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INSURANCE INDUSTRY AND ECONOMIC GROWTH IN NIGERIA (2010-2019)

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Abstract
The paper investigated insurance industry and economic growth in Nigeria from 2010 to 2019. Secondary data obtained from the Central Bank of Nigeria Statistical Bulletin was used for the study and Ordinary Least Square (OLS) method was used to analyze the data obtained. Insurance premium was used as independent variable while gross domestic product was used as proxy for economic growth.
Result from the study revealed a positive relationship between insurance industry and economic growth. The study therefore recommended that premium generated by insurance companies should be invested in productive activities as there is positive relationship between insurance premium and economic growth in Nigeria. In addition, government should create an enabling environment through legislation to increase the premium to be realized by insurance companies.

Keywords:
Insurance Premium, Financial Intermediaries, Investment and Gross Domestic Product

1.0 Introduction

Financial institutions contribute to the growth of any economy through a functional approach which affects marginal productivity of capital efficiency of channeling savings to investment, savings rate and technological innovations. Insurance is one of the major non-banking financial institutions that mobilize fund for investment and for the well-being of an economy.
Nwite (2004) defined insurance as a legal contract, a legal contract which is an agreement between two or more parties who are legally bound to fulfil a promise or a number of promises contained in the contract deed. He further stated 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 called premium. In another definition by (Adebisi, 2006) defined insurance as the business of pooling resources together to pay compensation to the insured or assured (i.e policy holders) on the happening of a specified event in return for a period consideration known as premium.
The contract of insurance is one whereby a person or company (the insurer) agrees in consideration of a single or periodical payment (called the premium) to pay a sum of money to another person or company (the insured) on the happening of a certain event or to indemnify against loss caused by the risk insured against. Benefits accruing to the insured must be of a monetary nature. It is important to differentiate between "insurance and "assured". Insurance implies that the contract is designed to indemnify the insured against unforeseeable loss or damage which may or not occur e.g damage to property by fire. A contract of assurance is one in which the assured or his representatives are to receive a sum of money on the occurrence of an event which is bound to happen at sometime although the time of happening is uncertain e.g the death of the assured.

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Insurance is a commercial enterprise and a major part of the financial services industry. The sector represents the backbone of Nigeria's risk management system, ensures financial security, serves as an important component in the financial intermediation chain, and offers a ready source of long-term capital for infrastructural projects (Oyedotun& Adesina, 2015). Yinusa and Akinlo (2013) posited that insurance is the cornerstones of modern-day financial services. Apart from its traditional role of managing risk, insurance market acts as both intermediary and as provider of risk transfer and indemnification which enabled it promote growth by allowing different risks to be managed more efficiently, promoting long-term savings and encouraging the accumulation of capital, serving as a conduit pipe to channel funds from policy holders to investment opportunities, thereby mobilizing domestic savings into productive investment.
Insurance market are crucial for economic growth and a complementary stimulus to capital market development. Capital market is where individuals and institutions trade in financial securities. Organizations and institutions in the public and private sectors often sell securities on the capital market to raise funds (Madukwe& Obi-Nweke, 2014).
Capital market is a market for the generalization and utilization of long-term funds for development purposes and deals with various securities such as bonds, debentures and equities. The Nigeria insurance industry like most other insurance companies around the world, channels a substantial part of its surplus funds to the capital market (Madukwe& Obi-Nweke, 2014).
In 1986, as a result of introduction of Structural Adjustment Programme (SAP), there was a noticeable increase in the number of insurance companies operating in Nigeria, despite the level of increase in the number of insurance companies, their impact is not felt in terms of their contribution to economic development of Nigeria. This study seeks to investigate contribution of insurance industry to economic growth of Nigeria from 2010-2019.

2.0 Literature Review

2.1 Conceptual Framework

2.1.1 Concept of Insurance

A strong and competitive insurance industry is a compelling imperative for Nigeria's economic development and growth.
Oke (2012) stated that insurance is designed to protect the financial well-being of an individual, company or other entity in case of unexpected loss. According to him, some forms of insurance are required by law, while others are optional agreeing to the terms of an insurance policy creates a contract the insurer and the insured. Insurance contributes to the growth of any economy by taking premium from their clients and invest the funds in the economy. In Nigeria, the first insurance firms began in 1918 when the East and West African Trade companies introduced the Royal Exchange Assurance Agency (Etale, 2019).
There was increase in the number of insurance companies in Nigeria with the introduction of Structural Adjustment Programme in September 26, 1986.

2.1.2 Economic Growth

Economic growth is the process of measuring the size of national economics, the macro-economic indications, especially the gross domestic product (GDP) per capital, in an ascendant but not necessarily linear direction, with positive effects on the economic-social sector (Oshadami, 2006). According to the theory of balanced growth, there should be a simultaneous and harmonious development of different sectors of the economy so that all sectors grow together. However, for this to be achieved, a balance is required between the demand and supply sides. The supply side has to do with the simultaneous development of inter-related sectors which help in increasing the supply of goods which companies of issues such as investment in power, agriculture, irrigation, transport while the demand side concerns the provision of employment opportunities and increasing incomes so that the demand for goods and services may rise on the part of consumers (Lewis, 1955).

2.2 Theories

2.2.1 Financial Intermediation Theory

Besley and Bringham (2009) emphasized that the presence of intermediaries improves economic well-being. They further explained that financial intermediaries were created to fulfill specific needs of both savers and borrowers, and to reduce the inefficiencies that would otherwise exist if users of funds could get loans only by borrowing directly from savers.

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Finance is required for different purposes by different people, organizations and other economic agents. To provide the needed finance, there are varieties of institutions rendering financial services. Deposit money banks, insurance companies are among such institutions that render financial services. They are mainly involved in financial intermediation, or indirect financing which involves channeling funds from surplus unit to deficit unit of the economy, thus transforming bank deposits into loans and credits. There are businesses that have good ideas and business opportunities they want to invest money in, but they do not have money. They would willing to borrow from the net savers who have idle funds.

2.2.2 Capital Market

Capital market is one of the significant aspects of every financialmarket. It is a market for financial assets that have a long or indefinite maturity. It is a market for the mobilization of funds from the savings surplus sector of the economy to the saving deficit sector. Capital market is a network of specialized financial institutions, series of mechanism, processes and infrastructure that in various ways, facilitate the bringing together of suppliers and users of medium to long-term capital for investments in socio economic developmental projects. Adewole (2010) described the capital market as covering all services rendered institutions and facilities which exist for mobilizing long-term funds andfor channeling such funds to ultimate users. Capital market can be divided into two i.e primary and secondary market. Primary market is where new securities are traded, while secondary market is where existing securities are traded.

2.2.3 Investment Theory

On investment, we have the neoclassical, Keynesian and acceleration theory of investment. The neo classical theory of investment posits that investment is a function of interest rate. The theoretical basis for the neoclassical theory of investment is the theory of the optimal accumulation of capital. According to the theory, the desired capital stock is determined by output and the price of capital services relative to the price of output.

The price of capital services depends on the price of capital goods i.e interest rate and the tax treatment of business income (Obinna, 2020).

2.3 Empirical Review

Empirical studies conducted to examine relationship between insurance industry and economic growth in Nigeria are discussed below

Peter and Kjeill (2006) worked on the relationship of insurance and economic growth, a theoretical and empirical analysis. They applied a cross country panel data analysis using annual insurance premium data from 29 European countries over 1992 to 2004 period. They observed a weak evidence for a growth-supporting role of life insurance and explain this with similarities to recent bank and stock sector findings.

Haiss and Sumegi (2008) applied a cross country panel data analysis from 29 European countries panel data analysis from 29 European countries in the period from 1992 to 2005 to study the relationship between insurance companies and economic growth in Europe. Ordinary Least Squares (OLS) estimates and time-fixed effects were used in data analysis. They observed that there is a positive impact of life insurance on GDP growth in the 15 European countries; while non-life insurance has a larger impact in Central and Eastern Europe.

Mojekwu, Agwuegbo and Olowokudejo (2011) examined the impact of insurance contributions on economic growth in Nigeria. The study covered a period between 1981 and 2008. The study used dynamic factor model which described a number of methods designed to analyze a functional relationship between the volume of insurance contribution and economic growth in terms of underlying but unobservable random qualities called factors. The factor loadings indicated which common trend is related to which set of the series. The study found a functional positive relationship between the volume of insurance contribution and economic growth.

Oke (2012) used fixed effect model and co-integration to determine the short-run and long-run relationship between economic growth and insurance sector growth and development in Nigeria. The study spanned from the period 1986 to 2009. The result revealed that insurance sector growth and development positively and significantly affect economic growth.

Fashagba (2018) investigated impact of insurance on economic growth in Nigeria. Secondary data obtained from various sources including publication from Central Bank of Nigeria, while Ordinary Least Square Regression was used for data analysis. The study found that there is a statistical evidence of positive relationship but not significant between non-life insurance and economic growth and negative relationship but also significant between life insurance and economic growth. The study concluded that changes in non-life insurance positively influence the economic growth positively while life insurance has negative influence on the economic growth.

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3.0 Methodology

3.1 Research Design

The main objective of the study was to evaluate impact of insurance sector on economic growth in Nigeria. Research design adopted in this study was *ex-post facto*.

3.2 Sources of Data

The annual time series data were collected from secondary sources from 2010 to 2019. Data were collected from various annual reports from the Central Bank of Nigeria statistical Bulletin.

3.3 Method of Data Analysis

Multiple regression analysis of the Ordinary Least Square (OLS) was the estimation technique employed in this study to determine impact of insurance on the economic growth of Nigeria.

3.4 Model Specification

The model captures the impact of insurance sector on economic growth variable are stated below with insurance premium as independent variable while the dependent variable is gross domestic product (GDP)

This is expressed functionally as

GDP = f(Ins P)

The operational form of the model

$GDP = b_0 + b_1 \text{ Ins P} + \mu$

GDP – Gross Domestic Product

Ins P- Insurance Premium

b_0 – Intercept

b_1 = Co-efficient of the independent variable

μ - error term

4.0 Data Presentation and Analysis

Model	R	R Square	Adjusted R Squared	Std. Error of the Estimate	
1	0.674	0.632	0.614	6158.40244	

Source: Researchers' Computation 2021

The analysis shows that insurance premium (Ins P) is positively and correlated at 0.674 percent, with economic growth of Nigeria (i.e r= 0.674), it implies that insurance premium affects the economic growth of Nigeria at 63.2 percent

Decision rule: Reject Ho if significance < 0.05, otherwise accept.

5.0 Conclusion and Recommendations

5.1 Conclusion

The study investigated impact of insurance industry on economic growth of Nigeria using data from 2010 to 2019. Gross domestic product was adopted as the proxy for economic growth which is the dependent variable while total insurance premium was used as proxy for insurance sector which is the independent variable. Empirical result from the study revealed that insurance premium (Ins P) is positively correlated to economic growth of Nigeria.

5.2 Recommendations

1. Insurance premium generated by insurance companies should be invested in productive activities as the study revealed positive relationship between insurance premium and economic growth.
2. Government should create an enabling environment that will make more people and organizations to participate in insurance to widen the premium to be realized by the insurance companies.
3. Public should be protected against fraudulent insurance companies that collected premium and find excuses when it is time to pay compensation.
4. Enhancement of skills in vocation and technical education is also recommended in order to increase productivity and efficiency of staff members in that industry.

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