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Nigeria's Insurance Industry's Contribution to the Nation's Economic Growth

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Abstract

Aside from its primary role of being a protection against economic loss, the insurance sector is crucial to the advancement of any nation's economy as it helps to mobilize funds for the nation's long-term economic growth. However, there has been uncertainty regarding the Nigerian insurance industry's contribution to the nation's economic growth. This study examined the Nigeria insurance industry contributions to its economic growth. Using an ex-post facto research approach, data were extracted from the Nigerian Insurance Association and the Central Bank of Nigeria database covering thirty (30) year period (1992–2021), multiple regression analysis was performed on the data via the use of SPSS. The regression analysis's results show a p-value of 0.001, 0.289 and 0.412 for insurance penetration, insurance investments and insurance claims paid respectively. The growth of the Nigerian economy was thus found to be significantly impacted by insurance penetration, but not by insurance investments or claims paid. The study recommends that government should make deliberate effort to deepen insurance activities in Nigeria by enforcing the compliance of the statutory insurance policies as well as creating awareness to enhance more uptakes of other non- statutory insurance policies. Government agencies should also collaborate to make sure that the industry's revenue and premium collection are diversify into economic and productive investments, in order to boost economic growth.

Keywords: Economy growth, Insurance claims, Insurance industry, Insurance investment, Insurance penetration.

1. Introduction

According to Elendu (2013), insurance is a systematic approach to preventing financial losses where numerous people agree to regularly pay a small premium to an insurance company in exchange for the guarantee that they will be compensated for any losses they may sustain as a result of potential hazards like fire, accident, or death. According to Kazeem (2015) the importance of insurance companies for both individuals and businesses becomes evident when they provide compensation for business losses and avert the collapse of economic activity in the society. Insurance is essential because it provides financial compensation from the pool of collected contributions or premiums by all scheme participants, mitigating the impact of misfortune for both people and companies (Adetunji, Nwude & Udeh, 2018). Thus, it offers risk adjustment and management services to other economic sectors, such as manufacturing, transportation, agricultural, mining, petroleum, banking etc (Etale, 2019).

Aside from its primary role of being a protection against economic loss, Nassor (2021) opine that the insurance sector is crucial to the state of the national economy and helps to mobilize funds for the nation's long-term economic growth. This assertion was backed up by Ward and Zurbruegg (2000), who assert that insurance facilitates financial intermediation in addition to making economic transactions simpler by shifting risk and offering indemnity.

Government security programme may be supplemented or replaced by insurance, which can also promote financial stability, mobilize savings, ease trade and commerce, and guarantee that risk is more efficiently handled through appropriate capital allocation and loss mitigation(Skipper, 2001). According to Fashagba (2018), insurance contributes significantly to the capital market of the economy and accounts for a sizable portion of the capital market, hence the value of insurance to a country cannot be overstated.

Oshinloye (2009) states that a strong insurance sector is necessary for every country to have real growth, regardless of the GDP or public knowledge of insurance. However, there has been uncertainty about the Nigerian insurance industry's capacity to make a major contribution to the nation's economic progress, in contrast to industrialized nations where insurance plays a big role in enhancing residents' well-being and the overall state of the economy (Adetunji *et al*, 2018). While some stakeholders and industry participants seem to think that the industry's true contributions to economic growth were not fully captured, others seem to be asserting that the industry is encountering certain difficulties in increasing its contributions to the advancement of the Nigerian economy. Numerous studies have sought to investigate the asscociation between insurance and economic growth, including Etale (2019), Ukpong and Acha (2017), and others. While a number of these research have discovered a strong association between the insurance sector and the country's economic growth, other studies have discovered no correlation at all.

Given the foregoing, this study advanced this field of study by investigating the role that insurance plays in Nigeria's economic growth. Specifically, this study examined the effect of insurance penetration, insurance investments and insurance claims on the economic growth in Nigeria.

2. Literature Review

2.1 Conceptual Review

2.1.1 Insurance Penetration

Insurance penetration have been described as the percentage representation of the annual premium underwritten in relation to the GDP (Olayingbo & Akilo,2016). According to Podoaba (2015), insurance penetration is a measure of the extent of the contribution of the insurance industry to the GDP of a country. The insurance industry is better developed the greater the penetration rate (Alhassan & Fiador, 2014). Though insurance penetration rate is the most often used metric to assess how a nation's insurance market is developing, it does not provide specific details on a nation’s insurance industry position, even while it acts as a broad, high-level indication of the growth of an insurance market. Okonkwo and Eche (2019) have identified several factors that impact the insurance penetration rate.

These factors include the insurance providers' corporate image, their level of knowledge and awareness, their level of professionalism and attitudes, the insurance policy wordings' clarity, and their accessibility and prompt payment of claims. In addition to these, the macroeconomic foundations of the country, the dynamics of the insurance market and industry, and the regulatory capacity all significantly influence the penetration level of insurance. The study formulate the following hypothesis based on the body of available literature and the connection between insurance penetration and economic growth:

H_{o1}: Insurance penetration have no significant effect on economic growth in Nigeria.

2.1.2 Insurance Investments

Ehiogu, (2017) describes investments as the deployment of insurance funds that are not immediately needed for expenditure, or for the payment of insurance claims and benefits into a productive use. Put differently, it is the act of putting money that are not intended for immediate use to productive use, which might raise their worth or even cause them to multiply, depending on how long they are put to use. According to Yusuf, Ajemunigbohun and Alli (2017), the investments function performs critical part in the entire management of insurance businesses. The researchers suggested that because premiums are paid up front, they may be invested until money is required to cover costs and claims.

Of all the applications of premium, investments is the only one that yields a profit for the business going forward. According to Fadun and Shoyemi (2018), money from insurance firms is invested in the stock market, raising stock prices for the benefit of investors and boosting the national economy. The requirements for the goal of investing in the insurance industry is to increase funds in order to pay claims, which is the insurer's first and most crucial duty in the event that one occurs, and to prevent a financial deficit. Since a specific rate of return on its investments has been anticipated for the purpose of calculating premiums and the economic development of the country, if funds are not invested, the insurer's total revenue will not be sufficient to pay its obligations. The study formulate the following hypothesis based on the body of available literature and the connection between insurance investment and economic growth:

H_{02}:Insurance investments have no significant effect on economic growth in Nigeria

2.1.3 Insurance Claims

According to Krishman (2010), a claims on an insurance policy is a request made by an insured to an insured to carry out the guarantee promised when drafting the contract. Sajid, Arpah and Angappan (2017) posits that the crucial reason and a pivotal part that influence the insured's view of the insurer in general is claims payment. According to Oluwaleye, Shoyemi, and Edewusi (2020), an effective management of claims is critical to an insurance company performance. Therefore, claims management entails evaluating the claims's performance, keeping an eye on the costs associated with it, including settlement and legal fees, negotiating concessions, avoiding delays, and misunderstanding with clients when it comes to claims payment. The study formulate the following hypothesis based on the body of available literature and the connection between insurance claims and economic growth:

H_{03}:Insurance claims have no significant effect on economic growth in Nigeria

2.1.4 Economic Growth

Iyodo, Samuel, and Inyada (2018) describes economic growth as an gradual improvement of a country's productivity over a certain time frame accompanied by an increase the amount of national income. Economic growth indicates a gradual and persistent increase in the capital required to provide a nation's people with a growing variety of economic commodities (Iyodo, Samuel, Adewole & Ola, 2020). According to Yahaya and Bakare (2018), increased productivity is the main factor driving economic growth where productivity is the ability to produce more products and services using the same level of resources such as capital, energy, and labour.

According to Iyodo, et al (2018), one way to gauge the economic growth of a country is by looking at its GDP, which is a representation of its output economic model. GDP is the monetary worth of the products and services generated in an economy over a certain period of time, regardless of the nationality of the individuals who created the goods and services, according to the Central Bank of Nigeria (2009). This study measured economic growth with the real gross domestic product (Real GDP).

2.2 Theoretical Review

2.2.1 Theory of Financial Intermediation

The contemporary theory of financial intermediation was created by Merton (1995) and takes into consideration both the changes in the financial world and traditional theory. The theory is based on the notion that intermediaries alleviate informational asymmetries and transaction costs (Nassor, 2021). The primary focus of the modern theory of financial intermediation is on the roles played by financial intermediation, its impact on the whole economy, and how government regulations affect financial intermediaries (Fadun & Shoyemi, 2018).

Iyodo, Samuel, and Inyada (2018) assert that the theory places greater emphasis on six crucial roles that insurance plays as a financial intermediary. These roles include creating revenue to settle payments and facilitate the trading of commodities, allocating resources, asymmetric information, providing avenue for resources assembling, managing risk, supplying pricing data to facilitate decision-making and creating ways to address the issue of moral and physical hazard.Insurance companies' operations significantly increase economic growth and help individuals and families manage their income risk by carrying out these duties.

However, according to Nassor (2021), advances in information technology, financial market liberalization, and market depth tend to lower transaction costs and informational asymmetries, rendering financial intermediation meaningless. The theory is useful for this research because it clarifies the connection between a nation's economic growth and insurance industry activities.The theory states that the insurance industry's roles in resource accumulation, risk management, resource allocation, and exchange facilitation have allowed it to greatly boost economic growth and help families and individuals effectively manage their income risk (Okparaka, 2018).

2.3 Review of Empirical Literature

Fadun and Silwimba (2023) examined the contribution of insurance on Nigeria's economic growth. utilizing 28 years of time series data (1992-2019) and an ex post facto design. Premiums for both life and non-life insurance were found to have an impact on GDP, according to the long-run co-integration analysis.

Dawd and Benlagha (2023) looked at how the increase of insurance affected economic growth in 16 OECD nations between 2009 and 2020. Using the dynamic panel technique, it was found that factors associated to insurance had a considerable impact on economic growth. Additionally, the analysis verified the inverted U-shaped relationship.

Okonkwo and Eche (2019) conducted a study on penetration rate and economic growth nexus, they employed the OLS technique to analyzed Nigeria-specific data covering the period 1981 to 2017. The result indicated a weak impact of penetration on growth in the country.

Olarewaju and Msomi (2021) examined the short- and long-term dynamics of the factors influencing insurance penetration in 15 West African nations between 1999Q1 and 2019Q4. The collected quarterly data was subjected to the panel auto regressive distributed lag model. Insurance penetration and the independent variables—education, productivity, dependency, inflation, and income—were found to have a cointegrating and short-term significant relationship. The significance and negative sign of the error correction term show that all variables are moving toward long-term equilibrium at a moderate rate of 56.4%, further confirming that income, productivity, dependency, inflation, and education all influence insurance penetration in West Africa over the long term.

Iyodo, Samuel, Adewole, and Ola (2020) investigated how Nigeria's economic growth was affected by the performance of the non-life insurance sector. Purposive (judgmental) sampling and the ex-post facto research procedure were found to be suitable for the study, having been successfully applied by a number of researchers in the past. Regression analysis was used to examine the data. For the purpose of evaluating the hypotheses, ordinary least square regression was used. According to the study's findings, Nigeria's economic growth during that time was significantly boosted by the prevalence of non-life insurance. Savings and government spending have a negative impact on the economy, but profit and investment have a positive but statistically negligible impact.

Lyndon (2019) used data from 2001 to 2017 to examine the connection between Nigeria's economic growth and the expansion of the insurance business. The Nigerian Insurance Digest and the Central Bank of Nigeria (CBN) Statistical Bulletins' yearly reports for the years 2001–2017 provided the time series data for the variables. The study used multiple regression analysis and descriptive statistics, both of which were based on the E-views 9.0 program. The empirical findings demonstrated that in order to safeguard and encourage investors and guarantee long-term economic growth, comprehensive insurance plans should be made compulsory for both individuals and corporate entities.

3. Methodology

The ex-post facto research design, which involves gathering data over a specific time period and enables the establishment of the connection between variables, was chosen for the study. It was adopted for the study because the researcher intends to collect data from the Nigerian insurance industry report from the years 1992 to 2021and also the researcher wishes to establish a cause and effect relationship between the insurance sector growth and the growth of the Nigeria economy. Data were sourced and extracted from the database of Nigerian Insurance association (NIA) and the Nigeria Central Bank. Thirty years data for the periods (1992-2021) was used for this study.

Table 1: Measurement of Variables

Variables	Measurement	Notation
Economic growth	Real gross domestic product (Real GDP)	RGDP
Insurance penetration	Gross premium/ GDP	PEN
Insurance investment growth rate	Investment$_{\textbf{current year}}$ – Investment$_{\textbf{previous year}}$ / Investment $_{\textbf{previous year}}$	INV
Insurance claims growth rate	Claim$_{\textbf{current year}}$ – Claim$_{\textbf{previous year}}$ / Claim$_{\textbf{previous year}}$	CLA

Source: Author Compilation

This research adapted the linear regression model used by Etale (2019). The general form of a linear regression model as well as the adapted model for this study are specified below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \ldots\ldots + \beta_n X_n + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

Where;

Y= Dependent variable

α = Slope of the regression;

β_1,β_2.....,β_n = Regression coefficients;

X_1, X_2.....,X_n= Independent variables

ε = Error Term.

The model for this study:

$$RGDP = \alpha + \beta_1 PEN + \beta_2 INV + \beta_3 CLA + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (2)$$

Data analysis for this study consisted of descriptive analysis, which was to examine the features of the extracted data, diagnostic tests to determine the appropriateness of the data used for the study and inferential analysis with the use of regression analysis to determine the effect of the independent variables on the dependent variable.

4. Results and Discussion

4.1 Descriptive Statistics

Table 2: Summary of Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Real GDP (in billion)	30	875	73383	33926.10	29631.866
Insurance penetration	30	.00137	.00780	.0042593	.00136677
Insurance investments	30	-.60835	.77571	.1758567	.26596152
Insurance claims	30	-.79228	.87707	.1500360	.30479260

Source: SPSS Output (2024)

As presented in Table 2 the average real GDP value for the 30 observations was N33,926.10b with a standard deviation of 29,631.86. The standard deviation of the real GDP shows the presence of less disparity in the real GDP over the 30 years period.
The mean value of insurance penetration for the 30 observations was 0.43 percent with a standard deviation of .001367. The standard deviation of insurance penetration growth rate implies the existence of a insignificant disparity in the insurance penetration growth rate over the 30 years period.
The mean value of insurance investments. The standard deviation of insurance investments growth rate implies the existence of an insignificant disparity in the insurance investments growth rate over the 30 years period.
The mean value of insurance claims growth rate for the 30 observations was 15.00 percent with a standard deviation of .304793. The standard deviation of insurance investments growth rate implies the existence of an insignificant disparity in the insurance investments growth rate over the 30 years period.

4.2 Diagnostic Tests

4.2.1 Normality Test

Table 3: Normality Test

	Shapiro-Wilk		
	Statistic	Df	Sig.
Real GDP	.799	30	.006
Insurance Penetration	.934	30	.061
Insurance investments	.957	30	.255

Insurance claims	.910	30	.015

Source: SPSS Output (2024)

Table 3 indicated that the null hypothesis was accepted. Given that the p value for the variables were higher than 0.05, the data gathered for analysis is normally distributed.

4.2.2 Multicollinearity Test

Table 4: Multicollinearity Test

Coefficient			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Insurance penetration	.993	1.007
	Insurance investments	.992	1.008
	Insurance claims	.990	1.010
a. Dependent Variable: Real GDP			

Source: SPSS Output (2024)

As indicated in Table 4, every statistic indicated a VIF value of less than 10. This shows that multicollinearity issues does not exist among the independents variables used in this study.

4.2.3 Correlation Analysis

Table 5: Correlation Matrix

Variable	Real GDP	Insurance Penetration	Insurance investments	Insurance claims
Real GDP	1.000	-	-	
Insurance penetration	0.582	1.00	-	
Insurance investments	-0.205	-0.051	1.00	
Insurance claims	0.182	0.073	-0.075	1.00

Source: SPSS Output (2024)

The correlation between the independents variables; insurance penetration, insurance investments and insurance claims included in this study are presented and analyzed. According to Table 5 the correlation coefficient between insurance penetration and insurance investments is -0.051,insurance penetration and insurance claims is 0.073 and insurance investments and insurance claims is -0.075. Since their coefficients are all less than 0.80 we can concluded there is no series multicolinearity problem as supported with empirical evidence.

4.3 Test of Hypothesis

Economic growth measured by the real GDP was regressed against the three proxies (insurance penetration, insurance investments and insurance claims paid) used in measuring insurance contribution. .

Decision rule:

If ($p > 0.05$): Accept **H_0** (null hypothesis),

If ($p < 0.05$): Reject **H_0** (null hypothesis) and adopt **H_1** (alternative hypothesis).

Table 6: Regression Result of Insurance Contribution and Economic Growth

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.621[a]	.386	.315	24523.861

a. Predictors: (Constant), Insurance Penetration, Insurance investments, Insurance claims

ANOVA*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9826463978	3	3275487993	5.446	.005[b]
	Residual	1563913283	26	601419741.7		
	Total	25463377261	29			

a. Dependent Variable: Real GDP
b. Predictors: (Constant), Insurance Penetration Insurance investments, Insurance claims

Coefficients*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-16759.598	15414.203		-1.0867	.287
Insurance Penetration	12227401.62	3344225.439	.564	3.656	.001
Insurance investments	18612.579	17188.670	-.167	-1.083	.289
Insurance claims	12518.763	15019.399	.129	.834	.412

a. Dependent Variable: Real GDP
Source: SPSS Output (2024)

With a R Square of 0.386, Table 6 demonstrates that the predictors (insurance penetration, insurance investments, and insurance claims) can account for 38.6% of the variation in real GDP, with other factors not included in the model accounting for the remaining percentage.
Additionally, it demonstrates that the significance value is less than p=0.05, at 0.005. This suggests that the model was statistically significant in forecasting the impact of insurance investments, penetration, and claims on Nigeria's real GDP.

H_{01}**:** Insurance penetration have no significant effect on economic growth in Nigeria

According to the results from the regression analysis above, insurance penetration has a p-value of 0.001, which is less than 0.05. Consequently, the null hypothesis of the study—insurance penetration has no significant effect on economic growth in Nigeria—is rejected. Thus, this study found that insurance penetration has significant effect on economic growth in Nigeria.

H_{02}**:** Insurance investments have significant effect on economic growth in Nigeria

According to the results from the regression analysis above, insurance investments has a p-value of 0.289, which is more than 0.05. Consequently, the null hypothesis of the study—insurance investments has no significant effect on economic growth in Nigeria—is accepted Thus, this study found that insurance investments have no significant effect on economic growth in Nigeria.

H_{03}**:** Insurance claims have significant effect on economic growth in Nigeria

According to the results from the regression analysis above, insurance claims has a p-value of 0.412, which is more than 0.05. Consequently, the null hypothesis of the study —insurance claims has no significant effect on economic growth in Nigeria—is accepted Thus, this study found that insurance claims have no significant effect on economic growth in Nigeria

4.4 Discussion of Findings

To achieve the objectives of this study, real GDP was used as proxy for economy growth, while the insurance industry, the independent variables was measured using three proxies (insurance penetration, insurance investments and insurance claims paid).

The study found that insurance penetration has significant effect on economic growth in Nigeria. The finding of this study thus implied that insurance penetration contribute positively to the development of the Nigeria economy i.e an increase in insurance penetration rate translate to economy growth. The result of this study is in tandem with prior studies by Iyodo, Samuel and Inyada (2018)which also found that insurance penetration has significant effect on economic growth. This study finding is however contrary to some other research findings by Anteneh, (2016), Okonkwo and Eche (2019) which found that insurance penetration have no significant effect economic growth.

The study also found that insurance investments have no significant effect on economic growth in Nigeria. The result of this study implies that changes in insurance investments will not significantly affect the growth of the economy. The finding of this study is in line with studies by Ukpong and Acha (2017), Oloyede, Folorunsho and Ogamien, (2023) which also found that Insurance investments have no significant effect on economy growth. This study finding is however in contrary to some other research findings by Wadlamannati (2008), Fadun and Shoyemi (2018), Lyndon's (2019) which found that insurance investments have significant on economy growth.

The study also found that insurance claims have no significant effect on economic growth in Nigeria. The result of this study implies that changes in Insurance claims will not significantly affect the growth of the economy. The finding of this study is in line with studies by Lyndon's (2019), Oloyede, Folorunsho and Ogamien (2023) which also found that Insurance claims have no significant effect on economy growth. This study finding is however in contrary to some other research findings by Wadlamannati (2008), Fadun and Shoyemi (2018), Lyndon's (2019) which found that insurance investments have significant on economy growth.

5. Conclusion and Recommendations

The aim of this study is to examine the contributions of insurance industry to the growth of the Nigerian economy. The study found evidence that insurance penetration have a significant effect on the growth of the Nigerian economy, while insurance investments and insurance claims paid were found not to have significant effect on the growth of the Nigerian economy. The findings of this study further re-emphasize the results of previous studies which have found that though, the primary purpose of insurance is to protect policyholders against financial loss arising from damage or loss of property and such other subject matter of insurance, insurance plays a vital role in any economy by encouraging long-term savings and supporting the accumulation and investments of capital.

The study recommends that government through its agencies should make deliberate effort to deepen insurance activities in Nigeria. In addition, the National Insurance Commission and other government agencies should effectively collaborate to make sure that the industry's revenue and premium collection are diversify into economic and productive investments.

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