

Does Insurance Market Penetration enhance Economic Growth in Nigeria?

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Abstract: *In addition to its traditional role of managing risk, insurance market activity, both as intermediary and as provider of risk transfer and indemnification promote growth by allowing different risks to be managed more efficiently through promoting long term savings, encouraging the accumulation of capital, serving as a conduit pipe to channeling funds from policy holders to investment opportunities as well as mobilizing domestic savings into productive investment. It is against this background that this study examined the impact of insurance market penetration on economic growth in Nigeria. Annualized cross sectional data for 26-year period 1987-2012 were collated from the Central Bank of Nigeria statistical Bulletin, National Insurance Commission and Nigerian Insurers Association. Four hypotheses were proposed and tested using the Ordinary Least Square (OLS) regression. The results emanating from this study indicate that insurance penetration had positive but insignificant impact on economic growth in Nigeria. The study therefore recommends among others, that for the insurance industry in Nigeria to exert more positive impact on the Nigerian economy, government policies concerning insurance should focus more on attracting rural communities into the insurance bracket. This will assist at enhancing savings therefore providing funds for investment into the Nigerian real sector.*

Keywords: *Insurance, insurance Market Penetration, Economic Growth.*

1. INTRODUCTION:

Insurance is one of the cornerstones of modern-day financial services sector. In addition to its traditional role of managing risk, insurance market activity, both as intermediary and as provider of risk transfer and indemnification, may 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 channeling funds from policy holders to investment opportunities, thereby mobilizing domestic savings into productive investment (Arena, 1998).

Insurance is often defined as the act of pooling funds from many insured entities in order to pay for relatively uncommon but severely devastating losses which can occur to these entities (Omoke, 2012). The insured entities are therefore protected from risk for a fee, with the fee being dependent upon the frequency and severity of the event occurring (Encarta dictionary, 2009) hence, it is a commercial enterprise and a major part of the financial services industry. Adebisi (2006) argues that insurance is an intricate economic and social device for the handling of risks to life and property. 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 amount to take care of more and more areas of risks and this increases insurance booms consequently.

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 limited insurance penetration in the 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.

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. However, the demand for protection against loss of life and property caused by natural disaster, crime, violence, accidents, are not so demanded in Nigeria thus the purchase, possession and sale of goods, assets and services which are often facilitated by the

indemnification of the insurance thereby not enhancing growth. Therefore, the assured safety of life and property which enhances trade, transportation and capital lending and many sectors are not heavily reliant on insurance services.

It is against the background of insufficient funding from major financial sectors of the economy that could drive Nigeria's economic wellbeing, alternative sources of funding becomes imperative that it behoves researchers and policymakers to attempt at examining the impact of insurance penetration on economic growth in Nigeria. However, there seems to be paucity of studies especially in developing economies that this study examined the impact of the Nigerian insurance market penetration on economic growth.

2. LITERATURE REVIEW:

According to Afolabi (2004), financial institutions are the linchpin of the economy of any country as they occupy a central position in the country's financial system and are essential agents in the development process. By intermediating between the surplus and deficit savings' units within an economy, funds are mobilized and these funds are allocated into productive uses thereby increasing the quantum of investments, growth and development. The decade, 1995 to 2005 was particularly challenging for the Nigerian financial sectors. For the Nigerian banking industry; the magnitude of distress reached an unprecedented level, making it an issue of concern not only to regulatory institutions but also to the policy analysts and the general public. The need for a drastic overhaul of the industry was quite apparent (Oladepo, 2010). This drastic overhaul lead to the consolidation era in Nigeria's banking history.

Theoretical studies and empirical evidence have shown that countries with better-developed financial systems enjoy faster and more stable long-run growth. Well-developed financial markets have a significant positive impact on total factor productivity, which translates into higher long-run growth. Based upon Solow's (1956) work, Merton (2004:12) notes that

in absence of a financial system that can provide the means for transforming technical innovation into broad implementation, technological progress will not have significant and substantial impact on the economic development and growth.

The importance of the insurance-growth nexus is growing due to the increasing share of the insurance sector in the aggregate financial sector in almost every developing and developed country. Insurance companies, together with mutual and pension funds, are one of the biggest institutional investors into stock, bond and real estate markets and their possible impact on the economic development will rather grow than decline due to issues such as ageing societies, widening income disparity and globalisation. The growing links between the insurance and other financial sectors also emphasize the possible role of insurance companies in economic growth (Rule, 2001). Cross-shareholdings and bank-assurance as a major form of financial conglomerates and assure-finance play a rising role. Via credit default swaps (CDS) and other risk pass-through vehicles, insurance companies increasingly enter the market for credit risk, hitherto the sole domain of banks and capital markets.

Insurances are similar to banks and capital markets as they serve the needs of business units and private households in financial intermediation. The availability of insurance services is essential for the stability of the economy and can make the business participants accept aggravated risks. By accepting claims, insurance companies also have to pool premiums and form reserve funds. So insurance companies are playing an important role by enhancing internal cash flow of the assured and by creating large amount of assets placed on the capital market and hence may contribute to economic growth. The amount and complexity of the ties of an insurer to other institutions and the environment are equal to those of banks. Literature on insurance-growth nexus, however, is rare and mainly due to the lack of appropriate data sources the significance of econometric analysis is weak.

Catalan, Impavido and Musalem (2000) explored the development of contractual savings and their effect on other financial intermediaries and markets. Due to the nature of contractual savings institutions these face a lower possibility of runs against their assets, but on the other hand they have to bear long-term liabilities in their model. These two factors enable them to seek long-term investments, so that the maturity of the assets can be balanced against the liabilities and an additional advantage on banks could be taken. As a second participant the policyholder (household) enters the system and his intention to keep his direct liquid assets on specific level forces him to restore his liquidity position and to sell illiquid assets in favour of liquid, while maintaining his engagement for contractual savings. Therefore, contractual savings and the rigid liquidity level of the households drive the capital market development. Catalan et al (2000) support the insurance-growth nexus by emphasizing the institution's intermediary function, either by direct channel usage (portfolio setup) or by using other channels, mainly capital market development, connected to the insurance nexus.

Ranade and Ahuja (2001) analysed the development of the Indian insurance sector over time under the impact of softening regulatory constraints. In the initial setting, the Indian subcontinent's insurance sector was controlled by the state monopoly, hence competition was nonexistent and the price barrier thwarted access to insurance services for private households. Deregulation measures included the abolition of the insurance monopoly, promoting competition,

and developing a regulatory framework defining statutes for financial supervision. The new regulatory framework was following the recommendations of McKinnon (1973) and Shaw (1973) to increase savings, improve assets allocation and hence to promote growth. The authors try to validate the results of the transition by searching for evidence for two estimations which are both part of McKinnon's and Shaw's theory: (1) an additional accessible financial service for the private households should increase asset allocation, and (2) enhanced competition on the insurance sector is facilitating efficiency.

Kong and Singh (2005) focused on the asset allocation and management process of life insurers and their intention to match the assets against the company's liabilities. The paper compares the possibilities in emerging and mature markets (EMs & MMs) and differentiates between local domestic companies, local subsidiaries of global players and insurers only acting in mature markets and participating in emerging markets' growth by investment products. The subsidiaries of MM institutions usually adopt the business strategy of the holding company i.e., issuance of local liabilities matched with local assets and so they drive the local securities market together with domestic competitors. Furthermore, in the majority of EM countries the regulations require the investment in local assets to a certain degree and hence facilitate market development, but on the other hand this leads to restrictions in investment, making portfolio diversification imperfect and this may result in higher insurance costs.

Adaramola (2002) postulated that the insurance companies consist of life and non-life insurance companies and those that engage in both activities. They mobilize relatively long-term funds and act as financial intermediaries. Their investment activities are mainly in government securities, public sector enterprises and the mortgage industry. Aweh (2008) opined that insurance makes it possible for risk of loss to be eliminated for the individuals through the combination of a large number of people in the same position contributing to a common fund premium payment, out of which an unfortunate person may be indemnified of the loss caused to him. It is a situation where the fortunate helps the unfortunate. The uniform classes of insurance business, which apply throughout Nigeria, are set out in the first generation of directives. The first generation of insurance directives coordinated rules and practices for the supervision of insurers, particularly their financial stability and their freedom of establishment.

There are three main types of life insurance policies in actuarial literature including (a) whole life insurance - which provides a death benefit for lifetime; (b) term life insurance - that provide a death benefit for a limited number of years and, (c) endowment life insurance - which is a term life insurance with a saving component. In general terms, life insurance is a way of dealing with risk and a saving medium for consumers. It also plays important psychological and social roles. As Hofstede (1995) stated, 'the major function of life insurance is to protect against financial loss from loss of human life. Besides covering the risk of death, it also covers the risks of disability, critical illness, and superannuation'. Life insurance is therefore developed on the concept of human life value.

Chui and Kwot (2008) observed that banks are directly involved in the life insurance business in many countries and hence it is expected that a strong bank sector can boost the development of the insurance markets. The long term nature of life contracts and the predictable pattern of their cash flows put life companies in a position to play a vital role as an institutional investor in the capital market.

Oyejide and Soyode (1976) investigated the behaviour, growth, problems and prospects of insurance company's investment in the Nigerian environment and confirmed the fact that life companies are well placed to invest in any maturity asset from short term securities to infinite maturity securities such as preferred and equity stocks. The short securities can be continually re-invested when they mature. Akintola-Bello (1986) also studied the life insurance investment and observed that cash and bill of exchange dominated the investment pattern of the insurance companies in Nigeria while Randle and Ahuja (2001) emphasized that the life insurance companies facilitate long term investments rather than short term investments as in the case of non-life insurance companies.

Szablicki (2002) conducted a cross-sectional analysis and a panel regression for causality between three different life insurance figures and income and socio-economic country variables for the time period from 1960 to 1996. The analysis of the data from 63 developing and developed countries is one of the few to find education level to enter significantly. Furthermore the findings emphasise the importance of banking sector development and the results for the role of the income level are in line with the results of previous works. The panel data regression mainly confirms the results of the cross-section estimation.

Webb, Grace and Skipper (2002) used a Solow-Swan model and incorporate both the insurance and the banking sector, with the insurances divided in property/liability and life products. Their findings indicate that financial intermediation is significant. When split into the three categories banking and life sector remain significant for GDP growth, while property/liability insurances lose their importance. Furthermore results show that a combination of one insurance type and banking has the strongest impact on growth.

Lim and Haberman (2003) concentrated on the Malaysian life insurance market. While the interest rate for savings deposits and price enter significantly in the equation, the positive sign for the interest rate puzzles the authors. This could be in line with findings of Webb et al (2002), who found the best results when insurance and banking sector are combined in the estimates. Price elasticity is found to be more than even.

Beenstock, Dickinson and Khajuria (1988) applied pooled time series and cross-section analysis on 1970- 1981 data, covering mainly 12 countries. They regress premiums for property liability insurance (PLI) onto gross national product (GNP), income and interest rate development. They find that premiums are correlated to interest rate and GNP; marginal propensity to insure (short and long-run) rises with income per capita and is always higher in the long run. Beenstock et al (1988) argue that insurance consumption is not affected by economic cycles or cyclical income variations.

Further to this, property insurance may facilitate bank intermediation activity by for example partially collateralizing credit, which would reduce bank's credit risk exposures thus, promoting higher levels of lending (Zou and Adams, 2006). At the same time, the development of the banking sector may facilitate the development of the insurance activity through a much more effective payment system allowing an improved financial intermediation of services (Webb, Grace, and Skipper, 2002). Regarding the conjoint effect with the stock market, the development of the insurance activity, in particular life insurance companies, could promote stock market development by investing funds (savings) raised through contractual saving products in stocks and equities (Impavido, et al. 2003; USAID, 2006).

Outreville (1990) conducted a cross-section analysis on PLI premiums for the years 1983 and 1984 for 55 developing countries onto GDP, insurance price and other macroeconomic figures. The results are similar to Beenstock et al (1988) and support the significance of income and financial development (M2/GDP). Other explanatory variables don't seem to be important. Problems in the investigated countries are the insufficient demand for insurance services and the hence resulting unbalanced portfolio of the insurer.

Browne and Kim (1993) analysed life insurance consumption per capita for 45 countries for the years 1980 and 1987. They regress cross-sectional data onto various country figures, such as income or inflation rate. Income, dependency and social security expenses are positively, inflation is negatively correlated and significant in both years. The religious origin – i.e. being a Muslim country – is always negatively connected to insurance consumption and so the findings support the works Hofstede (1995, 2004) and Fukuyama (1995) in their reasoning that social backing influences insurance demand.

Outreville (1996) investigated the correlation of life insurance premiums to GDP and other factors for the year 1986 for 48 developing countries. The results of the cross-sectional analysis contradict his former work (Outreville 1990) by showing no significance for real interest rate or financial development (M2/GDP). Only the income elasticity is similar to those found in former works (Beenstock et al, 1988, Outreville, 1990; Browne and Kim, 1993). Country indicators such as rural population or education level cannot explain demand.

Browne, Chung and Frees (2000) applied a pooled cross-sectional panel model to motor vehicle and general liability insurance in the OECD over the 1986-1993 period. They regress liability insurance consumption on a variety of factors, including income, wealth and the legal system. Income and the legal system are positively correlated to insurance consumption, while loss probability and wealth are negatively correlated with insurances consumption. Foreign firms in the market and risk aversion are positively connected to motor vehicle insurance consumption and hence contrary to general liability consumption. Browne et al (2000) argue that income is affecting insurance consumption. The correlation with risk aversion is statistically insignificant for motor vehicle insurance consumption and negatively connected in the cross-sectional model for general liability insurance consumption.

Ward and Zurbruegg (2000) analysed Granger causality between total real insurance premiums and real GDP for nine OECD countries over the 1961 to 1996 period. For two countries (Canada, Japan) the authors found the insurance market leading GDP and for Italy they found a bidirectional relationship. The results for the other countries showed no connection. Results from the Error-Correction model depict similar results and adding Australia and France to the group of countries giving evidence for some kind of connection. In interpreting the findings, the authors refer to cultural predispositions towards uncertainty avoidance (Hofstede, 1995; Fukuyama, 1995) and resulting propensity for insurance and the effects of regulation. Furthermore they offer differing insurance density and its dynamic growth as another possible explanation.

Beck and Webb (2002) applied cross-country and time-series analysis for the relation between life insurance penetration, density, and percentage of private savings to GDP, real interest rate, inflation volatility and others as the explanatory variables. Strong evidence was found for GDP, old dependency ratio, inflation and banking sector development. From the group of additional explanatory variables anticipated inflation, real interest rate, secondary enrolment and the private savings rate were found to be significant. Deregulation was found to be a process able to facilitate growth in the insurance industry and supports the expectations of Kong and Singh (2005). Socio-political instability was found to be more a proxy for poverty than an indicator for the need to insure.

Kugler and Ofoghi (2005) added cointegration analysis to the causality test to examine the long-run relationship between insurance market size and economic growth in United Kingdom for the period from 1966 to 2003 for long-term insurance, and for the period from 1971 to 2003 for general insurance (from 1991 to 1997 for marine-aviation transport insurance and reinsurance). In comparison to Ward and Zurbruegg, who used aggregate variable in their estimation (total written premiums) because of possibility of cointegration, this study used disaggregated data for the measure of market size. The authors found a long-run relationship between development in insurance market size and

economic growth for all components of insurance markets. Causality tests show that there is a long-run causality from growth in insurance market size to economic growth for eight out of nine insurance markets (the exception is pecuniary loss insurance). Causality in short-run exists from life, liability and pecuniary loss insurance to economic growth and there is an evidence of bidirectional causal relationship in the long-run between economic growth and insurance market size for the three insurance categories.

3. METHODOLOGY:

The data used for this study was generated from the CBN Statistical Bulletin and NAICOM. The model for this study was specified in line with the works of Holsboer (1999), Ward and Zurbruegg (2000). However, control variables were introduced in line with the work of Njegomir and Stojic (2010). Thus we hypothesized that that insurance penetration does not exert positive and significant impact on economic growth in Nigeria. The relevant model is-

$$Gdppc = \alpha + \beta IP + \mu \dots \dots \dots (i)$$

where;

$Gdppc$ = Gross domestic product per capita

α = Constant of the equation

β = Coefficient of the explanatory variable

IP = insurance penetration

μ = Error Term

However, incorporating the control variables in equation (i) we have;

$$Gdppc = \alpha + \beta_1 TIP + \beta_2 BCPS + \beta_3 EXP + \beta_4 GEXP + \mu \dots \dots \dots (ii)$$

where;

$BCPS$ = Bank Credit to the Private Sector

EXP = Export rate

$GEXP$ = Government expenditure

We used the gross domestic product per capita ($Gdppc$) as our dependent variable. This measures the income per head in line with the works of Holsboer (1999), Ward and Zurbruegg (2000) and Njegomir and Stojic (2010). For our independent variable we measured insurance penetration (IP) by dividing insurance premium by gross domestic product. Insurances are similar to banks and capital markets as they serve the needs of business units and private households in financial intermediation. The availability of insurance services is essential for the stability of the economy and can make the business participants accept aggravated risks. By accepting claims, insurance companies also have to pool premiums and form reserve funds. So insurance companies are playing an important role by enhancing internal cash flow of the assured and by creating large amount of assets placed on the capital market and hence may contribute to economic growth.

Bank credit to the private sector (BCPS), export rate (EXP), government expenditure (GEXP) were used as control variables. Bank credit to the private sector measures financial opportunities available to investor for investment. According to Omoke (2012), the totality of the financial intermediaries in line with the finance growth nexus exerts positive impact on economic growth. Again in Nigeria, the banking sector provides the major investable funds for investment hence, it was included in this study to measure financial opportunities available to investors. This proxy was measured by core credit to the private sector divided by gross domestic product.

Export is one of the factors, considered in traditional Keynesian theory that can facilitate economic growth (Njegomir and Stojic, 2010). In this study, export rate was introduced as control variable to capture the inflow of revenue from export in Nigeria. The Nigerian economy is predominantly oil driven, thus total export in naira will be used. Thus, it was measured by total export divided by gross domestic product. Lastly government has an important role for the establishment of framework for private sector development in any economy, however, numerous theoretical and empirical research suggest that the larger government consumption, the less developed will be financial system, especially insurance Industry (Njegomir and Stojic, 2010). In this study government expenditure was also introduced to capture the effect of government expenditure on economic growth. Thus, this proxy was measured by aggregate government expenditure divided by gross domestic product.

We used the Ordinary Least Square (OLS) regression to test the hypotheses stated in this study. Regression is concerned with the study of the dependence of one variable, the dependent variable, on one or more other variables, the explanatory variables, with a view to estimating and/or predicting the population mean or average value of the former in terms of the known or fixed (in repeated sampling) values of the latter (Gujarati and Porter, 2009). Again regression analysis is used in modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables (Onwumere, 2005). Most commonly, regression analysis estimates the conditional expectation of the dependent variable given the independent variables that is, the average value of the dependent variable when the independent variables are held fixed.

4. PRESENTATION AND INTERPRETATION OF DATA:

The data used to test the hypothesis is presented in table 4.1. As indicated from table 4.1, the average value of gross domestic product per capita within the period of this study was N76.74 while the medium value was N47.26. Nigeria's gross domestic product per capita was highest in 2012 when the value was N269.09 while the year with least value of gross domestic product per capita was in 1987 when the value was N2.17. As revealed by the skewness of gross domestic product per capita, there was a positive skewness (1.12) of the gross domestic product per capita indicating that the degree of departure from the mean of the distribution is positive revealing that overall there was a consistent increase in gross domestic product per capita from 1987 to 2012. Though as indicated by the Kurtosis which was 3.12 > 3 which is the normal value indicates that the degree of peakedness within the period of this study were normally distributed as most of the values hover around the mean. The Jarque-Bera statistic is an indication of the normality of distributions and was 5.45 and since the probability is greater than, the distribution is normally distributed.

Table 4.1 Gross Domestic Product per capita and Insurance Penetration

Year	GDPPC	IP	BCPS	EXP	GEXP
1987	2.17	1.98	0.11	0.01	0.07
1988	2.96	1.60	0.10	0.01	0.05
1989	4.30	1.31	0.08	0.01	0.04
1990	5.31	1.47	0.07	0.01	0.03
1991	6.13	1.90	0.08	0.01	0.03
1992	9.84	1.51	0.07	0.01	0.02
1993	12.25	2.27	0.12	0.01	0.01
1994	15.73	3.55	0.10	0.00	0.01
1995	32.67	5.01	0.06	0.01	0.01
1996	33.46	3.37	0.06	0.01	0.00
1997	34.77	2.67	0.08	0.01	0.00
1998	33.11	2.78	0.09	0.01	0.00
1999	38.83	2.56	0.09	0.00	0.00
2000	55.71	2.23	0.08	0.00	0.00
2001	57.22	3.34	0.11	0.00	0.00
2002	55.68	3.82	0.12	0.01	0.00
2003	70.81	3.91	0.11	0.01	0.00
2004	81.51	3.90	0.13	0.01	0.01
2005	104.36	3.57	0.13	0.01	0.01
2006	132.60	3.94	0.12	0.01	0.01
2007	137.10	4.25	0.18	0.01	0.01
2008	161.26	4.34	0.29	0.01	0.01
2009	164.56	6.34	0.37	0.01	0.01
2010	225.56	5.59	0.30	0.01	0.01
2011	248.29	5.36	0.29	0.01	0.01
2012	269.09	5.77	0.36	0.01	0.01
Mean	76.74	3.40	0.14	0.01	0.01
Median	47.26	3.46	0.11	0.01	0.01
Maximum	269.09	6.34	0.37	0.01	0.07
Minimum	2.17	1.31	0.06	0.00	0.00
Std. Dev.	79.97	1.44	0.09	0.00	0.02
Skewness	1.12	0.33	1.42	-0.11	2.08
Kurtosis	3.12	2.17	3.58	1.80	6.67
Jarque-Bera	5.45	1.21	9.13	1.62	33.42
Probability	0.07	0.55	0.01	0.45	0.00
Observations	26	26	26	26	26

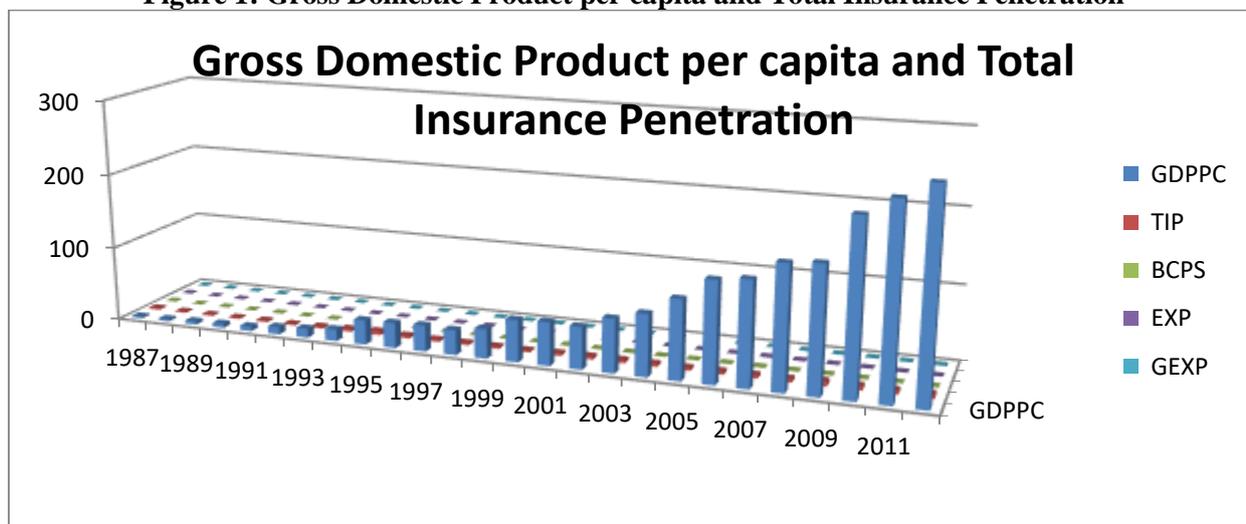
Source: Researcher's Excel Computations

Note: GDPPC = Gross Domestic Product per capita, TIP = Total Insurance Penetration, BCPS = Bank Credit to Private Sector Rate, EXP = Export Rate, GEXP = Government Expenditure rate

For insurance penetration, the mean value within the period of this study was N3.40 while the medium value was N3.46. Insurance penetration in Nigeria was highest in 2009 when the value was N6.34 while the year with least

insurance penetration was in 1989 when the value was N1.31. As revealed by the skewness of insurance penetration, there was a positive skewness (0.33) of insurance penetration indicating that the degree of departure from the mean of the distribution is positive revealing that overall there was a consistent increase in insurance penetration 1987 to 2012. Though as indicated by the Kurtosis which was $2.17 < 3$ which is the normal value indicates that the degree of peakedness within the period of this study were not normally distributed as most of the values did not hover around the mean. The Jarque-Bera statistic is an indication of the normality of distributions was 1.21 and since the probability was greater than zero, the distribution is not normally distributed. Figure 1 diagrammatically represents the gross domestic product per capita and insurance penetration for Nigeria from 1987 to 2012.

Figure 1: Gross Domestic Product per capita and Total Insurance Penetration



Source: Researchers' Excel Computation

Table 4.2 Regression Result for Hypothesis

. regress gdppc TIP Bcps Expr Gexp

Source	SS	df	MS			
Model	137524.361	4	34381.0903	Number of obs =	26	
Residual	22372.2843	21	1065.34687	F(4, 21) =	32.27	
Total	159896.645	25	6395.86582	Prob > F =	0.0000	
				R-squared =	0.8601	
				Adj R-squared =	0.8334	
				Root MSE =	32.64	

gdppc	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
TIP	12.421	9.166143	1.36	0.190	-6.641037	31.48304
Bcps	587.7621	122.7961	4.79	0.000	332.3936	843.1306
Expr	1005.321	1956.503	0.51	0.613	-3063.449	5074.091
Gexp	-650.1423	505.9708	-1.28	0.213	-1702.366	402.0817
_cons	-48.60887	25.39244	-1.91	0.069	-101.4153	4.197595

Source: Researcher's Stata Result

$$Gdppc = -48.61 + 12.42TIP + 587.76Bcps + 1005.32Expr - 650.14Gexp$$

Table 4.2 shows the result of the regression analysis of the impact of the insurance penetration on the gross domestic product per capita of Nigeria from 1987 to 2012. The result reveals that the model for our study is well fitted (F-statistic= 32.27). The coefficient of determination (R-square), which measures the goodness of fit of the model, indicates that 86.01% of the variations observed in the dependent variable were explained by the independent variables. This was moderated by the Adjusted R-squared to 83.34%, indicating that there are other variables other than our explanatory variables that might also impact on the dependent variable. The result shows that TIP had positive and non-significant impact on the Gdppc of Nigerian (TIP coefficient = 12.42, $p = 0.19 > 0.05$, t-value = 1.36). For the control variable, bcps, has positive and significant impact on Gdppc (bcps coefficient = 587.76, $p = 0.00 < 0.05$, t-value = 4.79). Also, Expr had positive but non-significant impact on Gdppc (Expr coefficient = 1005.32, $p = 0.61 > 0.05$, t-value = 0.51) while Gexp had negative and non-significant impact on Gdppc (Gexp coefficient = -650.14, $p = 0.07 > 0.05$, t-value = -1.91).

The availability of insurance services is essential for the stability of the economy and can make the business participants accept aggravated risks and Insurances are similar to banks and capital markets as they serve the needs of business units and private households in financial intermediation. By accepting claims, insurance companies also have to pool premiums and form reserve funds. So insurance companies are playing an important role by enhancing internal cash flow at the assured and by creating large amount of assets placed on the capital market and hence may contribute to economic growth. The finding of this study which indicates that insurance penetration had positive impact on economic growth although it was not significant was in line with the works of Arena (2008), Holsboer (1999) and Ward and Zurbruegg (2000). The non-significance could be attributed to the deregulation of the Nigerian economy and insurance activity not able to facilitate growth in the insurance industry.

5. CONCLUSION AND RECOMMENDATIONS:

Insurance is an indispensable aspect of a nation's financial system and theoretical conceptions explain that financial systems influence savings and investment decisions through lowering the costs of researching potential investments, exerting corporate governance, trading, diversification and management of risk, mobilization and pooling of savings, conducting exchange of goods and services and mitigating the negative consequences that random shocks can have on the economy.

However, the level of insurance market activity which should be commensurate with Nigeria's huge potentials has not been attained. Insurance by reducing uncertainty and volatility smoothen the economic cycle and reduce the impact of crisis situations on the micro and macro level. But, the demand for protection against losses of life, property caused by natural disaster, crime, violence, accidents, fire etc are not so demanded in Nigeria. It is against the foregoing that this study was undertaken to explore the impact of insurance market activity on economic growth in Nigeria.

The result emanating from the hypotheses tested indicates that the insurance sector of Nigeria has assisted in influencing savings and investment decisions and hence long-run growth rates through lowering the costs of researching potential investments, exerting corporate governance, trading, diversification, and management of risk, mobilization and pooling of savings, conducting exchanges of goods and services, and mitigating the negative consequences that random shocks can have on capital investment thereby enhancing the growth of the Nigerian economy.

Insurances are similar to banks and capital markets as they serve the needs of business units and private households in financial intermediation. The availability of insurance services is essential for the stability of the economy and can make the business participants accept aggravated risks. Hence, this study recommends a facilitation of linkages between various financial institutions in the country that will lead to greater penetration in the Nigerian insurance industry. This will include the healthy application of banc assurance which is mutually beneficial for insurance companies and banks, mortgage protection, leasing, risk management services, among others. Also, NAICOM and the insurance industry should leverage on the micro-insurance programme to ensure that insurance is entrenched among the grass roots to increase insurance awareness, volume of business, and invariably increased premium income. Insurers should further engage in building and strengthening customer relationships to keep them coming back, provide value added services that are difficult for competitors to duplicate, improve their product development and service delivery processes, settle genuine claims promptly, increase their staff awareness of customer needs, train and effectively maintain an effective sales and marketing force. Moreover, there should be cooperation of the industry operators and regulatory authorities to strictly enforce the implementation of the compulsory insurance products being driven under the auspices of Market Development and Restructuring Initiatives (MDRI) by NAICOM. This will no doubt generate billions of naira annually as premium income if effectively implemented.

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