Impact of Insurance Deepening on Economic Growth in Nigeria

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Abstract: **- This paper examined the impact of insurance deepening on economic growth in Nigeria. Data spanning from 1990 to 2016 was obtained from CBN Statistical Bulletin, 2016 and NAICOM database. Data was imported into SPSS and analyzed using SPSS version 25.0. Finding revealed that insurance deepening has significant impact on economic growth of Nigeria, this impact was further qualified by the slope which had negative sign, emphasizing that the relationship between insurance deepening and economic growth is inverse.**

Keywords: **Insurance Deepening; Nigerian Insurance Sector; Economic Growth; GDP**

I. INTRODUCTION

Deepening in the Nigerian insurance sector has been a topic of discuss since the reforms in 1997. However, a close examination of the financial sub-sector as seen in the Nigerian Stock market, reveals that investments in insurance stocks are yet to yield meaningful returns for investors. The Nigerian Insurance sector is burdened with various challenges that currently seem to have no solution unless drastic actions are taken to deepen the insurance culture among Nigerians. Problems of low patronage, minimal value trading in the Nigerian Stock market combined with little or no insurance culture of Nigerians continue to take a toll on the insurance sector, as an analysis on the performance of listed insurance companies in the year 2017 confirmed the difficulties being encountered in the Insurance sector.

The insurance sector is a major part of Nigeria's economy. According to Saunders & Cornett (2008), insurance plays an important role as it serves a number of valuable economic functions that are largely distinct from other financial intermediaries. Customarily, meagre periodic payments are required by insurance contracts in return for protection against uncertain, yet potentially severe losses. Among others, this helps to avoid extreme and costly disasters and facilitates lending to commercial enterprises. Also the convenience of insurance allows entrepreneurs to take higher risksand undertake higher return activities more than they would dare in the absence of insurance there by encouraging higher productivity.

Insurance companies (insurers) guarantee insurable risks in return for a specified consideration, known as the premium, which serves as the main source of insurance funds[Igbodika, Ibenta, & John, 2016; Madukwe & Obi-Nweke, 2014]. Hence, it is expected that the activities of the insurance sector should impact on economic growth as a provider of insurance coverages. The insurance sector also promotes economic growth by mobilizing savings and investible funds, accumulated from premiums and underwriting profits, thereby making insurance investment fund available to the capital market and other financial markets (Olayungbo & Akinlo, 2016).

In comparison to other African regions, insurance penetration in Nigeria according to a report by Agusto & Co, Nigeria's first Credit Rating Agency in May 2017, revealed that the estimated rate of insurance penetration is 0.4% and just 1 percent of the total population has any form of insurance. This means that only 1.8 million Nigerians out of over 180 million of the populace are covered under any form of insurance policy which is below what is obtainable in other African regions. Various factors contribute to the low insurance penetration in Nigeria and one of the factors is the objection on the conventional insurance by a significant population based on ethical and religious considerations. There is serious objection on conventional insurance from Muslims who constitute over 40% of the Nigerian population which significantly affects the level of insurance penetration. These objections stem from the religious belief that the characteristics of the conventional insurance are not Shariah compliant especially in the area of uncertainty, usury and investment in some forbidden (haram) products. There is also objection on the basis of ethical consideration arising from nonconformity of conventional insurance with some ethical and traditional values of some people as it is viewed to have some element of gambling and non-ownership of the funds by the policyholders which forms the basis why premium paid is not returned even when there is no claim.

Nigeria's insurance market is presently ranked the 60th globally. Nevertheless, the Nigerian government foresees an insurance industry that can find its place among the top twenty global markets by the year 2020. Experts propose that achieving these goals will require the insurance industry to strive to achieve insurance deepening as well as developing the technical capabilities to solve the emerging challenges of financial inclusion and micro-insurance. Therefore, this necessitates a more dynamic approach to deepen insurance spread among the large populace.

Statement of Problem

With various efforts being made towards the overall development of the economy, many sub sectors of the financial industry have benefited from this economic trend, however, the insurance industry seems to be lagging behind due to the fact that insurance penetration and acceptance in Nigeria is still at a very low percentage. The slow rate of insurance penetration is a major cause for concern as many Nigerians citizens still have a negative perception about insurance products and services. This lack of understanding of the concept of insurance and operation of insurance companies are rubbing out efforts aimed at deepening insurance penetration.

Objectives of the study

This study seeks to examine the effect of insurance deepening on the economic growth of Nigeria.

Theoretical Framework

Insurance Penetration

Insurance penetration is used in measuring the level of development of an insurance sector, this is obtained by expressing the gross premium income (GPI) as a percentage of gross domestic product (GDP).Mahul & Stutley(2010) state thatinsurance penetration rate is expressed as the ratio of insurance premium volume to GDP; while non-life insurance penetration is expressed as the ratio of non-life insurance premium volume to GDP.

Economic Growth

Hardwick (2002)defines economic growth as an increase in a country's productive capacity, identifiable by a sustained rise in real national income over a period of years. Growth may be stimulated by an increase in the quantity or quality of the factors of production, such as labor and capital. Economic growth results in a number of benefits, such as an increased standard of living and a reduction in poverty levels. On the other, hand, growth may lead to costs, such as technological unemployment, rapid depletion of nonrenewable resources and negative externalities.

Development Hypothesis Theory and Financial Repression Theory

The development hypothesis theory presupposes that lack of a developed financial infrastructure restricts economic growth making the focus of policy at each point in time being to ensure that the financial system operates efficiently. The theory supports a measure of intervention as being important and in fact necessary for meaningful growth. Various policies should thus be put in place to encourage and promote the activities of financial institutions. The financial repression theory resulted as a consequence. The inference of the study is that financial development would significantly improve economic growth if authorities did not interfere in the operations of financial institutions.

II. EMPIRICAL REVIEW

Insurance is a contractual agreement between two parties, the insured (buyer) and the insurer (seller), where the insurer accepts to compensate the insured in the event of uncertainties or losses in exchange for premium paid by the insured, subject to the contract terms and conditions (Fadun, 2013). Several empirical evidences in literature have highlighted the impact of the insurance industry in stimulating the growth and development of an economy. Ward & Zurbruegg(2000) examined short and long run relationship between economic growth and insurance premium of nine OECD countries within the period of 1961 to 1996. Based on their assessment, they found that the underlying relationship between economic growth and insurance market activity vary across countries. Though the precise causes were not determined but in their view, potential causes are country specific in terms of cultural, legal and regulatory environment. In a similar study, Kugler & Ofoghi (2005), examined the long run relationship between development in insurance market size and economic growth using Johansen’s co-integration and Granger causality tests within the period of 1971 to 2003. The findings indicated that there is contributory relationship between insurance market activity and the growth of an economy.The impact of banking and insurance on economic growth using a cross-country data of 55 developed and developing countries within the period of 1980 to1996 indicated that synergy exists between banks and insurance; and they provided greater benefit to economic growth (Webb, Grace & Skipper, 2002). Also Ozuomba (2013)in a study on impact of insurance on Nigeria economic growth revealed that there is significant relationship between insurance premium and economic growth in Nigeria. Haiss & Sumegi (2008)analyzed the impact of insurance on economic growth measured by GDP on 29 countries belonging to the European economic region for the period of 1992 to 2005. Their findings indicated that life insurance has higher impact onthe growth of the economy when economic development is low, and the impact of non-life insurance is at the middle level.Arena(2006)also conducted a cross sectional analysis on causal relationship between insurance market activity and economic growth with a sample of 56 developed and developing countries for the period of 1976 to 2004. The results suggested a positive and significant effect of insurance market activity on economic growth, thereby affirming that there is a positive relationship between the growth of insurance sector and economic development. Akinlo & Apanisile (2014)examined the impact of the insurance industry on economic growth in the sub-saharan African countries within the period of 1986-2011 using pooled OLS, fixed effect model and generalized method of moment panel model for estimation. The results revealed that the insurance market has progressive and significant impact on economic growth. This implies that there is a positive correlation between premium and economic growth of sub-Saharan African countries. Similarly, Nwinee&Torbira(2012)utilized time series data (1980 - 2011) to investigate insurance investment and Nigeria’s economic development. Their results showed that, in the short run, insurance investment in stock and bonds are positively and significantly correlated with Nigeria's GDP. Olayungbo (2015)study affirms that the Nigerian insurance industry contributed to and complemented the growth of the Nigerian economy. Sambo (2016), in his study, "Effect of insurance portfolio investment on Nigeria's gross domestic product, indicated that a positive relationship exists between insurance investments and GDP.The result of (Igbodika, Ibenta, & John, 2016)study which considered the contribution of insurance investment to economic growth in Nigeria from 1980-2014, revealed that the Nigerian insurance sector investment has progressive and significant impact on Gross Domestic Product. Furthermore, Akinlo(2013) study also affirmed that the insurance sector contributes to economic growth in Nigeria because the insurance industry provides necessary long-term fund for investment.

III. METHODOLOGY

In testing for the relationship between internet penetration and financial inclusion, OLS regression method was employed using SPSS version 25.0. Simple regression model will be used to reflectinsurance deepening and economic growth.

Simple regression technique is illustrated as:

$y = \beta_0 + \beta_1 x + \mu$

where y – the dependent variable; x – independent variable; β_0 – intercept; β_1 – slope; μ – the error term

In this study, it will be applied as thus

$GDP = \beta_0 + \beta_1 INSG + \mu$

where GDP – Gross Domestic Product;

INSG – Insurance Deepening (*given as* Insurance Premium to GDP);

β_0 – intercept;

β_1 – slope;

μ – the error term

A-priori Expectation Table

Hypothesis	Model	Expected Outcome
Insurance deepening has no significant impact on economic growth of Nigeria	$GDP= \beta_0 + \beta_1 INSG + \mu$	±

IV. PRESENTATION OF DATA IN TABLES

Table 1 Necessary Data for Analyses from 1990 to 2016

Year	Insurance Prem	GDP	InsG
1990	1048.443	499676.8505	0.209824
1991	1334.237	596044.6887	0.223848
1992	2517.901	909803.3143	0.276752
1993	5901.257	1259070.463	0.4687
1994	14671.675	1762812.817	0.832288
1995	14587.649	2895201.357	0.503856
1996	13150.563	3779133.07	0.347978
1997	16519.018	4111640.627	0.401762
1998	17846.471	4588989.841	0.388898
1999	14643.858	5307361.517	0.275916
2000	22531.46	6897482.481	0.326662
2001	28981.29	8134141.808	0.356292
2002	37765.89	11332252.82	0.33326
2003	43944.68414	13301558.86	0.330372
2004	50495.91457	17321295.24	0.291525
2005	67746.3127	22269977.83	0.304205
2006	82361.8895	28662468.77	0.287351
2007	105379.28	32995384.35	0.319376
2008	157206.02	39157884.39	0.401467
2009	189960.45	44285560.5	0.428944
2010	200375.98	54612264.18	0.366907
2011	233752.88	62980397.22	0.371152
2012	82898.17463	71713935.06	0.115596
2013	28275.72425	80092563.38	0.035304
2014	12555.79588	89043615.26	0.014101
2015	67120.63544	94144960.45	0.071295
2016	75242.75607	101489492.2	0.074138

Source: *CBN Statistical Bulletin, 2016*

V. PRESENTATION OF DATA IN CHARTS

Chart 1

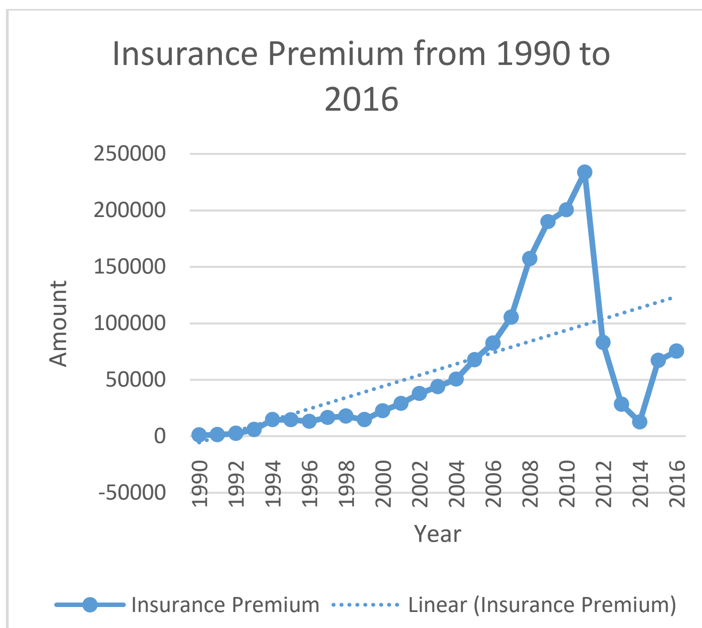
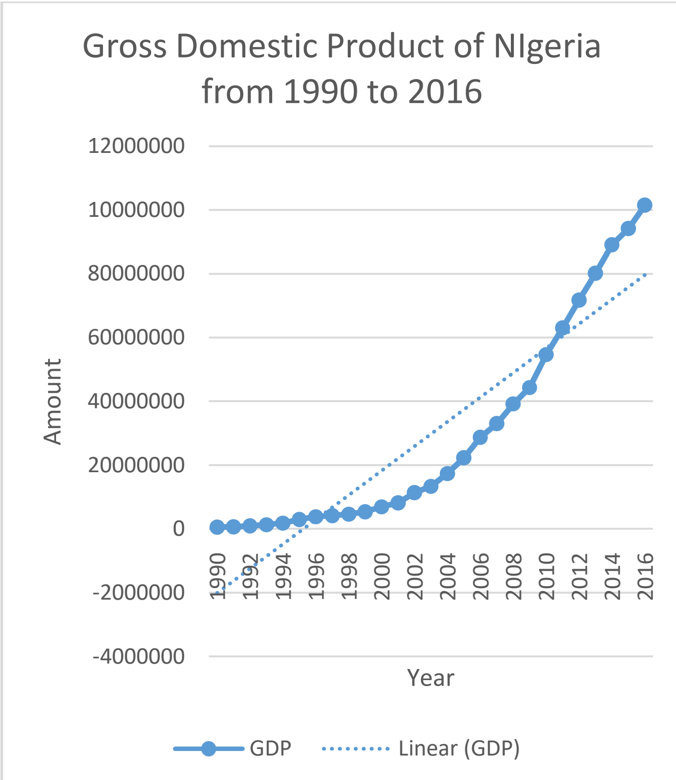
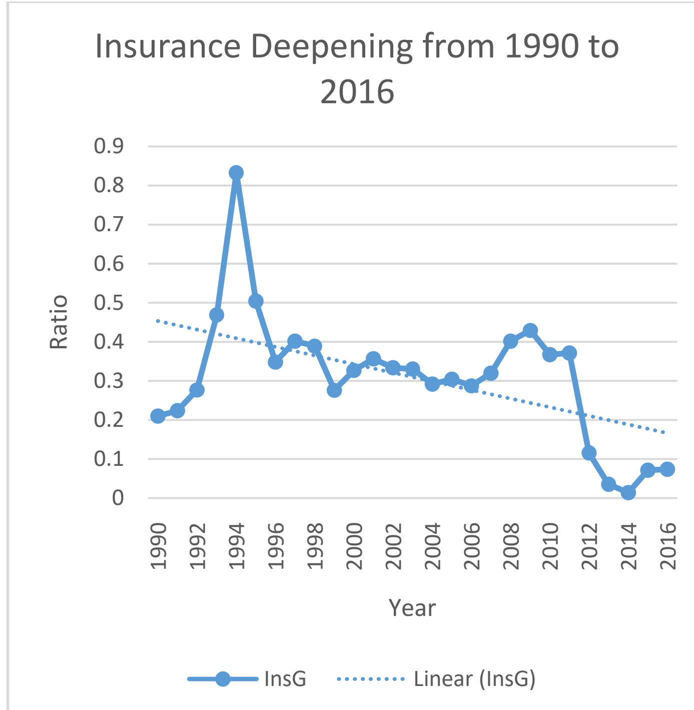


Chart 2



The trend in the above chart shows an upward movement of the GDP of Nigeria within the period under review.

Chart 3



Amidst what could be termed economic growth (increasing GDP), insurance deepening has been on the decline with 1994 witnessing the highest deepening of insurance services within the period under review.

Table 1Model Summary

Equation 1	Multiple R	.631
	R Square	.398
	Adjusted R Square	.374
	Std. Error of the Estimate	26139855.096

Table 2 ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Equation 1	Regression	112814000005702374.000	1	112814000005702374.000	16.510	.000
	Residual	170823006104464178.000	25	6832920244418567.100		
	Total	283637006166552.000	26			

Coefficients

		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Beta	t	Sig.
Equation 1	(Constant)	68567694.371	10789625.247		6.355	.000
	InsG	-125294533.918	30835699.274	-.631	-4.063	.000

The R of [.631] shows that there is a fairly positive relationship Insurance Deepening and economic growth. The R-square of [.398] shows that only about 39.8% of the variation in economic growth (GDP) can be explained by insurance deepening. The difference between the R-square and Adjusted R-square is rather minute showing a small inaccuracy of the r-square in prediction. The ANOVA table shows that the model fit is good as seen in the high statistical significance level[Sig. < .001]. The intercept of [68567694.71]shows the value of the dependent variable when the independent variable is constant. The slope of [-125294533.918] reveals the nature of relationship existing between the dependent and the independent variable, in this case it is inverse.

VI. HYPOTHESIS TESTING

H_0: *Insurance deepening has no significant impact on economic growth of Nigeria*

The P-value on which basis to reject the null hypothesis that *Insurance deepening has no significant impact on economic growth of Nigeria*is [<.001<.05]. Hence we reject the null hypothesis and state affirmatively state that Insurance deepening has significant impact on economic growth of Nigeria.

VII. DISCUSSION OF FINDING

Insurance deepening has significant impact on economic growth of Nigeria. This affirmative does not include the nature or type of relationship. The negativity of the slope reveals the nature of relationship between this duo. The slope of [-125294533.918] shows that there is an inverse relationship between insurance deepening and economic growth in Nigeria within the period under review. The result is as expected. The results of this paper should not be used in a general sense as the results can only be applied in the specific case of Nigeria over same time coverage. It is not in any way a representation of reality. Further research should be made on this area to see how much insurance deepening contributes to the GDP of Nigeria.

VIII. CONCLUSION

Insurance deepening is a measure of the performance of how the insurance industry in Nigeria have penetrated the Nigerian economy. It also measures the contribution of the insurance sector to the total GDP per time. According to the trend in *Chart*2, Insurance deepening has been declining within the period under study. This however did not affect its impact on the economy. Output from analysis holds that insurance deepening indeed has significant impact on economic growth in Nigeria while the slope which bears a negative sign reflect the nature of this relationship. According to the slope, there exists an inverse relationship between insurance deepening and economic growth. This research work was able to establish that although insurance deepening had significant impact on economic growth, there existed an inverse relationship between them.

IX. RECOMMENDATION

1. Further research should be conducted on this subject matter so as to avail enough empirical evidence to which decisions or economic policies could be formed.
2. The insurance sector of the financial sector of Nigeria should sensitize Nigerian citizens on the importance of insurance policies in their daily livings as this could be a major cause of the lowering insurance deepening within the study period

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