INSURANCE AS AN IMPETUS FOR ECONOMIC DEVELOPMENT IN NIGERIA

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ABSTRACT

The insurance sector has contributed little or no effect in its role of mobilizing funds effectively and efficiently for productive investment which could lead to economic development. The study aims at investigating the impact of insurance business on the development of Nigerian economy. Secondary data were sourced from the Central Bank of Nigeria (CBN) statistical bulletin (2017), was used for the study and the time series data covered the period of 27 years ranging from 1991 to 2017 was implored. Ordinary least square regression was adopted with the aid of Econometric View 7 to analyze the data. The study reveals that life insurance premium and non-life insurance premium are statistically significant at 5% level of significant, which indicates that life insurance premium and non-life insurance premium have significant impact on the gross domestic product, while total insurance investment does not have significant impact on the gross domestic product. The study therefore concluded that, insurance company has a significant but negative association to economic growth and based on the above findings, we hereby recommended that government should ensure a compulsory insurance policy to be mandated on employers and vehicle users, authority and NAICOM should look into the investments of the insurance companies so as to ensure transparency, avoid unnecessary extortion and ensure fair dealings in order to actualize the sectors objective and hence, promote economic growth of our country Nigeria.

Keywords: Insurance Company, Life insurance, Non-Life insurance, Total investment, Economic Growth

1. INTRODUCTION

The role of insurance investments in promoting economic growth cannot be overemphasized. In the last few decades, Insurance Industry is one of the major sectors of the Nigerian economy and plays a significant role as the bedrock of nation building particularly to develop sustainable means of improving national economic growth. it provides insurance covers to the insuring public vis a vis agricultural sector, commerce and industry, oil and gas, corporate organizations, individuals and government (Tijani, 2015).The business of the insurance industry is such that it provides services in the form of security against unforeseeable contingencies which are likely to occur in everyday activities, thereby result in liabilities that metamorphosed to a financial loss (Olayungbo, 2015). These services are usually provided by the insurance company to the insured in return for a given small consideration known as a premium, which basically serve as the central source of insurance funds and also if well invested in it, lead to industrial profit. Furthermore, the premium contributed to the pool is used in the settlement of claims to indemnified the insured whenever loss occur and the residual will be reinvested to yield higher proportionate in return as profit to the organization (Omoke, 2011). In Nigeria, we have two types of insurance business, Life insurance and Non-Life insurance. Life Insurance provide a sum of money(sum Assured) on the premature death of the life assured or permanent disability of the assured, to provide for the assured family or beneficiary(Raji 2018).Akinpelu2003 opined that Non-life insurance is a short term insurance business which provide cover to the property of the insured and indemnified the insured whenever loss materialized. Every human being is faced with the possibility that one or more of the adventures which form part of life will sooner or later befall him and cause him some financial loss. According to that person’s position in the society, the loss may be very small or very large. If a villager’s shanty or a chief abode is damaged by fire, he can replace it simply by gathering the necessary building materials from the forest outside his door or in neighboring community (Irukwu.1971)

However, a big modern company is damaged by fire e.g. bottling company, the cost of repairs may be enormous and would involve the purchase of equipments from abroad, the maintenance of personnel during repairs, loss of profits as a result of delays in production, compensation to injured employees, and other taxing responsibilities which the factory owner would be ill-prepared to meet at a time when his asset are in debris as a result of the fire (Deolu, 2004). Some people may be favorable, and live all their lives without suffering any serious calamity or misfortune, but even the few lucky ones, cannot, at any one moment say with certitude, that misfortune will never fall on them. Quite apart from those financial disasters which may or may not happen, there are many hazards which are also completely beyond human control. For example, the family bread winner knows it is beyond his control to prevent death from coming his way. He knows he will die sooner or later, but he is uncertain as to when he would die. If he dies at an early stage, his family would suffer some financial loss should the bread winner loss his earning power as a result of an accident. The level of growth and development which should be commensurate with Nigeria's huge potentials has not been attained and may never be attained since independence Oluoma, (2010). Thus as opines by Oluoma (2010), several factors have been advocated for this lack of growth of the Nigerian economy and among such notable factors is inadequate funding for investment purposes which have bounded insurance premium to have effect on the Nigeria economy. The major role of an economy's financial sector is helping to channel resources from surplus unit to the deficit units for investment. Therefore, the financial sector improves the screening of fund seekers and the monitoring of the recipients of funds, thus improving resource allocation, mobilizes savings, lowers cost of capital via economies of scale and specialization, provides risk management and liquidity. Insurance companies could play a major role in these functions if properly managed, thus supporting economic growth. However, in Nigeria, based on the nation's experience of stunted growth; the insurance sector has not actually contributed meaningfully in its role of effectively mobilizing funds for productive investment which could lead to growth and development of Nigeria economy. The major functionality of the insurance on the client side is risk transfer. Usually the insured pays a premium and is secured against a specific uncertainty. By reducing uncertainty and volatility, insurance companies smoothen the economic cycle and reduce the impact of crisis situations on the micro and aggregate macro level. The challenges encountered by the insurance sector make it impossible for the sector to effectively and efficiently exercise it maximum power economically, as a result of poor awareness of the sector product. Prior to these problems, the study aims at evaluating the impact of insurance company on the growth of Nigerian economy.

Objective of the Study

The broad objective of this study is to evaluate the impact of insurance industry to the growth of Nigerian economy. The primary objectives are to:

i) To examine the impact of life-insurance premium on economic growth of Nigeria.
ii) To examine the impact of Non-life insurance premium on economic growth of Nigeria.
iii) To evaluate the impact of total insurance premium on economic growth of Nigeria.

2. LITERATURE REVIEW

Concept of Insurance

In defining insurance business Scholars has aggregate the fact that insurance business guarantees the entrepreneur and promoters of innovation to take risks that is necessary to make life better and not get burn in the process, Adebisi (2006) posited that insurance is a complicated issue which involve economic and social device for the handling of risks to life and property. He explains that it is social in nature because it represents the cooperation of various individuals for mutual benefits by combining together to reduce the consequence of similar risks. As every new area of risks and since with every passing day a new insurance package is amounted to take care of more and more areas of risks, the insurance booms. Akinlo (2013) defined insurance as a legal contract or a legal contract which is an agreement between two or more parties who are legally bound to fulfill a promise or a number of promises contained in the contract deed. He further posited that insurance can be classified as a contract made by a company or society, or by the state, to provide a guarantee of compensation for loss, damage, illness, death and so on in return for regular payment. But Agbaje (2005) defined insurance as the business of pooling resources together to pay compensation to the insured or assured (i.e. the policy holder) on the happening of a specified event in return for a periodic consideration known as premium.

Insurance can generally be defined as the pooling of funds from the insured (policy holders) in order to pay for relatively uncommon but severely devastating losses which can occur to the insured. It is a contract between two parties whereby one party called the insurer undertakes to pay the other party called the insured a fixed sum of money on the occurrence of a certain event. Obasi (2010) defines insurance as "a contract between the person who buys insurance and an insurance company who sold the policy". He opines that by entering into the contract, the insurance company agrees to pay the policyholder or his beneficiaries a predetermined sum of money in any case of any unfortunate event for a predetermined fixed sum payable which is referred to as the premium. In Nigeria, different types of insurance products are available include: fire, marine, aviation and transit, life covers, health, oil and gas insurances amongst others (Mojekwu, Agwuegbo & Olowokudejo, 2011).

General or Non-Life Business

This is a contract between an insurer (i.e. the insurance company) and the insured where by the insurer undertakes to indemnify the assured against losses, which may result from the occurrence of specified events within specified periods. General insurance business can be sub-divided into: fire, accident, oil and gas, contractors' all risks and engineering risks; marine and Credit insurance, bond and surety ship etc. This is a contract between the assurer (the company) and the assured (i.e. the policy holder) whereby the assurer undertakes to pay benefits to the policy holder on the attainment of a specified event. They type of insurance is long term in nature.

Life Assurance Business

Life Insurance provide a sum of money(sum Assured) on the premature death of the life assured or permanent disability of the assured, to provide for the assured family or beneficiary(Raji 2018) .life assurance comprises individual life business, group life insurance, pension business, health insurance business and annuities.

Evolution of Insurance in Nigeria

The beginning of insurance in Nigeria is highly connected with the advent of British trading company in the region and the subsequent increased inter-regional trade. During this period, shipping and banking activities increase due to increased in trade and commerce. It therefore became expedient for some foreign firms to handle some of their risks locally (Uche and Chikeleze, 2001). Trading companies in Nigeria were granted insurance agency licenses subsequently by foreign insurance companies. Such licenses made it possible for such firms to issue covers and assist in claims supervision. In 1918 Africa and East Trade Companies introduced the Royal Exchange Assurance Agency, followed by other agencies such as Patterson Zochonis (PZ) Liverpool, London and Globe, BEWAC's Legal and General Assurance and the Law Union and Rock (Osoka, 1992). In 1961, commission was set up to review the situations in the insurance industry and also to come out with recommendations. The outcome of commission gave rise to establishment of Insurance Companies Act of 1961. In 1969, fifty insurance companies have been established in Nigeria, though with foreign domination. The foreign domination made the Federal Government of Nigeria became skeptical as to what future holds for the then insurance industry, which was generally dominated by the foreigners even as Nigerians were not allowed to hold sensitive positions which would have equipped them for managerial or technical responsibilities in the industry. As a result of this, a parliamentary committee was therefore set up in 1964, under the chairmanship of honourable Obadan, for second time to look into the foreign domination of insurance. In the end, Obadan committee's recommendation could not go beyond sensitization of Government over the danger inherent in the foreign domination of insurance industry.

Insurance and Economic Growth

Over the years, the insurance sub-sector has witnessed some significant growth worldwide. According to Beck and Webb (2003), the share of this sector in the financial sector has been increasing as reflected in the volume of business of the insurers. Theoretically, the various channels through which insurance can positively impact economic growth include mobilization of domestic savings, efficient management of different risks, mitigation of losses, more efficient allocation of domestic capital and promotion of financial stability (Skipper, 2001; Beck and Webb, 2003; Akinlo, 2013). Ward and Zurbruegg (2000) and Kugler and Ofoghui (2005) assert that in offering risk transfer, indemnification for unexpected large losses, financial intermediary services and real services, insurance markets have had a significant productive impact within economies. For instance, insurance can help to promote strategic investments in productive assets by providing surety to investors and other contractual claimants (such as banks) to protect the value of their investments against unanticipated severe losses (Adams, Anderson, Anderson, and Lindmark, 2000). Crothers (2004) contends that post-independence insurance (particularly marine insurance) was instrumental in the economic development of the slave-owning states of the US. For instance, the development of a domestic marine insurance market enabled the Southern US to provide cost-effective risk protection for their exports of agricultural and associated industrial products without recourse to Lloyds of London. This exemplifies that insurance helped to stimulate economic growth and sustain the regional slave-based economy up to the end of the Civil War in 1865.

Theoretical Framework

Markowitz Portfolio Theory

The Markowitz efficient behavior exhibited by insurance companies while investing is usually associated with preference for more returns on investment to fewer returns, also risk on investment as directly depending on the size of expected returns as such it is the framework that underpins this study as it is used in evaluating the performance of managed portfolios. It provides gratifying predictions about how to envisage risk on investment as directly depending on the size of expected returns. Since the goal of any investment is to generate returns and ensure that expected returns on the investment funds is higher than the associated risks to be able to meet their long term obligations such as claims, the Markowitz portfolio theory provides the framework for achieving such objective. The essence of insurance business investment is to create a portfolio with assets which maturity will align with the expected return that can off-set claims from the policyholders as only guinue claims can get paid by the insurance companies. The saving/premuim that constitute investment ie intermediation decisions are based on the parameters of risk and returns and thus preference for more returns on investment rather than vise versa. The general problem of insurance business arise in collection of premiums as only after the pool of these premiums accumulated is then used in the settlement of claims by the insured and the investment returns serves as profit to the organization Omoke (2011). The Markowitz portfolio theory therefore provides the theoretical basis for this study because it explains why insurance business investment is concerned about the performance of their funds relative to GDP which is essentially a vehicle for economic growth.

Modern theory of financial intermediation

Based on Solow's (1956) work, Merton (2004) noted that due to the absence of a financial system that can provide the means of transforming technical innovation into broad implementation, technological progress will not have significant and substantial impact on the economic growth and development. This is as a follow up to the theory developed by Merton and Bodie (1995) referred to as the modern theory of financial intermediation. This theory emphasizes six core functions of insurance to include: provision of means for clearing and settling payments to facilitate exchange of goods and services; provision of mechanism for pooling resources; resource allocation; risk management; provision of price information to help in coordinating decentralized decision making in various sectors of the economy and provision of means to tackle the problem of moral hazard, physical hazard and information asymmetry. Thus their theory of financial intermediation encapsulates both the traditional financial theory and the changes in the financial environment. Eze and Okoye (2013) believe that it is by realizing these functions that the insurance sector contributes to economic growth. They opine that the channels to growth model links the financial intermediation function of insurance companies to economic growth; as well-developed financial intermediation is capable of promoting economic growth through marginal productivity of capital, efficiency of channelling savings to investment, savings rate and technological innovations.

Empirical Review of the Study

Several empirical evidences in the literature have highlighted the importance of the insurance industry in stimulating growth and development of an economy (Ukpong & Acha, 2017; Sambo, 2016; Oyedokun & Adesina, 2015;Akinlo & Apanisile, 2014).

Ukpong and Acha (2017) examined the cointegration and causal relationship between insurance and economic development in Nigeria using time series data from 1990 – 2013. Gross domestic product (GDP) is adopted as a proxy for the level of economic development, while total life insurance premiums (TLP), total non-life insurance premiums (TNLP) and total insurance investment (TII) are used in measuring growth in the insurance sector. Data is operationalized through the stationarity test, cointegration test, regression analysis and granger causality tests. The stationarity test reveals that all-time series data are stationary at the 1%, 5% and 10% levels of significance. The test for cointegration shows that all cointegrate when GDP is the endogenous variable. The granger causality test reveals that there is a bidirectional relationship existing between GDP and total non-life insurance premiums while a unidirectional relationship exists between GDP and total life insurance premiums with no causal relationship existing between GDP and total insurance investments. An R-squared value of 0.9776 indicates that the independent variables account for 97.8% of the variations in GDP while the remaining 2.2% is attributable to influence of other variables or fators not in the scope of this study. We conclude that insurance not only contributes to economic development but also has a long term equilibrium relationship. Sambo (2016) empirically assess the effect of insurance investment on GDP in Nigeria. Globally, insurance investments have become center of attention in researchers and discussions among academics and analysts alike due to its importance not only to the individual companies but to the long run economic growth of the countries. As such, insurance investments have become an essential aspect of insurance literature. However, the consequence of insurance investment by asset type to the total contribution to Nigerians GDP using monthly data from 1996 to 2012 has not been empirically established. The study employed monthly time series data for the portfolio of investment within this period and the GDPt as its variables. Multiple regression model was utilized to estimate the relationship for the combine variables while linear regression for the total investment against GDP using Gretl- 1.9. 12 for the analysis, Consequently, the study concludes that the statistically positive R2 of 74% indicates a joint relationship between insurance investments and GDP in Nigeria.

Oyedotun and Adesina (2015) investigated the role of insurance sector in mitigating sudden and devastating occurrences thereby stimulating economic growth cannot be over emphasized, however, no consensus has emerged on the impact of insurance development on economic growth. Hence the need to inquire not only the growth of the insurance sector in Nigeria but also how the sector has impacted economic growth. Data were collected from secondary sources and it was regressed using ordinary least square at 95% significant level. It was discovered that there is relationship between insurance business and economic growth within the period of study. Akinlo and Apanisile (2014) examined the impact of the insurance industry on economic growth in sub-Saharan Africa countries over the period 1986-2011 using pooled OLS, fixed effect model and generalized method of moment panel model for estimation. The findings showed that the insurance market has positive and significant impact on economic growth (Akinlo & Apanisile, 2014). This implies that there is a positive relationship between premium and economic growth of sub-Saharan African countries.

3. METHODOLOGY

The study investigated the impact of insurance company on the growth of Nigerian economy between (1991-2017). Secondary source of data from the Central Bank of Nigeria (CBN) statistical bulletin (2017) was used in the study and the time series data covered the period of 29 years ranging from 1991 - 2017. The purpose of choosing this period is to empirically test the extent to which insurance company contributes to Nigerian economy. The method of data analysis adopted by this study is analytical. It involves the use of the ordinary least square regression analysis to determine the unit regression explain possible correlation between the dependent variable (Gross domestic product) and the independent variables, life insurance premium, non-life insurance premium and total investment. The researcher used the SPSS statistical package to analyzed the data. The package is suitable since the data spans across many years as in the present research (1991 – 2017).

Model Specification

The model is stated below as:

GDP = f (LINSP, NLISP, TINSP)

GDP = $\beta_0 + \beta_1$LINS+ β_2 NLIS + β_3 TINS + μ

GDP = Gross Domestic Product

LINS = Life insurance premium

NLIS = Non-Life Insurance premium

TINS = Total insurance investment

β_0 = Constant

β_1 = Slope coefficient of LINSP

β_2 = Slope coefficient of NLISP

β_3 = Slope coefficient of TINSP

μ = Error term/Unbiased estimator

Data Presentation and Interpretation

Table 1: Result of Unit Root Test

Series	ADF	Critical value	Order of Integration
LINS	-3.226887*	-2.991878*	I(1)
NLIS	-4.808818*	-2.991878*	I(1)
TINS	-7.021669*	-2.991878*	I(1)
GDP	-3.651284*	-3.029970*	I(1)

Note: (*) indicates rejection of the null hypothesis of non-stationary at 5 percent significance level based on the MacKinnon critical values.

Source: Authors' Computation from E-View, 2019

Unit Root Test

The study conducts unit root tests of the variables in the model to determine their time series properties or characteristics, that is, whether stationary on non-stationary. The conduct of unit root test is essential to avoid spurious regression results (Gujarati, 2004). Researchers have developed several procedures for the test of order of integration. The most popular ones are Augmented Dickey-Fuller (ADF) test and the Phillip-Perron (PP). Augmented Dickey-Fuller test relies on rejecting a null hypothesis of unit root test (the variables are non-stationary) in favor of the alternative hypotheses of stationarity. The order of integration can also be ascertained with this test using the Augmented Dickey-Fuller (ADF) statistics. The result of unit root test is presented in Table 1 above while the tables for all unit root test conducted for the variables is presented in the appendix. The result in the Table above shows that all the variables are stationary. All the variables were stationary after the first difference. Therefore, it was concluded that all the variables were stationary and integrated of order one.

Table 2: Regression Analysis

Dependent Variable: GDP

Method: Least Squares

Sample: 1991 2017

Included observations: 27

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	161.3225	333.6325	0.483534	0.6335
LINS	8.980575	1.282610	7.001795	0.0000
NLIS	13.27721	4.663794	2.846870	0.0094
TINS	-42.15003	18.52990	-2.274703	0.0330

R-squared	0.762732	Mean dependent var	782.4535
Adjusted R-squared	0.730377	S.D. dependent var	650.2550
S.E. of regression	337.6463	Akaike info criterion	14.62251
Sum squared resid	2508111.	Schwarz criterion	14.81607
Log likelihood	-186.0927	Hannan-Quinn criter.	14.67825
F-statistic	23.57404	Durbin-Watson stat	1.573922
Prob(F-statistic)	0.000000		

Source: E-View Output, (2019)

Interpretation of Regression Analysis

The model summary in the Table above shows R^2 value of 0.763. This indicates that about 76.3% variation in gross domestic product is explained by life insurance; non-life insurance and total insurance. The R^2 value which is 0.76 also shows the strength of the model, the closer to one the better the result, (Tabachnick and Fidell, 2007). The adjusted R^2 shows that after adjusting for the degree of freedom, the model could explain about 73% of the systematic variation in GDP. In addition, Durbin (1970), states that when the Durbin Watson statistic value is above 0.5 or 50 percent, independent observation is assumed. In other words, there is no auto correlation among the residuals of the study. The Durbin-Watson statistics (1.574) lies between 1.5 and 2.5. This is an evidence of no serial auto-correlation among error terms of variables considered for the study.

The overall performance of the model is quite good because the p-value is 0.000 which indicates that the model is significant. This signifies that the model is adequate in relation to Gross domestic product, life insurance; non-life insurance and total insurance; hence provides greater reliability for information contained in the Table 2 above.

Discussion of findings

The results of the regression analysis reveal that, there is positive relationship between life insurance, non-life insurance and gross domestic product of Nigeria, for the period under review (1991-2016). Life insurance has positive relationship with gross domestic product which indicates that 1 percent increase in life insurance will lead to (₦9,000) increase in gross domestic product, also, 1 percent increase in non-life insurance will result to (₦13,000) increase in gross domestic product and lastly 1 percent increase in total insurance will lead to (₦42,000) decrease in gross domestic product. More importantly, statistics information in the Table 2 above discloses that life insurance, non-life insurance, have a positive significant impact on the gross domestic product while has a negative significant impact on the gross domestic product. This result conforms to the a priori expectation $\beta_{1,}$ $\beta_{2,}$> 0 while β_3 $_<$0. The a priori expectation states that life insurance and non-life insurance which are represented with $\beta_{1,}$ $\beta_{2,}$ respectively will have positive impact gross domestic product while total insurance which is identified with β_3 will have negative relationship on gross domestic product.

5. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

From the analysis derived from the use of Statistical Package for Social Sciences and the interpreted result, it was concluded that there is a negative but significant relationship between Life insurance and Gross domestic product. Also, there is a positive and significant relationship between Non-life insurance and gross domestic product. And lastly, there is a positive but insignificant relationship between Total insurance and gross domestic product. Based on the findings, it was therefore concluded that insurance company has significant impact on the growth of the Nigeria economy.

5.2 Recommendations

Based on the findings, the following recommendations are apt out:

i) National Insurance Commission NAICOM Should monitor claims payment of the insurance companies so as to ensure transparency, avoid extortion and incorporate prudency which will in turn trigger the public confidence in the services rendered by the insurance companies and hence, promote economic growth.

ii) Secondly, since the result of the study reveals that insurance sector significantly correlate economic growth, the authority should create a complain annex where the insured can report all form of sharp practices, unethical dealings, and fowl play so as to further promote economic growth.

iii) Proper awareness and sensitization exercise should be embarking upon to enlighten the entire public on the significance of insurance policies on their day to day livelihood.

iv) That the policyholder should ensure that they also pay their premium regularly and as at when due insurance companies should perform their duties in a professional way to induce a prudent policyholder in making prompt premium payment.

v) The brokers should also advice to remit the premium collected from the policyholder promptly, to facilitate smooth claim settlement and increase economic growth.

vi) The premium should be reduced, so that it can be of benefit to majority of individual by insuring their property which will have a positive effect on the economy.

vii) There should be continuity of production after loss had occurred with a cheap means of handling risks to the insured in view of the fact that the principle of large number is brought to bear in the practice and operation of insurance.

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