability claim against the driver or owner of the vehicle (Esho, Kirievsky, Ward, & Zurbrueg, 2004; Aduloju, 2008; Dadson, 2012). This policy has the highest premiums compared to other forms of policy (Dadson 2012). On the other hand, third party fire and theft cover is a limited to damage by fire, lightning and explosion, damaged either during attempted theft or while it is stolen and vehicle stolen but not recovered. Act only covers third party risks of death and bodily injury as specified by the Road Traffic Act. In modern day practice, Akintayo, (2004) and Edosa (2014) argue that Act only cover is a mere academic because it is rarely bought in practice.

Third party liability insurance is a compulsory form of insurance (Fronsiko, 2011). Its compulsory nature provides for a minimum statutory limit, which should, in most countries, be sufficient to indemnify the insured against loss (Cummins & Weiss, 1991). It is a financial protection scheme built to thwart any grievance that third parties could face, due to lack of solvency of first party who caused bodily injury or property damage subsequent to any event related to automobile accident for which driver and/or owner of the vehicle were responsible is covered (Dahlstedt, 1994). In third party liability, guaranteed funds are created to compensate persons who suffer injury caused by hit-and-run drivers and to pay claims for property damage caused by uninsured motorists (Gonulal, 2009). Malecki, Horn, Wiencing and Flitner (1996) divide liability arising from third party insurance compensation into two categories; tort compensation and no-fault compensation. Tort compensation proposes that the liability notion applies only to those drivers who are found negligent in content of the particular accident (Cummins & Weiss, 2001). The initial design of the tort compensation system is to increase drivers’ attentiveness on the road. Though criticized by Keeton, Connell, and McCord (1969) because they believe that some accidents may come from the reasons not related to the behaviour of drivers. They further argued that many claims were not compensated properly and so the system itself was inefficient. To resolve these inefficiencies, Cummins and Weiss (1991) suggest the ‘no-fault’ which is based on two main idea; health losses rather than property damage and first party coverage which means that the injured person receives the coverage from his or her insurance company (Cummins, Grace & Phillips, 1999).
Concept of Risk Attitude

The word risk is a household name that one has been living with. This is because risk is the centre of insurance and also inseparable from life (Redja, 2013). Risk is therefore evaluated as the deviation of future outcome from the expected or predicted values (Dorfman, 2009). It is the likelihood to experience catastrophic or economic loss which can be physical, emotional, and harmful of any kind. Dake (1991) defines risk as the variation in possible outcomes of an event based on chance. This definition aligns with Vaughan & Vaughan (2014), Redja (2013) and Redja & McNamara (2014). When risk is present, outcomes cannot be forecasted with certainty. The outcome(s) may relate to financial or non-financial, entity specific, intra-agency, entity’s assets, resources, or probable exposures (Loomba, 2014). Hence, risk can be described as being multidimensional (Sitkin & Weingart, 1995).

Attitude can be defined as a positive, negative or mixed reaction to a person, object or idea (Brehem, Kassin, & Fein, 2002). It is a psychological tendency that is expressed by evaluating a particular entity with some degree of favour or disfavour (Eagly & Chaiken, 1993). Higgins (2005) describes risk attitude as a chosen state of mind with regard to those uncertainties that could have a positive or negative effect on objectives or more simply chosen response to perception of significant uncertainty. Hence, risk attitude can be seen to be an evaluative reaction to a concept, such as road user safety.

Fuller, Bates, Germley and Hennigton (2008) hypothesize that attitude involving risks are not displayed equally across the population. For instance, females hold far less risk attitude towards driving and than their male counterparts (Fuller et al., 2008; Daulstedt 1996). Specifically, Dahlstedt (1994) posits that females are more likely to express concern to the concept of braking the speed limit and risky overtaking behaviour.

Attitude and Risks Taking Behaviour of Drivers

Attitude has been revealed to be significant predictors of drivers’ behaviour in high income countries and has also been identified to indirectly affect involvement in road accidents (Iversen & Rundmo, 2004). General studies have revealed that attitudes are significant predictor of risky driving behaviour (Lund, 2006). Risk attitude on the other hand is the propensity to take or avoid risk (Cho & Lee, 2006). The underlying traits of risk attitude according to Rohrmann (2008) are risk propensity and risk aversion. Rohrmann (2008) sees propensity and risk aversion as likely factors of uncertainties that could have a positive or negative effect on behaviour of rational human being towards risk.

Determinants of risk attitude of individuals are of great interest in the growing area of behavioural finance like insurance and focuses on the individual attributes, psychological or otherwise (Outreville, 2014). Lund and Rundmos (2009), however, reveal that people in low income countries reported more willingness to take risk both in road traffic and other general settings.

Social demographic variables such as gender, age, family status, occupation, educational levels, childhood experience, and personality variables on drivers’ behaviour have been suggested in explaining insurance buying behaviour as propounded by Greene (1963), and later expanded Nordfjaern, Jorgensen, Rundmo (2010) and Outreville (2014).

Attitudes, risk perception and behaviour have been found to be related to one another and to traffic safety within traffic psychology. Alexander, Barham and Black (2002) observe that most drivers whose motives for buying an insurance policy are based on the mandatory or compulsory features of the policy mostly do not come for claims. For instance, an insured in Nigeria who have the third party only or Act only policy just because the government have made accident liability motor insurance compulsory tends to settles claims out of his pocket because the behaviour is that insurance is not real and would not want to pass through the rigorous method of claims process. The reason for paying claims is out of pocket by the insured is due to the fact that insured fears that premium might increase if a claim is made on his third party liability policy (Churchill, 1991; Freeman & Pellatt, 2002).

Theoretical Framework

Utility Theory Versus Prospect Theory

Risk attitude is hinged basically on two major theories; expected utility theory and regret or prospect theory. While the former is more from the economic literature, the latter is tilted towards psychological reasoning. The utility (or optimal choice) theory assumes that consumers make choices with the sole objective of maximizing gains (Soriano, Dror, Alampey & Bayugo, 2002). The theory explains how to choose rationally when outcomes are uncertain. The theory proposes that a decision maker makes a choice between risky or uncertain options or
prospects by comparing their expected utility values, which are basically the weighted sums resulting from adding the utility values of outcomes multiplied by their respective probabilities (Mongin, 1997).

What this implies is that in a risky or uncertain situation an individual makes a choice between alternatives and is assumed to have preference ordering and those alternatives can be evaluated using the expected utility function, the curvature of which is the measurement of risk attitude (Pennings & Garcia, 2001). In essence, insurance models based on this (prevalent) assumption view the estimated probability of encountering a contingency, and its average cost, as indicators of individual willingness to pay insurance premiums to remove the risk. Though, the theory implies knowledge of the gain (that is, comparing the cost of the premium with the probability and cost of the risk), its applicability may be limited for this area of study because there is no sufficient proof that commercial drivers have sufficient knowledge about the alternatives.

Prospect theory provides an appropriate and viable theoretical framework to facilitate inquiry proposed in this study. Propounded by Kahneman & Tversky (1979), prospect theory is an alternative account of how to choose under uncertainty. In this theory values are assigned both to gains and losses unlike in expected utility model where values are assigned to final assets (Nisengwe, 2016). The theory holds that people want to replicate good feelings and lessen feelings of regret (Soriano, et al., 2002). As Barberis (2013) observed, prospect theory manages to capture well the experimental evidence on decision making under risk and uncertainty, including the violations of expected utility theory; thus it is still widely regarded as the best account of how individuals evaluate risk in experimental settings. When deciding whether or not to buy insurance, people usually act at the beginning of a period but assess their choice at the end, based on the outcome.

3. Research Methods

This study adopts a cross sectional survey design. It was adopted to gather primary data at evaluating third party liability insurance and commercial drivers’ attitude towards motor risks in Lagos State. The sample consisted of 150 commercial drivers drawn from five major motor parks in Lagos State. Multi-Stage sampling technique mainly adopted for the study. At the first stage, the five administrative divisions (Ikeja, Badagry, Ikorodu, Lagos and Epe) in Lagos State, Nigeria were taken as existing stratum. A motor park was then selected from each of the divisions based on purposively sampling method. A quota of 30 commercial drivers was allocated to each of the selected motor parks. This therefore amount to 150 commercial drivers as the sample size.

Data for this study were collected through structured questionnaire designed by the researchers. The questionnaires were administered by the researchers with the supports of three trained research assistants. The questionnaire consists of two parts. Part A contains respondents’ personal data, while part B was further divided into two sections comprising general statements relating to the research variables. One of the sections was based on a 4-point likert scale and the other was on a scale of ‘Yes’, ‘No’ and Undecided’. Data analysis was carried out using both descriptive and inferential statistics while hypotheses were tested with simple regression analysis using SPSS version 21.

4. DATA ANALYSIS AND INTERPRETATION

Table 1: Model Summary and Regression Model for Hypothesis 1

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R-Square</th>
<th>Adjusted R-Square</th>
<th>Std Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.612a</td>
<td>.633</td>
<td>.599</td>
<td>.672</td>
<td>1.942</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant): Third Party Liability cover

b. Dependent Variable: Risk attitude of drivers


Table 2: Model Summary and Regression model for hypothesis 2

<table>
<thead>
<tr>
<th>Third party Liability Cover</th>
<th>Moral hazard effect</th>
</tr>
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<tbody>
<tr>
<td>Automobile insurance cover</td>
<td>Coefficient Sig. (2-tailed)</td>
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**Correlation is significant at the 0.05 level (2-tailed).**
Discussion of the Empirical Results

Table 1 indicates the model summary of the multiple regression equation that predicted the effect of automobile insurance and accident liability towards risk attitude of drivers. In this study, 55.9 per cent of the variation in risk attitude of commercial driven is accounted for by automobile insurance and accident liability. The regression model explains 55.9 per cent of the variation. 44.1 percent which represents both measurement error in the independent variables as well as other factors that determine the risk attitude of commercial drivers. The result indicates that there is positive and significant effect of commercial drivers’ risk attitude on purchase of automobile insurance. In other words if commercial drivers know the meaning and workability of insurance business, their attitude towards risk will be improved. This is in consonant with view of Nyce (2007) who believes that moral and morale hazards of drivers will be improved if insurance companies can adopt actuarial and social equity in insurance pricing. The result further tallies with correlation result as both Kendall and Spearman rho P-value are less than 5% significant level. Table 2 shows correlation result indicates that there is significant relationship between risk attitude of motorist and demand for accident liability. The result shares convergent view with Ajemunighohun and Oreshile (2014). They posit that relationship subsists between motorists risk attitude and motor insurance demand.

5. Conclusions, Recommendations and Suggestion for Further Study.

Commercial drivers had been involved in most of road traffic crashes (RTC) in Lagos State despite the heavy presence of law enforcement agencies. This is not unconnected to inadequate rest, drink driving, care free attitude and non-usage of seat belt which the respondents attested to. These behaviours are linked to moral hazards which affect the commercial drivers’ risk attitude. Nyce (2007) asserts that moral hazards are common in motor risk and further affect insurance markets when proving insurance to individuals and organizations. The study finds out that most commercial drivers possess third party liability insurance through their unions or associations but none of them have any claims experience. Ajemunighohun and Oresile (2014) adduce this to low confidence in insurance claims management and low compliance by relevant agencies. Based on these, the study recommends the following:

- Commercial drivers in Lagos State must be sensitized about driving tenets.
- Commercial drivers must be orientated about their moral hazards that may affect their driving on Lagos roads.
- Appropriate authority like National Insurance Commission must increase awareness on motor risks.

Further research is expected to widen the scope of respondents to include commercial drivers from other states in order compare the driving attitude and pattern on demand for insurance. Further research may also be extended to private drivers.

References


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