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<td>Category:</td>
<td>FACULTY OF BUSINESS ADMINISTRATION</td>
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<td>Publisher:</td>
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<td>Publication Date:</td>
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IMPACT OF INSURANCE MARKET ACTIVITY ON ECONOMIC GROWTH IN NIGERIA

BY

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DEPARTMENT OF BANKING AND FINANCE,
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OCTOBER, 2014

IMPACT OF INSURANCE MARKET ACTIVITY ON ECONOMIC GROWTH IN NIGERIA

by

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PG/Ph.D/04/38408

BEING A THESIS PRESENTED TO THE DEPARTMENT OF BANKING AND FINANCE, FACULTY OF BUSINESS ADMINISTRATION IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF DOCTOR OF PHILOSOPHY (Ph.D) IN BANKING AND FINANCE OF THE UNIVERSITY OF NIGERIA, ENUGU CAMPUS

SUPERVISOR: Prof. J.U.J ONWUMERE

OCTOBER, 2014
This Thesis has been approved by the Department of Banking and Finance, Faculty of Business Administration, University of Nigeria, Enugu Campus, by

Professor J.U.J Onwumere
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Assoc. Prof. Chuke Nwude
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DECLARATION
I, Oluoma O. Remigius, a postgraduate student in the department of Banking and Finance with Registration Number PG/Ph.D/04/38408 do hereby declare that this research embodied in this thesis is my original work. It has not been submitted in part or full to this or other University, for the award of any Degree or Diploma.

Oluoma O. Remigius
PG/Ph.D/04/38408
(Student)
DEDICATION

TO

The Sacred Heart of Jesus and Immaculate Heart of Mary.

AND

In memory of my late beloved ones; My father Chief W. E. Oluoma; Mother, Mrs. Philomena; Sisters, Juliana Odobiara and Rita; Junior brother, Norbert.
ACKNOWLEDGEMENTS

I wish to express my appreciation to many people who assisted in the successful completion of this study. While mention is made of a few of them, I remain sincerely grateful to the unnamed majority.

My special appreciation goes to my supervisor, Prof. J.U.J Onwumere for supervising this work. His fatherly advice, suggestions, corrections, constructive criticism and encouragement contributed immensely to the quality of this work. God will continue to bless him and his family abundantly.

My profound gratitude also goes to Prof. F.O. Okafor, former Deputy Vice Chancellor and former Head of department of Banking and Finance and who was once my original supervisor. I also thank the former Head of Department, Dr. (Mrs.) Ebele Nwankwo (Ogamba) and Dr. B. E. Chikeleze for challenging me to complete this study and offering their support in various ways when I needed it.

I am also grateful to Prof. C.U. Uche, Dr. (Mrs.) N. J. Modebe, Dr. C. Nwude, Dr. (Mrs) O Egbo, Dr. (Mrs.) Okoyeuzu C.R., Mrs. Florence Aneke and other academic and non-academic staff of Banking and Finance Department for their understanding and assistance at various stages of this work.

My appreciation goes also to my friend and colleague, Mr. Iloh Joseph for his cooperation, support and invaluable assistance throughout the course of this study.

My thanks also go to my senior brothers, Mr. Benedict and Mr. Anselm Oluoma, my senior sister, Mrs. Bernadeth Egbufor and my junior sister, Lorrita and their families, and my friend Charles Anyiam for their moral support encouragement and affection.

I am greatly indebted to my darling wife, Gift, my kids Chisom and Chisimdi; and other members of my family for denying them my attention several times in the course of this study. I also thank them for their patience, understanding, support and prayers for me.
Above all, I am absolutely grateful to the Almighty God for His wonderful love, wisdom and mercies to me and for making this study and my entire academic pursuit a huge success. To Him be all the praise and glory ad infinitum.

Oluoma, Remigius O.

PG/Ph.D/04/38408
ABSTRACT
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 through promoting long term savings, encouraging the accumulation of capital, serving as a conduit pipe to channelling funds from policy holders to investment opportunities as well as mobilizing domestic savings into productive investment. 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 demands for protection against losses of life, property caused by natural disaster, crime, violence, accidents, fire are not met in Nigeria. It is against this background that this study examined the impact of life-insurance penetration, non-life insurance penetration, total insurance penetration and insurance density on economic growth in Nigeria. The study adopted the ex-post facto research design and 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 model. Descriptive statistics and graphs were also used to complement the regression results. The results emanating from this study indicate that while life insurance penetration and insurance density had positive and significant impact on economic growth in Nigeria, both total insurance penetration and non-life insurance penetration had positive but insignificant impact on economic growth in Nigeria under the period of this study. 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.
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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

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 (Skipper, 1997; 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, Vaughan (1997) expresses insurance as an arrangement with a company in which you pay them regular amounts of money and they agree to pay the costs if it occurs.

Agbaje (2005) defines insurance as the business of pooling resources together to pay compensation to the insured or assured on the happening of a specified event in return for a periodic consideration known as premium, therefore, an insurance contract is usually evidenced by a document called the insurance policy which is usually signed at the foot by the insurer or assurer or his agent. Gollier (2003) argues that insurance involved the transfer of risk from an individual to a group, sharing losses on an equitable basis by all members of the group.
As opined by Dickson (1960), insurance is designed to protect the financial wellbeing 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 between the insurer and the insured. Thus, insurance acts as a promise of reimbursement in the case of loss, paid to people or company so concerned about hazards they have prepayments to an insurance company (Ajayi, 2002). According to Osoka (1999), the insurance industry is vital to the wellbeing and smooth functioning of a modern economy and as such for developing country like Nigeria; it can also act as a catalyst of economic growth by helping to accelerate the process of qualitative structural transformation. Bowers et al. (1997) views insurance system as a mechanism for reducing the adverse financial impact of random events that prevent fulfillment of reasonable expectations and Osipitan (2009) argues that the insurance business is vital to the financial system due to its role in helping people and businesses to manage their resources and mitigate risk efficiently.

Agbakoba (2010) states that insurance practice has come a long way since the time when Lloyd’s sent runners to the waterfront to pick up news of ship movements and later would send policy around London for subscription by anyone with sufficient means. The origins of modern insurance are intertwined with the advent of British trading companies in the region and the subsequent increased inter-regional trade. Increased trade and commerce led to increased activities in shipping and banking, and it soon became necessary for some of the foreign firms to handle some of their risks locally (Uche and Chikeleze, 2001). This origin was influenced according to Ujunwa and Modebe (2011), by two factors; first, the expansion of cash crop production for exports, and the upward surge in economic activities in the 1890s; second, the British desire to protect its interest and properties in the protectorate of West Coast of Africa.

This view of origin of the Nigerian Insurance industry was supported by Badejo (1998) who confirmed origin of insurance in its modern form was introduced into Nigeria by the British in the closing years of the 19th century with the establishment of trading posts in what is now known as Nigeria towards the end of the 19th century by European trading companies mostly British. These foreign companies started effecting their insurance with established insurers in the London insurance market. However, as time went on, some British insurers appointed Nigerian
agents to represent their interest in the country. These agents later grew into full branch offices of their parent companies in Britain. Osunkunle (2002) opines that the first branch office in Nigeria was the Royal Exchange Assurance in 1921, later followed by other British companies.

Hausell (1990) submits that historically, only one insurance company operated in the country between 1914 and 1948. This was the overseas branch office of the Royal exchange assurance company operating from its head office in the United Kingdom. The first indigenous company to be established in Nigeria was African insurance company in 1950 by Dr. Kingsley O. Mbadiwe; this was to be followed by the Nigerian general insurance company in 1951 and the lion of Africa insurance company in 1952. Since then, the Nigerian Insurance industry has continued to grow, both in number as well as in business.

Insurance is an indispensable aspect of a nation’s financial system and theoretical conceptions explain that financial systems influence savings and investment decisions and hence long-run growth rates through the following functions; 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 (Levine, 2004). Financial intermediaries support development through the improvement of these functions (i.e., the amelioration of market frictions such as the costs of acquiring information, making transactions, and enforcing contracts and allowing economies to more efficiently allocate resources (savings) across investments). However, the positive effects of financial development are tailored by the macro policies, laws, regulations, financial infrastructures and enforcement norms applied across countries and time.

The importance of the insurance industry as an aspect of the financial system has been neglected over the years as most studies on the interaction between the financial sector and economic growth has focused mainly on the banks and the stock market. However, recently, growing attention has shifted to the interaction between the non-bank financial intermediaries such as the insurance companies because of the work of King and Levine (1993a, b) where it was revealed that non-bank financial intermediaries such as the insurance companies have over the years
played important roles in enhancing the efficient functioning of the financial system through its intermediation function.

From the foregoing, it could be observed that the number of empirical studies is relatively small, especially in relation to those on banking contribution to economic growth. In order to contribute to filling the gap, the study focused on examining the insurance-growth nexus using Nigerian data from 1987 to 2012.

1.2 STATEMENT OF PROBLEM

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 behooves researchers and policymakers to attempt at examining the role of insurance in enhancing economic growth. However, there seems to be paucity of studies especially in developing economies that this study examined the impact of the Nigerian insurance market on economic growth.

1.3 OBJECTIVES OF THE STUDY
The general objective of this study is to examine the impact of insurance on economic growth in Nigeria. However, to achieve this, the specific objectives are:

1. To assess the impact of life-insurance penetration on economic growth in Nigeria,
2. To assess the impact of non-life insurance penetration on economic growth in Nigeria,
3. To evaluate the impact of total insurance penetration on economic growth in Nigeria and
4. To investigate the impact of insurance density on economic growth in Nigeria.

1.4 RESEARCH QUESTIONS
As a follow-up to the specific objectives of this study, the following research questions emanated. These are:

1. To what extent does life insurance penetration have positive and significant impact on economic growth in Nigeria?
2. To what extent does non-life insurance penetration have positive and significant impact on economic growth in Nigeria?
3. How far does total insurance penetration have positive and significant impact on economic growth in Nigeria?
4. To what extent does insurance density have positive and significant impact on economic growth in Nigeria?

1.5 RESEARCH HYPOTHESES

Based on the research questions raised above, the following hypotheses were formulated. These are:

1. \( H_0_1 \): Life insurance penetration does not exert positive and significant impact on economic growth in Nigeria.
   \( H_a_1 \): Life insurance penetration exerts positive and significant impact on economic growth in Nigeria.

2. \( H_0_2 \): Non-Life Insurance penetration does not exert positive and significant impact on economic growth in Nigeria.
   \( H_a_2 \): Non-Life Insurance penetration exerts positive and significant impact on economic growth in Nigeria.

3. \( H_0_3 \): Insurance penetration does not exert positive and significant impact on economic growth in Nigeria.
   \( H_a_3 \): Insurance penetration exerts positive and significant impact on economic growth in Nigeria.

4. \( H_0_4 \): Insurance density does not exert positive and significant impact on economic growth in Nigeria.
   \( H_a_4 \): Insurance density does exert positive and significant impact on economic growth in Nigeria.

1.6 SCOPE OF THE STUDY

The study covers the period 1987 to 2012. The reason for this base year is due largely to the liberalization of the Nigerian economy as a result of the introduction of the structural adjustment programme (SAP) in 1986. With the liberalization of the Nigerian economy, functioning of the insurance sector allowed private and foreign insurance companies to increase their cooperation with international insurance standards. The recapitalization of the industry has also led to increase in competition among the operators. As at 31st December 1996, there were 135 insurance companies operating in Nigerian insurance market with comparative figures of 145
(1995) and 130 (1993). Most of these companies are privately owned indigenous shareholders (118 companies as at 31st December, 1995). Two are broadly owned by the federal government of Nigeria, these are the NICON insurance corporation and Nigeria agricultural insurance company limited. Six were wholly state government owned as at 31st December, 1995 while the remaining 19 were owned by a combination of any of the following Private companies and Government companies. As at 31st December, 1999, about 15 companies in which government previously owned shares are now completely privatized, while the 2003 Insurance Act has repealed the aspects of monopoly of insurance business by NICON and Nigeria Re. The two institutions are now fully commercialized and privatized to pave way for a healthy competition in the market. As at 2007 after recapitalization, the number of insurance companies reduced to 49, with 2 Reinsurance companies as there were mergers and acquisitions which resulted in efficiency and effectiveness in the market. However, as at December 2012, the number of companies has increased to 62 made up of 59 insurance companies and 3 specialist reinsurance companies.

1.7 SIGNIFICANCE OF STUDY

1. POLICY-MAKERS

This study is very significant first because of its expected usefulness to formulators of insurance policy in Nigeria. Since the enactment of the first insurance legislation in 1961, several insurance policies and guidelines have been formulated, and new insurance regulations enacted to encourage the development and sustenance of insurance consciousness and awareness and ensure the penetration of insurance in Nigeria. Most of these policies and laws have failed to achieve the desired objectives. This study will serve as an eye opener to policy makers by revealing the current level of insurance awareness and factors influencing or militating against the cultivation of insurance awareness/habit in Nigeria. It will also guide them in the formulation and implementation of appropriate insurance policies and enactment of insurance laws that will bring insurance services nearer to the people at the grassroots and inculcate good insurance consciousness and habit into the Nigeria populace. Thus, this study will assist policy makers in formulating policies that conforms to the objectives of enhanced growth and productivity of the Nigerian economy.
2. ACADEMIC PURPOSE

This study will also be of much use to students and lecturers of insurance, actuarial science, banking, finance and economics, and other researchers who may wish to carry out further studies on impact of insurance or investment of insurance funds or other related topics. The study will serve as a ready-made database for them to begin with. The study will also serve as a further contribution to knowledge in the areas of insurance, banking, finance and national economic development. It will be particularly useful to foreigners who may need to study the development of insurance business in Nigeria as one of the leading developing countries of Africa and the investment opportunities available.

3. GENERAL AND INTERESTED PUBLIC

The study is also very significant because of the effect the findings will have on the Nigerian populace in general. By encouraging the development of good insurance culture, awareness and penetration of insurance in the rural and urban sectors, the study will help to increase the level of patronage of insurance products, understanding of the benefits of insurance as a financial solution to risks, and the deepening of the density of insurance, and as an efficient savings, credit and investment mechanism. This will in turn lead to increase in the number of insurance policyholders, increase in volume of insurance business, gross premium income, increased contribution to the Gross Domestic Product and economic growth and wellbeing of the populace.

1.8 OPERATIONAL DEFINITION OF TERMS

The following terms are defined in line with its use in this study.

**Life insurance penetration:** This is total life insurance premium divided by gross domestic product.

**Non-Life insurance penetration:** This equals total non-life premium divided by gross domestic product.

**Total Insurance penetration:** This equals total life and non-life insurance premium divided by gross domestic product.
Insurance Density: This equals total premium of insurance of life and non-life insurance divided by total population.
REFERENCES


CHAPTER TWO
REVIEW OF RELATED LITERATURE

2.1 THEORETICAL REVIEW

2.1.1 THEORIES OF ECONOMIC GROWTH
Both growth economics and development economics emerged as distinct fields of inquiry in the early post World War II period. Growth economics emerged out of a concern with the preservation of full employment in modern capitalist economies. Development economics focused on growth initiation and acceleration in less developed traditional societies. Growth economics was committed to macro-economic in orientation and the province of the practitioners of 'high theory. Development economics was more micro-economic in orientation and drew on knowledge from related research in anthropology, sociology and political science and on the insight of practitioners (Krugman, 1996).

There has been an uneasy relationship between these sub-disciplines. Growth economists have tended to view the development economics literature as lacking in rigor and burdened with irrelevant organizational and behavioral detail. Development economists have often felt that the only message growth economists were sending them was to get interest rates (and other prices) right. After a hiatus of over two decades there has emerged, since the mid-1980s, renewed interest in the theory of economic growth. With the emergence of a new and richer growth economics literature the possibilities of a more fruitful dialogue between growth economics and development economics now may be possible. The purpose of this study is to address the question, what should development economists learn from the new growth economics? (Ruttan, 1998)

There have been three waves of interest in growth theory in the last half century. The first was stimulated by the work of Harrod (1939, 1948) and Domar (1946, 1947). The second wave began in the mid-1950s with the development by Solow (1956) and Swan (1956) of a neoclassical model of economic growth. The third wave was initiated in the mid-1980s by Romer (1983; 1986) and Lucas (1988).
The question posed by Harrod and Domar, using somewhat different terminology, was under what circumstances are an economy capable of achieving steady state growth? This question had forced itself onto the economic agenda by the Great Depression of the 1930s and the expectation that the end of World War II would be followed by renewed instability. In the Harrod-Domar view instability in economic growth was the result of failure to equate a 'warranted' and a 'natural' rate of growth. The warranted rate of growth is dependent on the savings rate and on a given capital requirement per unit of output. The natural rate is the maximum long run sustainable rate of growth. It is determined by the rate of growth of the labor force and the rate of growth of output per worker. This central proposition of the Harrod-Domar model arises from the assumption that investment is both capacity creating and income generating (Ruttan, 1998)

Thus, if the savings rate were 10 percent of income and the capital output ratio 4, the warranted rate of growth would be 2.5 percent. If the labor force was growing at 1.0 percent and labor productivity at 1.5 percent per year, the warranted and natural rates would be equal. An attraction of the Harrod-Domar model was that it attempted to study long run growth with the tools of Keynesian economics that had recently become familiar to economists. Use of the model diffused rapidly to the planning agencies of many newly independent countries. It seemed to confirm the widely held belief among development economists and planners that the transition from slow to rapid growth required a sustained rise in the rate of savings and investment.

It provided a rationale for interventions designed to raise savings rates and encourage investment in heavy industry in order to remove the constraints on production resulting from capital equipment. And it provided the conceptual foundation for the two gap (in savings and foreign exchange) model developed by Chenery and associates to estimate foreign aid requirements of developing countries (Chenery and Strout, 1966). It was also interpreted as consistent with the view that achieving sustained growth would be more difficult for capitalist economies than for economies where the central planning apparatus would have more direct access to the instruments needed to force a rise in the saving rate and to allocate investment to its most productive uses.
The second wave in the development of modern growth theory began with the neo-classical model introduced by Robert M. Solow (1956) and Trevor W. Swan (1956). Solow was motivated by skepticism that a sustained rise in the savings rate is the key to the transition from a slow to a fast growth path and by a concern that the capital-output ratio be replaced by a richer and more realistic representation of technology (Solow, 1988). Solow's departure from the Harrod-Domar model was to substitute a variable capital-output ratio for the fixed coefficient capital-output ratio of the Harrod-Domar model. He insisted that the primary effort in his 1956 paper 'is devoted to a model of long run growth which accepts all the Harrod-Domar assumptions except that of fixed proportions (Solow, 1956).

The initial version of the Solow neo-classical model has been succinctly described by Prescott as a constant return to scale aggregate production function with substitution between two inputs, capital and labor. The model is completed by assuming that a constant fraction of output is invested' (Prescott, 1988). The model was employed in a 1957 paper in which an aggregate two factor production function was used in accounting for growth in the U.S. economy. To Solow's surprise and to the surprise of the profession generally, four fifths of the growth in U.S. output per worker over the 1909-1949 periods was accounted for by changes in the technology coefficient. The two papers triggered a whirlwind of theoretical and empirical research that lasted well into the 1970s.

In the initial Solow-Swan neo-classical model, steady state growth can hardly be avoided. A country that succeeds in permanently increasing its savings (investment) rate will, after growing faster for a while, have a higher level of output than if it had not done so. But it will not achieve a permanently higher rate of growth of output (Solow, 1988). What were the implications of the Solow neoclassical growth theory and related growth accounting exercises for development economics? The initial results seemed to completely reverse the earlier Harrod-Domar implications. Technological change replaced growth of capital equipment as the primary source of growth. Subsequent growth accounting exercises employing broader definitions of capital resulted in somewhat lower estimates of the contribution of technical change. But technical change continued to outweigh growth of physical capital stock by a substantial margin in studies conducted in the United States and other presently developed economies.
Solow’s departure from the Harrod-Domar model was to substitute a variable capital-output ratio for the fixed coefficient capital-output ratio. “The model has a constant return to scale aggregate production function with substitution between two inputs, capital and labor. The model is completed by assuming that a constant fraction of output is invested,” (Prescott, 1988).

\[
C_t + I_t = f(K_t, N_t) \\
K_{t+1} = K_t + I_t \\
I_t = \alpha f(K_t, N_t)
\]

where

- \(C\) = consumption
- \(I\) = investment
- \(K\) = capital
- \(N\) = labor
- \(\alpha\) = the fraction of output invested.

If factors are assumed to be paid their marginal product, then given \(K_t\) and \(N_t\) the date \(t\) national income and product accounts can be computed for the model economy. In Prescott’s exposition and in Solow’s original model there is no technical change. Some authors, however, seem to interpret the Solow labor variable as “effective labor,” as in the Harrod-Domar model countries.

Research on sources of growth in poor or newly developing countries typically found that a much smaller share of economic growth was accounted for by productivity growth. This was often interpreted as an indication that inappropriate technology transferred from high wage economies, where it had been developed, to low wage economies failed to generate as high productivity gains in low wage as in high wage economies. In addition research carried out within the neoclassical framework did not shed much light on the driving forces behind the proximate sources of growth--on the determinants of the growth of physical and human capital and technical change.

Massive divergence in absolute and relative percapita income across countries is a dominant feature of modern economic history (Kuznets, 1955; 1966; Maddison, 1979, Pritchett, 1995; Prescott, 1997).
The 'new' growth economics literature was initially motivated by the apparent inconsistency between the implications of the neoclassical theory and (a) lack of evidence of convergence toward steady state growth even among presently developed economies (Romer, 1983:3) and (b) by the inability to successfully account for differences in income growth rates or income levels across countries (Romer, 1994). By assigning so great a role to 'technology' as a source of growth, the theory is obliged to assign correspondingly minor roles to everything else, and so has very little ability to account for the wide diversity in growth rates that we observe' (Lucas, 1988).

Romer argued that what is needed is 'an equilibrium model of endogenous technical change in which long-run growth is driven primarily by the accumulation of knowledge by forward-looking, profit maximizing agents' (Romer, 1986). A primary goal of the new growth economics is to build models that can:

...ensure that the long run growth rate of income depends not only on the parameters of the production and utility functions, but also on fiscal policies, foreign trade policies, and population policies... (Srinivasan, 1995:46)

The effect was to challenge the neoclassical assumption that policy can affect the level of economic activity but not the rate of economic growth. In the initial endogenous growth models advanced by Romer (1983; 1986) long-run growth is driven primarily by the accumulation of knowledge. The production of new knowledge exhibits diminishing returns at the firm level. However, the creation of new knowledge by one firm is assumed to generate positive-external effects on the production technology of other firms. Furthermore, the production of consumption goods, which is a function of both the stock of knowledge and other inputs, exhibits increasing returns. The three elements, decreasing returns in the production of new knowledge, externalities associated with new knowledge, and increasing returns in the production of output insure that a competitive equilibrium with externalities will exist. The initial Romer model and other closely related models are frequently referred to as closed economy AK models after the assumed production function.

The initial models advanced by Romer abandon the neo-classical assumption of perfect competition and require either constant or increasing returns to capital. An important implication of the model is that the market equilibrium is suboptimal since the external effects of the
accumulation of knowledge are not considered by the firm in making production decisions. Another implication is that factor shares, typically employed as the elasticity coefficients in the neo-classical production function, can no longer be used to measure the contribution of capital

\[ Y = K^{1-\alpha} \left( AL_A \right)^\alpha \]

\[ A = \beta L_A \]

where
\[ Y = \text{output}, \]
\[ A = \text{productivity, knowledge is ideas}, \]
\[ K = \text{capital}. \]

\[ \beta = \text{parameterizes the efficiency of R & D. Labor is used in two activities, the production of output (L) and the search for innovations (L}_A) \text{ so that } L_Y + L_A = L \]

The increasing returns to scale in this production function reflect the non rivalrous nature of knowledge: given some level of knowledge \( A \), doubling capital and labor inputs into production is sufficient to double output; doubling the stock of knowledge as well would lead to more than doubling of output and labor. Romer suggests that the typical capital coefficient severely underestimates the contribution of capital and the labor coefficient severely over-estimates the contribution of labor. In his model the capital coefficients, adjusted to take into account the accumulation of knowledge (or of human capital), and would have to be (implausably) close to one in order to generate the extremely high growth rates of the East Asian NIC's (Romer, 1987).

Lucas (1988) drawing on Uzawa (1965) proposed a second alternative to the neoclassical model. In his model human capital serves as the engine of economic growth. He employed a two sector model in which human capital is produced by a single input, human capital, and in which final output is produced by both human and physical capital. Two alternative human capital models are analyzed. In the first, the schooling model, the growth of human capital depends on how a worker allocates his or her time between current production and human capital accumulation. In the second, the learning-by-doing model, the growth of human capital is a positive function of the effort devoted to the production of new goods.
In both Lucas models there are, as in Romer, in addition to the 'internal effects' on the workers own productivity, 'external effects' that are the source of scale economies and that enhance the productivity of other factors of production. In both cases the accumulation of human capital involves a sacrifice of current utility. In the first model this sacrifice takes the form of a decrease in current consumption. In the second it takes the form of a less desirable mix of current consumption goods than could be obtained with slower human capital growth (Lucas, 1988) Lucas argues that this deficiency could, in principle, be solved in the first case by subsidizing schooling and in the second case by subsidizing research and development.

In 1990, Romer advanced an alternative endogenous growth model in which he followed Lucas in emphasizing the importance of human capital in the development of new knowledge and technology. He departed from Lucas, and from his own earlier work, by treating technical change as embodied in new producer durables. The basic inputs in the model are capital, raw labor, human capital and an index of the level of technology. The technology component is disembodied non-rival knowledge that can grow indefinitely. Human capital is the cumulative embodied product of formal education, on-the-job training and learning-by-doing. The model economy has three sectors: (a) a research sector that uses human capital and the stock of knowledge to produce new knowledge in the form of designs for producer durables; (b) an intermediate goods sector that uses the designs from the research sector together with foregone output to produce the producer durables used in the production of final goods; and (c) a final goods sector that uses raw labor, human capital and producer durables (but no raw material) to produce final output--which can be consumed or saved as new capital (Romer, 1990).

In this model, growth in the stock of capital used in the production of final goods takes the form of growth in the number of intermediate inputs rather than in the quality of each input. Growth in the number of intermediate inputs implies monopolistic competition in the market for producer durables and assures external scale economies as a result of the growth in output of each consumer durable. The critical allocative decision is the share of human capital employed in research. As in his earlier model, and in the Lucas models, the optimum rate of growth exceeds the market rate since the externalities from knowledge creation are not considered by the firm making production decisions.
As his work continued to mature, Romer has turned to the contribution of ideas as the primary source of economic growth (Romer, 1993, 1996). 'Neoclassical growth theory explains growth in terms of interactions between two basic types of factors: technology and conventional inputs.

New growth theory...divides the world into two fundamentally different types of productive inputs that we can call 'ideas' and 'thing.' Ideas are nonrival goods.... Things are rival goods. ...Ideas are goods that are produced and distributed just as other goods are' (Romer, 1996:5,6).

For Romer, scale effects are important because ideas, as non-rival goods, are expensive to develop but are inexpensive to use. Their value increases with the size of the market. This implies that large countries, with large internal markets, have a greater incentive to produce ideas than small countries. As a result large countries can be expected to grow more rapidly than small countries--particularly when small countries burden themselves with the control and regulatory structures that characterise large countries.

The implications of the Romer-Lucas inspired endogenous growth literature for development economics; Bardhan is of the view that the most substantive contribution is to formalize endogenous technical progress in terms of a tractable imperfect-competition framework in which temporary monopoly power acts as a motivating force for private innovations (Bardhan, 1995). Griliches notes the importance of their work in emphasizing that; (1) 'technical change is the result of conscious economic investments and explicit decisions by many different economic units and (ii) unless there are significant externalities, spillovers, or other sources of increasing returns, it is unlikely that economic growth can proceed at a constant undiminished rate into the future' (Griliches, 1992).

Even more important than the results of their own research has been the stimulus that the Romer-Lucas work has provided for a new burst of theoretical and empirical research in the field of both growth and development economics and, by the mid-1990s, several graduate level textbooks incorporating and extending the work in growth economics conducted over the previous decade (Barro and Sala-i-Martin, 1995; Aghlon and Howitt, 1998). At the theoretical level there has been a proliferation of models, each of which attempt to introduce greater realism, in order to account for both a general failure of convergence and the 'miraculous' growth of a few countries
such as Korea and Taiwan. The theoretical literature has been complemented by efforts to analyze the effects of different national policies, tax rates for example, in accounting for different national growth rates (King and Rebelo, 1990).

2.1.2 THEORETICAL REVIEW OF THE NIGERIAN INSURANCE INDUSTRY

The main rationale for regulating insurance is its intangible nature. In almost all jurisdictions, government is closely involved in the regulation of the business of insurance. To varying degrees in different states and nations, government uses legislative and judicial branches to regulate underwriting practices, contract structure and solvency this often distinguishes the business of insurance from other businesses as regard the extent to which separate enterprises must behave competitively rather than cooperatively (Chandler, 1999).

Central to regulation of insurance is its classification as a public-interest business. According to Outreville (1998), there are two important reasons for classifying insurance as a public interest. These are; insurance companies sell complex promises and high potential for discrimination and abuse against customers. While the former explains the rationale based on the complexity of insurance and consumers’ inability to obtain and understand information about insurance commends the need for regulation, the latter involves insurance consumers being ill-equipped to assess a company’s future solvency, to compare the coverage of various policies, or to evaluate a company’s claims service.

The Obadan Commission of 1961 was set up to review the situation of the Nigerian insurance industry. The outcome of Obadan Commission gave rise to the establishment of Insurance Companies Act of 1961. Arising from the Act, the number of insurance companies in Nigeria increased to 70 in 1976. Of the 70 insurance companies, fourteen were foreign owned, ten were wholly government owned while forty six were indigenously owned (Ujunwa and Modebe, 2011). The upsurge in the number of indigenous insurance companies, in the main, could not transform to efficiency, as foreign domination was still prevalent in terms of volume of business (Uche and Chikeleze, 2001).
By the provisions of the Insurance Companies Act of 1961, the office of the Registrar of Insurance was created to supervise insurance practice. Other provisions of the Act included minimum capital requirement and other conditions for registration, monitoring and control of insurance operations generally. This was followed by a series of legislations which sought to further the cause of insurance regulation in the country. The first major attempt at regulating insurance in the country was the promulgation of the Nigerian Insurance Decree 1976.

In continuation of the regulation of insurance businesses in Nigeria, the National Insurance Commission (NAICOM) was established in 1997. The power of NAICOM is to legislate for the industry in the country and the Insurance Act 2003 (Insurance Act) clearly laid out a comprehensive outline for NAICOM. Section 86 of the Insurance Act provides that subject to the provisions of the Act, NAICOM shall be responsible for administration and enforcement of the provisions of the Insurance Act. Criteria and standards for registration, policy provision, rates, expenses limitations, valuation of assets and liabilities, investment funds, and the qualifications of sales representatives are set by NAICOM. To monitor insurance practitioners’ compliance with its rules, NAICOM adopts the international standard score principles of insurance supervision which have been entrenched in the Insurance Act 2003. The Act also serves as the benchmark for the supervision and monitoring of intermediaries (brokers, agents and loss adjusters) who must renew on annual basis after supplying their annual returns and accounts for verification.

NAICOM has also been active in releasing annual insurance policy guidelines for the underwriters and intermediaries. The release of the guidelines is brought about by the dynamics of the environment and related to a continuous review of relevant regulatory tools which are consistent with the existing laws. This is also meant to strengthen the operational standard within the insurance industry and bring about improved transparency and accountability in operations. Some of the selected areas of the annual review include filing of annual returns and accounts; renewal of licence; quarterly returns; clients’ account, opportunism (fraud) and related malpractices; corporate governance; and compliance with anti-money laundering/combating financing terrorism activities laws.
In terms of regulatory policy, the recapitalisation program has had the most profound effect on the industry to date. In the post-authoritarian period under review, government turned its attention to the financial sector and introduced a recapitalisation program. The move was directed in part at flushing out operators with weak or dubious financial bases from the financial sector and to galvanize financial institutions into assuming the challenge of transforming the nation into one of the top ten world economies within the turn of a decade. The first major recapitalisation process was introduced by the Insurance Act 2003. Section 9 of the Insurance Act raised minimum capital requirements by as much as 650%. This recapitalization exercise which ended in February 2004 however still left over 107 insurance as well as reinsurance operators in the market and was perceived as not effectively achieving the aim of drastically reducing the number of players in the industry (Fatula, 2007).

With the results of the 2003 recapitalisation making rather dismal impact on the industry and the drastic recapitalisation requirements later imposed on the banking industry, it was not surprising that even higher capital requirements would be introduced to the insurance sector sometime down the line. Indeed, Section 9 (4) of the Insurance Act 2003 provides that NAICOM may increase the amount of minimum capital requirement ‘from time to time’. What was unsettling for the operators was the timing and quantum of increase in the minimum capital requirements.

In September 2005, industry players were required to recapitalize and were given end of February 2007 to comply. While, previously the Insurance Act 2003 only required new capital of less than N500 million (about $4m), the 2005 recapitalisation directive required a minimum of N2 billion (about $15m) for life operations and N3 billion (about $23m) for non-life business. With the previous low capital requirement, the scope of operations of many of the companies was severely limited. Options for increasing the capital base like the capital market were not explored. The 2005 recapitalization changed the landscape considerably as many companies were forced to merge in compliance with the follow-up directive of NAICOM that the requirements were only to be met through mergers or acquisitions.

After recapitalization and consolidation in November 2007, the number of insurance companies reduced to 49 with 2 Reinsurance Companies as a result of mergers and acquisitions. The reform
engendered greater efficiency and effectiveness in the Nigerian insurance industry: the industry became more competitive, obligations to clients are being substantively met; more high-tech risks are being managed; ownership structure of most insurance companies changed from dominant family and private limited ownership structure to public ownership; unprofessional and unethical practices abated; corporate governance and corporate social responsibility were effectively entrenched; and public confidence in the industry improved.

As at August 2005, prior to the recapitalization exercise, there were 22 insurance companies with a market capitalization of N28.94 billion listed on the Nigerian Stock Exchange. As at October 2009, there are 26 active companies with a market capitalization of N683.1 Billion representing a 2,260% growth over two and half years. However, despite the reforms, the insurance sector is still faced with daunting challenges, which must be addressed to galvanize the economy to compete favourably with other top economies of the world. (Udoh, 2009).

The challenge to make the contribution of insurance industry to the nation’s economy more meaningful like what obtains in other developed countries, according to Daniel (2012) gave rise to some of the ongoing market development efforts in the sector including the local content policy, and Market Development and Restructuring Initiatives (MDRI), which is a medium term industry development plan by the National Insurance Commission (NAICOM), focusing on enforcement of compulsory insurance products, increased insurance awareness, reduction in the incidence of fake insurance, insurance agency reform and appropriate marketing application and practice. To him, this reform is expected to increase insurance premium to N1.1 Trillion by 2012, N2.5 Trillion by 2015 and N6 Trillion by 2020. The MDRI was launched in 2009 by NAICOM.

Beyond enabling the insurance industry contribute reasonably to the country’s economic growth through the implementation and enforcement of MDRI products, it is also to protect the public against accident, death and infringement of their rights by third parties. According to NAICOM, it is poised through the project to install necessary reform in the area of industry capacity, market efficiency and consumer protection in the Nigerian insurance market, with the target to deepen, grow and move the industry’s gross premium from about N164 billion in 2008 to N1.1 Trillion at the end of 2012 (Alasiri, 2013).
The MDRI compulsory insurance products are: Motor Third Party Insurance of Section 68 of the Insurance Act 2003; Buildings Under Construction, of Section 64 of the Insurance Act 2003; Occupiers Liability Insurance, of Section 65 of the Insurance Act 2003; Group Life Insurance in line with the Pension Reform Act 2004; and Health Care Professional Indemnity Insurance under Section 45 of the NHIS Act 1999. Analysts agreed that these compulsory insurance products if fully embraced would improve the revenue generation of the insurance industry and hence the industry will contribute significantly to the nation’s GDP. (Onaloapo (2012); Alasiri (2013)).

Despite the provisions of this laws and the efforts of NAICOM in implementing the MDRI, the industry’s gross premium income as at 31st December 2012 is below N250 billion, a far cry from the N1.1 trillion target. Soladoye (2012) recounts that, “the initiative is a business agenda which entails enforcement of compulsory insurance, entrenchment of retail insurance system and development of micro-insurance. All these were used to arrive at the N1 trillion premium target. So, N1 trillion is an effect, the things that will cause the effect are the enforcement of compulsory insurance, Prominence of retail insurance system and development of micro-insurance and that insurance companies adopt retail system, whereby they would have a lot of foot soldiers. The insurance companies feel that the retail system is not the area they want to adopt, despite the fact that the regulator has put in place for them a lot of incentives to make them go into agency recruitment”.

Among the reasons adduced for the inability of the industry to meet the MDRI target could be mentioned: the delay in implementation; neglect of retail business in pursuit of corporate businesses that are broker driven by the operators; ineffective enforcement of the compulsory insurance products by NAICOM; apathy and failure of the operators to take advantage of the opportunities and grow their premium; low level of awareness. (Soladoye (2012); Daniel (2012); Awe (2012)).

Consequently, the MDRI products require adequate and effective awareness creation, information dissemination and education as ways of deepening the penetration of these compulsory insurance products to every nook and crannies of the business landscape in the country. No doubt the MDRI products are opportunities to grow the insurance industry. Therefore, it is argued that the commission must provide the enabling environment for human and material capacities to drive the process. To enforce the laws, underwriters, insurance
marketers, security agencies including the Police and Road safety corps, legal practitioners and other stakeholders must work cooperatively as a team of partners in progress. The stakeholders must be brought into the picture and properly educated to understand their relevance and opportunities therein. There is the need to convince, encourage and compel affected and potential consumers of insurance products to see the MDRI products as mandatory with attendant punishment, otherwise they would not buy the products. (Alasiri, 2013).

The introduction of micro-insurance backed with legislative friendly environment will deepen the penetration of insurance in Nigeria. The challenge is for the operators to develop these aspects of the business as a growth sector. (Adeda, 2013). According to Thomas (2013), micro insurance is a financial arrangement that will protect low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. It is an insurance product designed to reduce the vulnerability of the low income earners and protect their domestic budget against economic shock. With insurance, people in this segment can meet their lifestyle needs such as wedding, childbirth, education, home building, widowhood, old age, etc. Management of micro-insurance business must be in simplified form, procedure for claims settlement must not be cumbersome and payment must not be delayed. Soladoye (2012), observes that the final presentation of the micro-insurance initiative was made on October 24, 2012, and NAICOM has also come up with the guidelines on its implementation. The next stage is implementation and NAICOM is very prepared to commence implementation of the initiative by 2013.

According to Adeda (2013), a look at the premium trend between life and non-life insurance business will reveal that more premium is generated on non-life (General Business) insurance in Nigeria while in South Africa; the bulk of their premium is from the Life sector. The world economy and in particular Nigerian economy is experiencing positive growth. It is expected that with the transformation agenda of the government, premium would grow exponentially. Using parameters like premium volume, density and penetration, Nigerian market compared to other countries needs a lot to be done. The sigma publication for the world insurance for the period 2009 – 2011, based on the assessment of 147 insurance market including Nigeria, ranked Nigeria 60th in gross premium and 62 for life business in 2011. In terms of population and in size, Nigeria is one of the biggest in the continent but this has not reflected in our premium volume.
Similarly, Babalola (2008) notes that the Nigerian insurance density measured by the amount of premium contribution per person in Nigeria was less than N500 as at 2006, the industry’s penetration and contribution to the nation’s GDP remained at a low level that was less than 1%. Therefore, the challenge is for the professionals and operators to harness the potentials to grow the business.

There is need for greater cooperation and unity for the Nigerian insurance market which comprises of the supervisory or regulatory authorities (NAICOM); Insurance companies; Reinsurance companies; Intermediaries (Brokers, Loss Adjusters and Agents); Insurance support services (Actuaries and Surveyors); Insurance / Trade Associations, and the insuring public (Oluoma (2010); Irukwu (1991)) to deepen the penetration and density of insurance in Nigeria.

By 31st December 2001, there were 118 registered insurance companies, 5 Reinsurance companies, 380 Insurance brokers, 31 Loss Adjusters, 364 Agents operating in Nigeria. As at 31st December 2005 (before the current recapitalization) out of 103 registered insurance companies, 5 are specialist life insurance companies, 48 are composite insurance companies, while 50 transact non-life business. After recapitalization and consolidation in November 2007, the number of insurance companies reduced to 49 with 2 reinsurance companies. As at 31st December 2012, there are 62 insurance companies made up of 17 Life insurance Companies, 10 Composite Insurance Companies, 32 Non-Life (General) Insurance Companies and 3 Reinsurance Companies, in addition to about 500 Insurance Brokers, 20,000 Agents (6,00 registered) and 9 Loss Adjusting firms operating in Nigeria. (NAICOM (2001); Nigeria Insurance Digest (2001,2005,2008 and 2012); Oluoma (2010); and Adeda (2013)).

2.1.3 THEORIES OF REINSURANCE IN NIGERIA

A contract of reinsurance may be defined as a contract by which an insurer called a reinsurer, undertakes to indemnify another insurer, called the reinsured or ceding company, against the whole or a portion of the liability which the reinsured had undertaken on a particular policy of insurance. The reinsurance contract in effect insures or covers the liability which the reinsured or ceding company had undertaken under its own contract of reinsurance with its original policy holder. From the above definition, two main parties to the contract emerge: the ‘ceding
company’ and ‘Reinsurer’. The ceding company is the original direct insurance company which has accepted the risk from an original insured and cedes (transfer) part of the risk to another party, the Reinsurer which is either another direct insurance company or a professional reinsurance company which accepts that part of the risk which is ceded or transferred (Irukwu, 1980).

In fact, the primary object of reinsurance is to protect the primary insurer or the ceding company from being crippled by large losses beyond its financial capacity. It should be noted that the original insured acquires no right under a reinsurance contract which operates solely between the ceding company and the reinsurer. In the event of a loss, therefore, the insured’s claim for the full amount is against the ceding company; and he is not concerned with the position as between the ceding company and the reinsurer. Thus, in selecting his reinsurer the insurance company must ensure that the reinsurer’s financial security is good and that the reinsurer is in a position to settle claims promptly and equitably. Furthermore, where the risks assumed by the reinsurer from the ceding company is so large that it cannot comfortably handle alone, the reinsurer can reinsurance or retrocede part of the risk to another reinsurer. This kind of arrangement is called retrocessionaire. This ensures full capacity utilization and efficient spread of risk (Falegan, 1991).

The purpose and function of reinsurance according to Irukwu (1980) are; it gives protection in the form of reinsurance cover to the direct insurer. By reinsuring all risks in excess of its retention capacity, the direct insurer is able to eliminate the risk of being crippled by a catastrophic or an unusually large loss in excess of the direct insurer’s financial resources; reinsurance makes it possible for the direct insurer to handle larger risks than he would have been able to accept in the absence of the facilities offered by reinsurance. Thus the reinsurance protection offered to the insurer enables the insurer to accept larger risks which he would otherwise have rejected. This in effect helps to promote growth and development in market capacity as a whole and the capacity of the direct insurer in particular; reinsurance helps to stabilize the technical results of the insurer by reducing claims fluctuation. The effects of this is to ensure that the operational results of an insurance company shows a more stable development; reinsurance helps to promote a wide spread of risks so that the liabilities of the direct insurer are not too heavily concentrated in any one location or any one geographical area; reinsurance also
helps to avoid a possible financial strain due to a rapid growth of the portfolio and from the point of view of young insurance companies in the third world, some of the large professional reinsurance companies that have been in existence for many years offer a lot of technical assistance including training facilities and sometimes administration facilities to their ceding companies. In this way, they help in the development of these young direct insurance companies.

Under a reinsurance contract, two separate arrangements exist; one between the original insured and the insurer, and that between the insurer and the reinsurer. However, the original insured maintains contract with the insurer only. He is not concerned with the reinsurance contract existing between his insurer and the other party, the reinsurer. In time of loss, the insured claims from the insurer under his insurance contract and have no right of claim against the reinsurer. On the other hand, a co-insurance contract is an arrangement whereby two or more insurers come together to undertake a common risk due mainly to the high potential loss magnitude of the risk. In this scheme therefore, in the eyes of the law each of the participating insurers maintains a separate contract with the insured to the extent of the proportion of the risk it bears. In time of claim, the insured claims respectively from each of the participating insurers to the tune of their share of the risk. The insured is not entitled to claim the whole of the loss from only one insurer. A lead underwriter may settle the whole claim and recoups from the other underwriters. Even if there is a lead underwriter who co-ordinates the underwriting and claims administration, each underwriter is still separately liable to the insured according to its level of participation (Oluoma, 2010).

In the early stages of insurance business in Nigeria, due to lack of underwriting experience and knowledge and small market capacity, substantial businesses were placed and reinsured at London and other overseas markets. This trend resulted in loss of substantial foreign exchange and indeed revenue by the country. The National Insurance Corporation of Nigeria (NICON) established in 1969 was then made to act as petty reinsurer to other insurance companies maintaining compulsory 10% legal cession from all insurers in Nigeria apart from its direct insurance business transaction so as to stop the loss of foreign exchange through oversea reinsurance. Substantial businesses originating in Nigeria, however, with the entry into the market of many indigenous insurance companies and with the indigenization policies of the government, called for proper Exchange control measure to curtail the leakage of Nigeria’s
foreign exchange by this approach of reinsuring huge insurance businesses abroad. It was therefore felt that NICON’s dual role as an insurer and reinsurer could not be effective in absorbing large scale risks locally. It became necessary therefore to establish a professional reinsurance company primarily charged with all reinsurance responsibilities. This led to the establishment of Nigeria Reinsurance Corporation by the enactment of Nigeria Reinsurance Corporation Act, 1977 (Oluoma, 2010)

The Nigeria Reinsurance Corporation which commenced business on 1st January 1978, was setup to check the country’s foreign exchange leakage caused by the insurance market’s import of reinsurance. With the establishment of the corporation as well as the appearance of other reinsurance companies, a good amount of premia, which were hitherto lost to international reinsurance centers are now retained, in the country. The 20 percent legal cession which every registered insurer cedes to Nigeria Re has enabled it to trade with other reinsurers abroad with the aim of earning some foreign exchange on the inward business. It also enables it to generate substantial funds which, in due course would further contribute to the development of the country (Falegan, 1991). It should be noted also that all insurance companies in Nigeria (as well as in Africa) make a 5% legal cession to Africa Reinsurance Corporation since Nigeria is a member of Organization of Africa Unity (OAU) which established the Africa Re (Oluoma, 2010)

There are basically four main types of reinsurance, as listed below, however, the most important and commonest of these are facultative and treaty reinsurance: facultative reinsurance; treaty reinsurance; reinsurance pools and facultative-obligatory reinsurance. Facultative reinsurance is the oldest method of reinsurance and it involves the assessment of every risk individually. For a risk to be placed facultatively, the insurer would present the details of the risk on a reinsurance slip to the reinsurer. The reinsurer then has the opportunity to appraise the risk on its merits and decide whether to reject or accept the risk or state terms upon which it would be inclined to accept the risk. Where the insurer accepts the risk he usually indicates the proportion of the risk he wishes to bear. If the risk is not accepted by the reinsurer, it is thrown back to the ceding company who has to seek other reinsurers to place the risk and until the risk is fully accepted and placed, the ceding company is not protected as cover here is not automatic (Oluoma, 2010)

Treaty reinsurance is an agreement between the ceding company (direct insurer) and the reinsurer(s) in which case, the ceding company agrees to cede and reinsurer(s) agrees to accept
all reinsurances offered within the limits of the treaty. The nature of the limits could be monetary, geographical, branch, section, class, etc. This implies that automatic protection is afforded since it is obligatory for the reinsurer to accept all risks within the scope of the treaty unlike under the facultative arrangement. In essence, the ceding company is enabled to provide cover immediately for any risk which it wishes to accept provided it falls within the ambit of the treaty (Falegan, 1991).

Under a surplus treaty, only the surplus above the ceding company’s retention of each risk is passed to treaty reinsurer. The ceding company must cede and reinsurers must accept the surplus above the retention up to the capacity of the treaty. Capacity is expressed in ‘lines’; a line equaling the amount of the ceding company’s retention. Thus, 10 lines treaty means the ceding company can accept up to 11 times its own retention. The capacity can be increased by obtaining additional surplus treaties for the corresponding number of lines like second, third surplus treaties, etc (Oluoma, 2010).

To ensure adequate protection, companies do have first, second, third or even fourth surplus treaties. For instance, a ceding company may have for a certain kind of risk, first surplus treaty of 15 lines, a second surplus treaty of 15 lines, a third surplus of 5 lines and even a fourth of 5 lines, altogether totaling 40 available lines. This might be necessary since in most cases the majority of risks can conveniently be reinsured under 20 or 30 lines and the use of more lines could only be necessary for very large risks which might be very few in number and can accordingly be handled (Irukwu, 1980).

Reinsurance pools is adopted mainly for catastrophe risks like aviation and atomic risks which involve very heavy claims that no one insurer can safely handle. The whole insurers who are members of the pool will put their resources -premiums and experience together and share the claims in the same proportions to their premiums. They will also share profits and expenses in the same manner. There are essentially two kinds of pools in the insurance industry; the direct insurance pool and the reinsurance pools. The pools can further be grouped according to geographical set-up viz national, regional and international pools. The trend in recent times has seen the combination of direct insurance and reinsurance pools. This involves the joint participation of direct insurers and reinsurers as a consortium for the underwriting of risks of catastrophic nature either locally, regionally or internationally (Oluoma, 2010).
2.1.4 CLASSIFICATIONS OF INSURANCE BUSINESS IN NIGERIA

Insurance business has been subject to various classifications by various authorities according to different criteria. In fact, classifications of insurance are conventional from experience, based on purpose and practice of different insurance. “Ideally the distinction is not necessarily due to any legal difference between particular kinds of insurance. It may arise from varying needs of the public which it is advisable for insurers as a matter of business to attempt to meet” (Ivamy, 1979). Nevertheless, insurance could be classified on the following three main bases namely according Oluoma (2010), by the function it performs; by the main classes of business and by statutory classification.

By its nature, insurance of the person focuses on the human being and the associated personal risks, as the subject matter of insurance. These will thus, cover policies designed to protect the policyholder or his dependants against loss of life, injury, or loss of income arising from premature death, injury causing physical disability, old age and unemployment (Irukwu, 1991). Therefore, insurance of the person would include all items discussed under life insurance (e.g individual life, group life and pensions) and some other items under non-life insurance (General business) that relate directly to the person like all various policies under personal accident and sickness insurance including health insurance (Oluoma, 2010).

In insurance, property may be defined as embodying every material thing or physical object, movable (personal property) or immovable (real property), singly or jointly owned which may be subject to accidental loss or damage. Thus, in this context property insurance offers protection to both physical and financial assets. The following insurance businesses could be listed as falling under property insurance: Fire insurance, Marine insurance, Aviation, Motor vehicle insurance, Burglary/theft insurance, Engineering insurance, Money insurance, Glass insurance, Agricultural insurance, etc (Oluoma, 2010).

Insurance of liability covers the legal liability of the insured for the death, injury or disease of another person or loss or damage to their property. Examples of policies under this category could be mentioned: Employers liability insurance or workmen’s compensation, motor third party liability, professional indemnity, etc. Financial interest can be defined as entitlement,
expressible in monetary term derivable from rights or, property through personal or business relationship. The aim of insurance in this case is to provide cover against the loss of money from such sources (e.g rights or property) or against the financial expenses of managing the source of money or revenue. It is for this type of insurance that the term “pecuniary insurance” stands. This will include such policies as credit insurance, surety-ship and bond, business interruption insurance, legal expenses insurance (Irukwu, 1991; Oluoma, 2010; Mordi, 1987).

In practice and historically by main classes of business, insurance business was divided into four major departments viz: Marine, Fire, Life and Accident departments. Most composite companies follow this classification. The entry of new companies (or specialist insurers brought some flexibility into the classification. For instance, some companies could merge fire and Accident businesses in one department, some treat Aviation business and Marine in a department, while some treat Aviation business as accident department. Recently, with the growth in technology and industrialization most specialist insurers (and even some composites) treat Motor, Engineering and Aviation insurance as separate departments (Falegan, 1991)


The Act further classified Life insurance business into three categories namely:

a. Individual Life Insurance business
b. Group Life Insurance and Pension business
c. Health Insurance business

Section 2(3) sub-divided Non-Life Insurance Business into the following categories:

a. Fire Insurance business
b. General Accident Insurance business
c. Motor Vehicle Insurance business
d. Marine and Aviation Insurance business
e. Oil and Gas Insurance business

f. Engineering Insurance business

g. Bonds, Credit guarantee and Surety-ship Insurance business

h. Miscellaneous Insurance Business

By its nature, Individual life business will embrace the basic life insurance contracts effected by individuals like ordinary life, whole life assurance, term assurance, endowment assurance and annuities, while group life and pension business are largely effected by corporate entities, government or organizations for the benefit of their employees or members to provide for death-in-service benefit and retirement benefits. The non-life insurance business could be effected by individuals, corporate entities, organizations, government, etc. (Oluoma, 2010).

Oluoma (2010) further notes that the businesses classified under the decree could be subsumed under any of the first two methods of classification earlier mentioned. Thus, ignoring the order of enumeration by the decree and other classification viewpoints, some of these classes of business deserve brief explanation as provided below.

**Endowment assurance** provides for payment of the sum insured (and bonuses if with-profits) at the end of an agreed number of years or on earlier death. An endowment insurance has a large savings element in that it guarantees (should the insured survives the term) to pay the benefits at the end of a selected term of years whilst at the same time making the benefits available for his dependants should he die before the policy mature (Falegan, 1991). A close look at the endowment contract reveals that it is actually a combination of term assurance and pure endowment: term assurance, because benefits are payable should death occur within the term and pure endowment, because the benefits are payable if the life assured survives the term (maturity date). Note that pure endowment is an insurance contract where the sum assured is paid to the policyholder only if he survives the term, if he does not, then nothing is paid by the insurer. However, in recent times, there has been some modifications of the pure endowment contract. It guarantees refund of part of the premium paid in the event of death before the end of the specified term. This assurance plan is used extensively in providing benefits under insured retirement benefit schemes (Oluoma, 2010)
An endowment assurance can be contracted with participation in profits (i.e. with profits policy) or without participation in profits (i.e. without profits policy). The premium for the ‘participation, or with profits is higher than that of’ non-participating’ or without profits policy. The profit policy implies that should profit be earned or declared, the policyholders share in the surplus. Declaration of surplus depends on actuarial valuation of the life business, which might occur annually, biannually, triennially, etc. as the case may be. In fact, attention is focused on the savings element for the policyholder in the marketing of endowment assurance in Nigeria. The savings serve as a veritable, investment funds for, the insurer. Thus, the premium for endowment assurance is usually higher than whole life assurance due to this important feature (Falegan, 1991; Oluoma, 2010).

**Annuity business** forms a substantial part of insurance contract transacted by life office. Although not purely a life insurance business, age long insurance practice has consistently placed annuity contract under the care of life insurers that its clear separation from life business is needless. And more so, current insurance laws in Nigeria permit the inclusion of annuities into the life insurance classification. According to Evans, (1995), an annuity is a periodical payment made by the life office to the annuitant, in exchange for purchase money, for the remainder of the lifetime of a named life or for a specified period irrespective of the duration of human life. An annuity could be described as the obverse of a whole life policy, it deals with survival rather than death benefits and the premature death of an annuitant is therefore to the advantage of the office.

In life assurance, the individual pays small contributions called premium in order to receive lump sum later, called sum assured, in annuities the individual pays a lump sum in order to receive smaller amount called annuities for as long as the contractual term permits. The small amounts are the streams of income paid at stated time interval, usually annually (or half yearly, quarterly, monthly) to the annuitant. The following forms of annuities according to Oluoma (2010) are discernible.
i. **Immediate Annuity**
Here the annuitant starts receiving the annuities immediately the lump sum (a single lump sum covering the annuities) is paid. Annuities may start in practice say after six months and continue till death of the annuitant.

ii. **Deferred Annuity**
The income payments start at a later date (usually many years later) agreed upon. For this a single lump sum may secure the annuities. Usually however, lump sums of smaller amounts are paid periodically to the insurance company. Annuities then begin, until death- after the last lump sum installment payment.

iii. **Annuity Certain**
The annuity is payable for a certain time irrespective of death of the annuitant. In the case of death some named beneficiary will enjoy the annuity.

iv. **Guaranteed Annuity**
Here, income payable stop after a certain period of time (guaranteed) or on the death of the annuitant, whichever one comes first.

v. **Reversionary Annuity**
This is a case of payment of income (annuity) to say the wife on the death of another say the husband. That is, the annuity reverses from one person to another.

vi. **Joint and Last Survivor Annuity**
Annuity is paid during the life time of both husband and wife and continues further on the death of one to be paid to the survivor. In the last survivor case the Conditions may stipulate either the same annuity or a smaller amount.

The three basic forms of life assurance are whole life, endowment and term assurance; other variations derive directly or indirectly from one or a combination of them. Many variations of contracts are obtainable in the field or theoretically possible under the individual (or ordinary) life assurance that the list could not be exhaustive. Insurance market generally is a dynamic one, both life and non-life. Market situation creates changes to cope with the demand needs of the
policyholder. However, some of the basic variations according to Falagan (1991) need be discussed

i) Family Income Benefits
This type of policy is extremely cheap and is with whole life or endowment insurance, the foundation of any life insurance programme designed for the protection of the family. The sum assured is payable as a tax free income from the date of death to the end of the selected term. A man can thus provide income for his wife and children during the period when the family economy and future is most dependent on his earning. The policy provides a sum insured payable on death within the term selected and which decreases over the term. It is thus, really a combination of a decreasing term assurance and an annuity. Note however, that the benefit is not usually a lump sum payment but rather installment payments probably monthly or quarterly. It is based on this arrangement that the income is ascribed to this type of benefit. Where the policyholder survives the term, then the endowment feature operates; the benefit is paid to the policyholder.

ii) Child’s Deferred Assurance
Child’s Deferred Assurance contract may be effected by a parent or grandparent to provide a cash sum (with profit or without profits) when a child reaches age 18 or 21. In lieu of the cash sum valuable options are available to the child to effect a new whole life or endowment with the insurer on advantageous terms and without medical evidence. The options are exercised when the child is aged 18 or 21, or as the case may be. Other attractions of this form of contract are: the premium is relatively cheap, where the child avails himself of the conversion option because of his relatively young age, should the child die before the option date, the parent can still continue with the policy if he chooses to or have his premium returned with or without interest, as the case may be. Moreso, should the parent die before the option date, the policy still continues in force until option date although no further premium need be paid.

iii) School Fees Policy
School Fees Policy is a form of policy issued for the benefit of a child’s education. The intention is to ensure that a child’s education is not interrupted as a result of the death of the parent which may occasion a stop to the payment of school fees and discontinuation of the child’s education. Provision for this could be secured through an endowment assurance. According to Evans,
(1995), where provision for school fees has not been made by means of an endowment assurance, and the child has reached an age when school fees are payable. The school fees policy ensures that such school fees will be paid in the event of death of the parent during the child’s schooling. Thus, the child’s education will be uninterrupted. The policy is a decreasing term assurance on the parent’s life with the sum assured reducing annually by the amount of school fees for the year. Premiums are payable annually for the policy term, as it usual for this type of contract, or single premium payments may be made. Oluoma, (2010), opines that these two forms of assurance are purely designed for the benefit of children. They guarantee the continued welfare of the child and progress in education. In Nigeria, with rapid increase in general population and in the number of children attending school, these forms of assurance have become popular amongst insurers.

iv) Joint Life Policies

Joint Life Policies cases may arise in which the economic lives of two parents are so socially intertwined that the death of any one of them will be a great loss to the other. This is usually the case with husband and wife, particularly if both of them are economically active. In this case, a policy can be effected on more than one life such that in the case of death of one, the sum assured will be paid to the remaining one alive. That is, the sum assured is paid on the death of the first life. Another variation is the payment of sum assured on the death, not necessarily of the first life, but rather of the last survivor.

v) Mortgage Protection Life Assurance

According to Oluoma (2010) insurance companies in Nigeria abundantly transact this form of assurance under various nomenclatures. The policy gives protection against the risk of death, by providing in that event a capital sum sufficient to repay the outstanding balance of the mortgage. The initial sum assured of the policy must equal the amount of customer’s loan and this sum assured will decrease each month by the same amount as the capital repayments under the mortgage to the rate of interest stated in the policy. The policy applies equally to existing, mortgage as well as to the new mortgages. In the case of an existing mortgage, the initial sum assured should equal the amount of the outstanding loan and the term of the policy should be the exact number of years sufficient to cover the remaining of the mortgage term.
vi) **Equity-Linked Policies**

Life insurance premiums constitute a really large pool of funds. There are units-trusts, namely an association of investors, who will find it profitable or convenient to utilize the pooled resources, saving, for investment in securities. In this respect, certain life policies are equity-linked in the sense that a large part of the premium (sometimes up to 90%) is pooled for investment, the remaining part is used then to provide say a term assurance to the policyholder. This type of insurance is heavily influenced by tax regulations and budgetary, changes. It is an area in which expert advice is greatly needed. Equity-linked policies are sometimes called investment linked life policies (Dickson, 1986)

vii) **Capital Redemption Policies**

A capital redemption policy is a contract which provides a specified sum at the end of a fixed period secured by payment of a single premium or series of payments of stated amounts. Capital redemption policies are not purely life assurance contracts, since they are independent of the duration of human life; they are payable on the maturity date, whether or not the proposer survives, thus the accumulation of interest is a prominent factor. A cash surrender value may be payable should the proposer die during the contract period, prior to the maturity date (Evans, 1995).

Capital redemption policies may be tagged ‘sinking fund’ or leasehold redemption policies. They may be used for the retirement of a loan; replacement of a machinery or to secure the redemption of debentures, or to cover outlay on depreciation, etc. In issuing capital redemption policy which provides a capital sum at the end of a certain term, the issuing insurance company will assume that the premium it receives will be invested to produce the sum insured at maturity. Clearly at the outset of the contract, the insurance company is completely unaware of the interest it stands to earn at the expiration of the term on the related investments and so the company has to estimate it (Evans, 1995; Oluoma, 2010; Ogunshola, 1979).

viii) **Key Pension Assurance**

In some large organizations, the continued successful operation and survival of the business may depend solely on the shoulders of a few key-men or women. This might be due to their vast
knowledge and experience in the related field, whereby such knowledge is rare and not possessed by others. In this situation the untimely death of a key man may lead to loss of profit and eventual demise of the business. To guard against this situation, the company can effect a policy on the life of the key-person for the duration of his/her service. The premiums paid are usually allowed as a business expense hence the proceeds are taxed as income. The policy usually provides for the installment payment of the sum assured over a corresponding period that it will take to train or replace the key-person by another person. This will enable the employer to receive specified weekly sum as a benefit to forestall an emergent loss of profit as a result of death or incapacitation of the key-person (Bicheklhaupt, 1974; Oluoma, 2010).

Where the key-person is a large shareholder the premium may be disallowed as an expense of the business on the ground that the life assured is identified with the business. However, the proceeds will not then be taxed as income. This is consistent with the treatment of partnerships and sole traders - no distinction is allowed between a person effecting a policy on his or her own life in connection with the business and doing so in a private capacity (Evans, 1995).

ix) Group Life Insurance business

Group life insurance business differs from individual life insurance in the sense that the focus of attention is the group rather than the individual. Most group plans are provided by the employer for their employees, or for associations or unions. There is usually a master policy other than individual policies, issued to the employer; however each individual could receive a certificate of insurance stipulating the contract conditions, such as the amount of insurance, the beneficiary and conversion option to whole life or endowment assurance. The conversion option is necessary because the individual may leave the group, whatever the reason (e.g termination of employment), but still desirous of having an insurance protection. No medical examination may be required for each individual constituting the group depending on the age brackets and the sum assured involved, and the underwriting rules of the life office (Dickson, 1986).

The Pension Reform Act 2004, section 9(3) has made Group Life insurance compulsory in Nigeria. Thus, employers in the public and private sectors of the country having 5 (five) or more employees are mandated to effect a group life assurance policy covering death-in-service benefit to the tune of a minimum of 3 (three) times of each employee annual total emolument. The
benefit is payable in lump sum to the dependant of a deceased employee. The cost of the premium is to be borne entirely by the employer. The group life cover is an addition to the contributory pension scheme made compulsory by the Act as well.

   x) Pension Scheme

By its nature a pure pension scheme pays a regular income to an employee on retirement from service. The public service scheme in Nigeria is a typical example. The scheme is non-contributory and is not funded; payments to the retired withdrawn and retrenched workers are charged on and paid out of the current revenue account by the Federal or State Government. The scheme provides for both a regular pension and gratuity. The former refers to periodic payments while the later refers to lump sum payments. While the civil (public) service pension is not funded in advance, recently parastatals are expected or mandated to set up their own funds and make advance provision for the benefits payable to their employees. The schemes are usually placed under the management of insurance companies. The benefits provided are graduated. The size of the benefit takes into account the number of years served and the age of the employee (Ogunshola, (1979); Oluoma, (2010)).

The Pension Reform Act 2004 has harmonized the public and private pension system in Nigeria making contribution to the pension scheme compulsory for organizations having 5 or more employees. In the private and public sectors the contributions are made by employer and employee. The Act establishes separate institutions called the Pension Fund administrators (PFA’s) who administers the fund and the Pension Fund custodians, who keep the fund. The pension administration in Nigeria is regulated by the National Pension Commission (PENCOM).

   xi) Deposit Administration

A recent development in the Nigerian Pensions market is the introduction of the Deposit Administration scheme. Under this system, the contributions payable from time to time by the employee and the employer are credited with interest periodically. When an employee retires or dies in service, a capital sum is debited against the accumulated amount such capital sum being sufficient to purchase the benefits attributable to him under the rules of the scheme. The rate of interest to the fund would depend upon the investment performance of the life and pensions fund of the insurance company but it is usual to provide for minimum guarantee of interest, say, for 3
to 5 years. Thereafter the guaranteed rate of interest could be reviewed. Any interest earned in excess of this guaranteed percentage may be passed on in the form of annual bonus (Oluoma, 2010).

In fact, the major attraction of this scheme is the investment element. Unlike other schemes the interest rate guaranteed is higher. Although there are usually administration and investment expenses charges which are set against the interest yield, currently in Nigeria most offices do waive these charges as a competitive tool towards procuring this scheme. Two major approaches under which the contributions and benefits under the deposit administration scheme may be determined are: the accumulated savings approach, and the pensions approach. The first approach is largely in operation Nigeria (Ogunshola, 1979; Oluoma, 2010).

Where the deposit administration does not provide for death benefits, it is usual to supplement it by a group life assurance scheme in order to provide a reasonable death-in-service benefit. Unlike other schemes, an annual statement of account is usually prepared for deposit administration scheme (Oluoma, 2010).

Currently the deposit administration scheme has been largely supplanted by the contributory pension system under the Pension Reform Act, 2004.

**Non-Life (General) Insurance Business**

i) **Fire Insurance Business**

The main object of a fire insurance is to reinstate or replace property damaged or destroyed or to compensate an insured person for such damage so that he is placed in the same financial position after a loss as he occupied immediately before it. There are two main types of policies under fire insurance namely; the ordinary fire and the special perils cover.

a. **Ordinary Fire Cover:** Under this sub-policy, two kinds of cover exist:

   i. **Cover for Private Houses and Contents**

      This kind of policy covers damage to private houses or dwelling and their contents. The contents usually covered are household goods and personal effects.
ii. **Standard Fire Policy**

By exclusion of private houses this policy type covers every other form of buildings and structure. These include factories, plants, machinery, warehouses (and the inventory), shops (and contents), office building, fixtures, fittings, raw materials (or stock), etc. The perils of concern here are: fire, lightening, explosion (only if caused by gas or boilers used for domestic purposes).

b. **Special Perils Cover**

Special perils connotes perils involving unusually large size of loss and whose occurrence are highly unpredictable for which insurers originally lack the enthusiasm to provide cover for under the ordinary policy. However, in recent times most insurers are prepared to arrange cover for some of these perils under certain restrictive conditions and at an additional premium being charged. Special perils for which insurance cover is normally provided are commonly classified as an aid to study under four headings: Perils of chemical nature, Social Perils, Perils of nature and Miscellaneous Perils. (Hall (1985); Oluoma (2010))

**ii) Accident Insurance Business**

Accident insurance business has been interpreted as the business of assuming the obligation of an insurer under any policy of insurance upon the happening of personal accident whether fatal or not, disease or sickness, or any class of personal accident, disease or sickness “(Insurance regulation 1977, Sect 23(1).

This implies that accident insurance business is incidentally a merger of two different forms of insurance, viz: personal accident insurance and sickness insurance. It will also include any form of accident not included under the foregoing General business classification.

**iii) Motor Vehicle Insurance Business**

Motor vehicle insurance has developed into an important form of contract arising from its compulsory nature and the increasing public demand for cover. It guarantees indemnity against loss of, or damage to or arising out of or in connection with the use of motor vehicles, including third party risks. The nature of the protection afforded here, permits development of four different types of cover in the motor insurance market as follows:
a. **Act Only Policy**: It covers the statutory insurance protection made compulsory under Road Traffic Act of 1945 which became operative in 1950. Thus it affords legal liability for death or injury to any person arising from the use of motor vehicle.

b. **Third Party Only Policy**: It provides indemnity to the policy holder, for death or injury to third parties arising from the use of the motor vehicle as well as damage to property of third parties.

c. **Third Party Fire and Theft Policy**: This covers in addition to the cover provided under third party only policy, loss of or damage to the motor vehicle as a result of fire and/or theft.

d. **Comprehensive policy**: This policy, in addition to the cover granted under third party fire and theft policy, also covers loss or damage to the motor vehicle occasioned by any form of accidental damage or collision including cover for own damage (i.e. accidental damage of one’s own vehicle). Medical expenses, personal effects, etc are also coverable under this policy. This is the widest of all the covers, hence the name “Comprehensive”. And it attracts the highest premium. For ease in underwriting, motor insurance business has been classified according to the type of vehicle as follows: Private cars, Commercial vehicle, Agricultural and forestry vehicles, motorcycles, Vehicles of special construction, Motor trade, etc. (Oluoma 2010)

iv) **Oil and Gas Insurance Business**

The major activities undertaken in the oil and gas industry includes: exploration, exploitation, production, oil and gas processing, crude oil refining and marketing petro-chemical products, transportation, etc. The activities can further be brought under two main areas of activities namely; off-shore and on-shore. Cover could be provided for loss or damage occasioned by any of the following typical perils; blow-out, fire, explosion, collision, pollution, extreme environmental conditions, structural mechanical failure, employee risks, grounding, etc.

v) **Engineering Insurance**

Under engineering insurance, plant could be classified into: Boilers & Pressure plant; engine plant; electrical plant; lifting machinery.; and miscellaneous plant. The plant can further be brought under two major policies: Boilers and Pressure Vessel insurance and Machinery break
down insurance. The type of items suitable for insurance include: Generators, Boilers, Transformers and switch gear, refrigeration plant and compressors, diesel, steam oil and gas engines, pumps, electric motors, process machinery, lifts, cranes, electrical equipment, computers, etc. (Oluoma, 1999)

vi) Bonds
According to Gasper (1985), a bond is defined as a written undertaking by a guarantor that is ‘surety company’ to accept responsibility for the performance of a contractual obligation entered into by the person primarily liable under the contract in the event of that person’s default. In other words, it is defined as an obligation which one party ‘the surety or guarantor undertakes to another person the employer or beneficiary for debt, obligations or conduct of a third party that is the contractor or principal. Insurance companies underwrite bonds on an unsecured basis by careful examination of the contract conditions, local conditions and the liability and standing of the contractor. Insurance bonds are available to protect an employer against failure of a contractor to complete a contract while customs bonds are to protect the government against any company failing to pay duty. The following types of bonds exist: bid bonds, performance bonds, advance payment or mobilization fee bonds, court bonds, government bonds, credit guarantee, etc.

From the foregoing statutory classification, under the 2003 Insurance Act, some of the former categories of business under the 1997 Insurance Act like workmen’s compensation insurance, contractors -all -risks and railway rolling stock insurance will now have to come under general accident or miscellaneous, while the former categories of goods-in-transit will now come under motor or marine and aviation insurance or general accident. The dichotomy between general business and special risk business introduced by the insurance decree 1997 has been abolished under the 2003 Act.

2.1.5 THE NIGERIAN FINANCIAL SYSTEM
Financial systems, all over the world, play fundamental roles in the development and growth of the economy. The effectiveness and efficiency in performing these roles, particularly the intermediation between the surplus and deficit units of the economy, depend largely on the level
of development of the financial system. It is to ensure its soundness that the financial sector appears to be the most regulated and controlled by the government and its agencies. The surveillance role of the regulatory/supervisory authorities is critical to ensuring the soundness and efficiency of financial institutions in order to build up confidence and stability of the system.

The components of these bodies are the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the Federal Ministry of Finance (FMF), National Insurance Commission (NAICOM), the Federal Mortgage Bank of Nigeria (FMBN), the Financial Services Regulatory Coordinating Committee (FSRCC) and National Pension Commission (PENCOM). Generally, the stage of development and, thus, the efficiency of the system varies among countries and changes over time in the same country, in tandem with the development of the real economy. In other words, the more developed and sophisticated financial systems tend to be associated with the mature economies, while under-developed financial systems feature in developing economies. As a process, the financial system adjusts to changes in the real economy just as the economy responds to developments in the financial sector.

Generally, the Nigerian financial system has undergone remarkable changes in terms of ownership, structure of its institutions, the menu of instruments traded, and the regulatory framework within which the system operates. The deregulation introduced in 1986 under the structural adjustment programme provided powerful incentives for the expansion of both the bank and the non-bank financial institutions of all sizes, structure and complexity. For instance, the number of commercial banks rose from 41 in 1986 to 115 in 1996, and the branches rose also sharply from 1367 in 1986 to 2551 in 1996 (CBN, 1997). By December, 2003 the number of branches was 3247. In addition, 401 community banks 145 mortgage institutions and 618 finance houses were established within this period (CBN, 1997).

With the increase in the number of financial institutions in the system one would have assumed that the concentration level would have decreased thereby increasing both the actual and potential competition in the relevant banking markets as well as enhancing the benefit to consumers in the form of gains in convenience and needs. Unfortunately, despite the growth in
the number of financial institutions the financial system remained highly concentrated. For instance, as observed by Soludo (2004), commercial banking sector is ‘rather structurally concentrated as the ten largest banks account for 50 percent of the industry’s total assets/liabilities.

At the apex of the financial development is the Central Bank of Nigeria (CBN). The chain of financial developments in Nigeria started with the establishment of the Central bank in 1958. Since then the CBN has become a dynamic agent and a catalyst of investment and economic growth in the economy. The expansion of the financial assets of the CBN attests to its dynamic role in the economy.

Between 1960 and 1989, with the exception of the war years 1967-70, when the assets of the CBN declined and of 1974 when the oil revenue rose dramatically thereby leading to an equally dramatic increase in the financial assets of the CBN, the CBN has maintained a fairly stable expansion in its assets. Although, great diversity marks the activities of central banks throughout the world, it is through the conduct of monetary policy that the central bank has its most pervasive impact on the economy. Monetary policy allows central banks to have a significant impact on a broad range of macroeconomic developments including inflation, employment, growth, interest rates, exchange rates, and balance of payments (Erb, 1989).

Besides performing the traditional function of issuing the means of payments and controlling the money supply, the CBN has been able to implement monetary and exchange measures aimed at strengthening the institutional infrastructure of the financial system and expanding the nascent domestic financial markets. Modern commercial banking started in Nigeria before the central bank. Being the oldest unit of the Nigerian financial system, it has been one of the most advanced of the financial institutions. The other financial intermediaries are restricted both in their capital resources and their scope of activity. Most of them are relatively new developments. This gives the commercial banks an edge over the others, particularly the other similar institutions such as the federal savings bank, merchant banks, and mortgage banks in collecting deposits and extending credit to the economy. Commercial banking has undergone radical changes since independence. Commercial banking in Nigeria developed from an industry which,
in 1960, was dominated by a small number of foreign owned banks into one in which public sector ownership predominated in the 1970s and 80s and finally, one in which private sector is in control.

The period 1990 was a turbulent one for the Nigerian commercial banks. The period witnessed a dramatic rise in asset quality problems and a wave of bank distress and failures. By March 1994, for instance, of the 118 commercial banks in Nigeria 40 were distressed. These developments in addition to virulent inflation, persistent economic downturn, frequent reversal in public policies, heightened political instability, and increased incidence of fraud and embezzlement, resulted in a highly risky and volatile financial environment (Udegbunam, 2004). Meanwhile by 2001 universal banking commenced and therefore merchant banking activities were abolished. The current commercial banking consolidation initiated by CBN in June 2004 is aimed at strengthening the financial system. The exercise has been a huge success. The paid - up capital base of the bank was raised from N2billion to N25billion and since then most banks in Nigeria has increased their capital base through the market.

2.1.6 THEORIES OF THE FINANCIAL SYSTEM

The financial sector mobilizes savings and allocates credit across space and time. It provides not only payment services, but more importantly products which enable firms and households to cope with economic uncertainties by hedging, pooling, sharing, and pricing risks. An efficient financial sector reduces the cost and risk of producing and trading goods and services and thus makes an important contribution to raising standards of living (Herring and Santomero, 1996).

Thus, as Merton (1995), citing Solow’s (1956) notes, that the 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”. 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 productivity, which translates into higher long-run growth. In order to understand the role of the financial sector in enhancing economic performance, it is useful to begin with a benchmark case in which there is no financial
sector. Without financial instruments each household would necessarily be self-financing and would make autonomous savings and investment decisions without regard for the opportunity cost of using those resources elsewhere in society.

Three fundamental decisions which influence economic performance -- (1) how much to save and how to allocate the flow of savings; (2) how much to consume; and (3) how to allocate the existing stock of wealth -- would depend on each autonomous household's opportunities, present and expected future income, tastes, health, family composition, the costs of goods and services, and confidence in the future. Although barter transactions among households would permit some specialization in production, the extent of specialization would be severely limited by the necessity for each household to be self-financing.

The structure of financial flows can be captured in a method of analysis called the flow of funds (Herring and Santomero, 1996). This is a useful analytical tool for tracing the flow of funds through an economy. This device has been used for evaluating the interaction between the financial and real aspects of the economy for nearly a half century (Copeland, 1955; Goldsmith, 1965). The basic building block is a statement of the sources and uses of resources for each economic unit over some period of time, usually a year. In this case the economic units are households and the sources and uses of resources accounts.

In view of the importance of the financial sector to economic performance, it is not surprising that both financial institutions and financial markets are subject to regulatory scrutiny. Regulation can be beneficial to those who issue direct claims as well as to those who invest. It also benefits financial intermediaries and their customers if it can reduce expenditures on information gathering and monitoring. Moreover, maintenance of confidence in the safety and soundness of financial institutions is critical to macroeconomic stability (Guttentag and Herring, 1987; Santomero (1992).
2.1.7 THE THEORIES OF ROLE OF INSURANCE IN FINANCIAL INTERMEDIATION

The role of the financial sector is to channel resources from savers to investment projects. The financial sector (1) improves the screening of fund seekers and the monitoring of the recipients of funds, thus improving resource allocation; (2) mobilizes savings; (3) lowers cost of capital via economies of scale and specialisation; (4) provides risk management and liquidity (Wachtel, 2001). Insurance companies play a major role in these functions and thus should also play a major role in economic growth.

In analogy to other financial sectors (Blum et al 2002), the link between the insurance and the real sector can be classified in terms of causality with respect to five possible hypotheses: (1) no causal relation; (2) demand following, e.g. economic growth leads to a rise in demand for insurance; (3) supply-leading, e.g. growth in insurance smoothes short-term economic volatility and thus induces economic growth in the long run, plus growth in investment by insurance companies induces economic growth; (4) negative causal link from insurance to growth (e.g. growing insurance causes more reckless behaviour (“moral hazard”), resulting in a less efficient and more volatile economy; (5) interdependence. In the following, we discuss the various functions performed by the insurance sector and its possible link to economic 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. First of all, there is demand for protection against losses of life and property caused by natural disaster, crime, violence, accidents, etc. Purchase, possession and sale of goods, assets and services are facilitated by the indemnification of the insurance. Therefore the assured safety of the property for example enhances trade, transportation and capital lending and many sectors are heavily reliant on insurance services. Besides relieving the fear of risk-averse individuals in buying cars or real estate and hence increasing national consumption, insurance aid companies to resist threats accruing from their business activity, like receivables, equipment break down, transport risk and more, which all represent loss of property.
Insurance also protect against possible negative outcomes of activities carried out by individuals or companies threatening themselves, others and the future abilities of both. This reduces concerns about dangerous leisure-time activities, jobs bearing safety risks, venturous investments and the like. As mentioned in Ward and Zurbruegg (2000:3)

...without access to product liability insurance, firms, particularly pharmaceuticals, would be unwilling to develop and market highly beneficial products...

In these cases the growth supporting aspect derives from a possible efficiency improvement, development of new products and services and the additional profits achieved by the compensation of extra business venture. Since insurers provide a risk pass-through mechanism, one of their main objectives is the management and measurement of risks, which they should master at least better than their clients. So insurers can use premiums as an indirect influence on resource dissipation and as well for lowering the total risk the economy faces. High risk-taking individuals and companies accordingly should bear much higher insurance costs than risk-averse and risk preventing customers. The tendency of those exposed to higher risk to seek more insurance coverage than those at a lower risk could also lead to “adverse selection”, for example with regard to flood protection or environmental pollution and the resulting losses. Insurance companies thus may refuse protection against these risks or limit indemnification.

The appearance of insurance companies adds an additional competitor to the financial market, which enables the customer to diversify his portfolio or substitute different investments. Since the indemnification of possible losses is assured by the insurance, the dependence on precautionary savings held by companies or households is reduced. The size of the substitution depends on how the premiums are financed. Insurance premiums may result from an additional flow from income to the financial market (no substitution) or may be a simple shift from one intermediary’s assets (i.e. by bank account withdrawal) to insurance income/assets. So offering insurance services can result in an increased consumption of the households and/or may increase market competition and hence market efficiency.
The “saving substitution effect” of the insurance sector is most clearly linked to life insurance. Within the market for intermediated savings, mainly the life insurance companies gained ground and reduced the market share of the banks (Van den Berghe, 1999; Allen and Santomero, 1999). So insurance companies also try to exploit this effect to gain market share from neighbouring market competitors, thus by coordinating insurance and investment elements, insurers use the attractiveness of the “saving message” to acquire new clients or increase premium income. The entry in complementary markets involves services such as bank type, finance and investment activities and as a consequence thereof includes all positive and negative side effects. Especially life insurers and pension funds are substitute saving vehicles and hence also increase competition in the investment and banking sector.

The metamorphosis of both banks and insurances sometimes include quite revolutionizing steps, since the client’s image of the company has to be altered quite heavily. This involves new distribution channels focusing on client advice and service and setting up additional branches. Positive effects can arise from synergies achieved in the finance sector, increasing competition and convenience for the client. As Van den Berghe (1999) notes that financial firms act as true financial supermarkets, offering a very broad range of products making substitution across historic-sectoral boundaries easy and strengthening the client’s position portfolios and hence reduces the average risk the economy has to face. This may result in a reduced need to save and a decreasing domestic saving rate.

Since 1990 total assets of insurance companies have grown much faster than those of banks (Raikes, 1996). So besides insurance investment growth, insurance asset growth could be investigated with regard to the interaction with economic growth. But in contrast to assets held by banks and bank liabilities insurance assets/liabilities have some differing peculiarities and likely impact on the economy:

- Broadening the investment spectrum: Bank deposits usually define the banks´ liabilities and coverage can be limited to a certain value. The number of clients is smaller than those of insurers and the average deposit is higher than the average premium paid for insurance contracts. Liabilities of an insurance company depend on the probability of the insured risk and on the unpredictable resulting losses. According to the description of the
liabilities above and by Raikes (1996), “Banks tend to have assets which are difficult to value, whereas insurance companies have uncertain liabilities.” So the financial risks are more uncertain and fluctuation can be higher for insurers than for banks. The investment policy is focusing on stability and assets are usually more liquid.

- Expanding the investment horizon (maturity): Assets held by a company usually reflect the maturity of its liabilities. Insurance liabilities are usually of longer term than those of banks. This is especially true for life insurers or specific risks such as product liability, where the arising liabilities continue for many years and can sometimes not even be covered by an appropriate investment element. So insurances have to rely on long-term investments and hence are particularly qualified to play a large role in financial markets trading long-term assets. Furthermore the “savings substitution effect” enters again when spreading the observation focus onto the customers. Bank customers, who turn from bank deposit to saving products offered by the insurance sector, increase the maturity of their assets as well. It may not be obvious to the customer, but the households’ direct holdings, which are usually concentrated in shorter maturities, are transformed into long term managed maturities when incorporated into the insurer’s technical reserves.

- Increasing investment volume: Insurance companies are major investors into shares, bonds and loans and real estate. Thus relating total investment by the insurance sector to GDP growth should be a major avenue for analysing the insurance-growth-nexus. Directly and indirectly insurers provide funds for investment and add to demand for the respective financial market instruments. By providing liquidity and depth to the respective markets, they improve the overall performance of the respective markets. Due to higher liquidity it is much easier for private and institutional investors to access diversified investment portfolios and to invest in high-risk, high-productivity projects. The possible early monetary realization of asset holdings relieves investors from the struggles of selling risky assets in tight markets. On the one hand this intensifies the pressure on the economy to limit the waste of resources due to the increased competition in the market and on the other hand aids economic growth by smoothening the flow of funds to capital-intensive projects.
Deepening capital markets: Given that insurance companies play a major role on stock and bond markets, growth effects attributed to them in the finance-growth-literature may at least partly be derived from insurance companies’ investment. So analysing the impact of insurance investment by category (stock, bond, loan, real estate) on the economy is a further area to explore. For example, Catalan, Impavido and Musalem (2000) found evidence for the causal relationship between the development of contractual savings and market development by analyzing the progress of market capitalization and value traded in stock markets and the assets of pension funds and life insurances.

Improving financial market efficiency: In line with discussions about other intermediaries holding assets the positive influence of the increased capital mobilization, the pressure on the domestic interest rate and the advantages of institutions of scale monitoring companies apply to insurance companies as well. Efficiency improvement in the insurance market can put additional pressure onto other financial intermediaries and improve the contribution of the financial sector to real growth (Pagano, 1993; Bosworth and Triplett, 2004).

To sum up, the investment activities of insurance companies have various effects onto the capital markets and further onto the economy at large: market development by deepening and widening and knowledge transfer by calculating accurate risk levels. Furthermore hurdles and regulations of investment activity may extremely alter the strength and size of the Insurance-Growth Nexus. For measuring the impact, total insurance assets may be an adequate figure to estimate the quality of capital managed and provided by insurances in the endogenous growth model. Catalan, Impavido, and Musalem (2000) investigated capital market development and insurance asset/GDP ratio impact and they found some evidence for positive effect for market capitalization and value traded.

The growth of the insurance sector relative to the banking sector (Raikes, 1996) has been facilitated by recent liberalizations, privatizations, and financial consolidations. Bank-type activities, especially by life-insurers increased the significance of the insurance sector for the capital market. The corresponding organizational institutional models of financial conglomerates are the banc assurance and the assurfinance. Within the euro area, most cross-border transactions
between financial intermediaries were initiated by insurance companies looking for bank outlets to distribute their products and diversify their income streams (ECB, 2005).

Supervisory institutions react accordingly and bundle bank, capital market and insurance supervision increasingly under one branch. In Europe the Financial Conglomerates Directive of December 2002 is already addressing this issue. In the US first the Glass-Steagall Act (1933) and then the Bank Holding Company Act (1956) tried to prevent banks and insurances from engaging in cross holdings and by prohibiting or reducing actions like selling and buying securities as an agent (for banks) or to accept deposits (for insurers) or to even share directors and employees. But the regulations were weakened by various decisions of courts and regulators and the Gramm-Leach-Bliley Act finally gave way for so-called “financial holding companies”, which are comparable with banc assurance and assurfinance. However these companies are kept under tight control and have to be certified and registered with the Federal Reserve Bank.

Although the liabilities are hard to evaluate, the technical reserves should be adequate to prevent illiquidity and runs against insurance companies are much more unlikely than against banks, since payments/withdrawal are usually bound to the occurrence of a specific case. Therefore, on the liabilities side actuarial miscalculations are the main threats which are summarized under the term “technical risks”:

- **Technical risks**: under pricing of premiums, reinsurance failure, deviation risks, etc.;
- **Investment risks**: asset risks affecting value, performance or liquidity and market risks, etc.;
- **Other risks**: risks accruing from group contagion, legal risks, management risks, etc.;

Threats accruing from the asset side mainly define the investment risks but are substantial for the success of an insurance company. As already noted above insurers have a special interest in enhanced activities in international capital markets. This development is not only based on the attraction of investment activities, but also imperative by the nature of certain liabilities and furthermore facilitated by recent liberalizations, privatisations and financial consolidations. Finally, in the recent years insurance companies were encouraged by a sustained period of low
interest rates to improve their returns by acquiring higher yielding, but more risky assets (EU, 2005). So a shift of the investment focus to less secure investments can be noticed, which subsequently leads us to the description of credit defaults swaps and a like as representatives of new high yielding, risky and slightly unfathomable investments. Other risks - as listed above - derive from the environment the company resides in and are connected to the legal framework and the socio-economic setup of the current country.

Instruments such as credit insurance are well-established means to transfer credit risk. During the past few years, a rapidly growing amount of credit risk has been transferred across the financial system via the credit derivatives market (Rule, 2001; Stulz, 2004). Credit default swaps (CDS) and collateralised debt obligations (CDOs) and other instruments allow credit risk to be stripped out, isolated from underlying assets, and sold on separately (Chaplin, 1999; Effenberger, 2004). The banking sector is mainly a buyer of protection, while the insurance sector is mainly a protection seller for investment or portfolio management purposes (Rule, 2001). At the end of 2003, the insurance sector – particularly financial guarantors – had reported a net position of USD 460 billion (EU, 2005). Roughly 65% of net sold credit positions derived from the corporate sector, 17% from financial institutions and the remainder by sovereigns. Thus credit risk has been transferred on a massive scale from banks onto insurance companies, providing them with a more pivotal role vis-à-vis banks and the economy at large. The net credit derivative position of the insurance sector relative to GPD might be an interesting measure to watch on a global level, but may be rather difficult to follow on a domestic level due to its international character and the fact that issuance is centred on certain favourable jurisdictions (ECB, 2003).

The ties between banks and insurances are not only possible via financial market instruments, but also – and more visibly – by the appearance of bancassurance and other conglomerates. This development further increased the ties between short-term assets and long-term liabilities throughout the whole group and the growth of credit risk offloading onto insurance companies. Dangerous entanglements can be hidden inside the group. An additional threat implied in conglomerates, which can be carried out with CDS (credit default swaps) as well, is the loss of capital adequacy, when capital is used by different group entities. These issues are to be watched with regard to possible negative effects for the policyholder and systemic stability (Effinger,
2004; Stulz, 2004; Dierick 2004). No matter how the connection was established (either through market instruments, conglomeration or simply by sighting an insurance contract) the policyholder has to bear the risk of an insurance failure because of the replacement of his own security reserves with the coverage of the insurance contract. This makes him vulnerable and can be interpreted as a reserve risk transfer. The possible losses of the single customer may not be relevant to the economy at large, but this threat adds to the implicit dangers of whole financial system.

Corollary governments felt urged to develop adequate frameworks to prevent collapses and hence implications on macro level. Regulatory frameworks are differing from country to country; numerous literatures on this topic are available from the most important organizations and by each country’s regulatory organization itself and a detailed description would go beyond the scope of this paper. So we just want to outline some principles contained in the most common regulatory regimes to give an impression how these rules can affect insurance companies and hence their possibly positive impact on the economy.

The regulations depend on the development stage of the business, accompanying the business entity during its setup (i.e. licensing principles), normal operation (i.e. on-going supervision) and at liquidation or when in financial difficulties. The licensing principles restrict the entrance of new institutions and restrict the underwriting business to insurance companies. Usually life and non-life business has to separate in some kind of way, cross-sectoral activities can be regulated and various formal requirements have to be met including the approval of the business plan/the risks the company intends to cover. These regulations have a bearing on the insurance business by influencing the number of competitors, the number of equivalent products and by setting standards for the managerial quality.

The on-going supervision process mainly focuses on the financial supervision to maintain an adequate capital base to meet the insured liabilities. In all OECD countries the minimum capital required at licensing must be available the whole time and some countries require adaptation to the current development of the business. In EU Member countries insurance companies have to meet solvency margins, which describe an asset to liabilities ratio with careful consideration
given to the reinsurance ratio. The US RBC-System also incorporates the risks included in the assets. Financial soundness and macro prudential indicators (e.g. the ratio of capital to technical reserves) developed around the IMF and World Banks´ Financial Sector Assessment Program (IMF, 2000; IMF, 2003a,b) are used to calculate risks incorporated into each institutions investment and the economy at large.

When speaking about solvency margins, it is worth mentioning the two different types of portfolio regulations usually adopted since portfolio regulations may also affect solvency:

- **Quantitative regulations** dictate a specific diversification of the assets, can prohibit certain investments (i.e. asset class, domestic or foreign investments) and are suitable to channel funds due to political intentions. The advantages of these kinds of regulations are simple calculability, easier enforcement and comparability whereas the companies’ investment possibilities are reduced and this may influence overall efficiency.

- **Prudent mananagement regulations/prudential investment rules** decree a certain way of management, but don’t codify specific margins, values or procedures. This guarantees the insurance companies the maximum freedom of movement in their investment decisions but can raise problems in evaluation and in jurisdiction. Depending on former legal rulings insurance companies may alter their investment strategies and focus on assets easier to justify and not on assets with the best return/risk ratio.

These two principles are the corner pillars of portfolio regulation and country regulations are somewhere in between, where EU supervision tend to adopt more quantitative restrictions and US/UK countries stick to prudential investment rules. Determinants, such as insurance assets at risk, net positions of insurance companies to GDP or the regulatory system represent potential variables to be included into growth models. But the first figure is still influenced by differences in national legislation and accountancy rules, so results may be misleading. The second may represent an indicator of “economic freedom” offered by the insurers to the economy at large, and despite difficulties in measuring, it would also be a heavily discussed figure, favoured during economic growth and stability and demonised during periods of downturn or in cases of failure with systematic implications (Davis, 2000).
Ranade and Ahuja (2001), Das, Davies and Podpiera (2003) and others investigate the implications of the regulatory regime and the legal framework and the results are mixed. La Porta et al (1996, 1997 and 1999) extends this topic to an overall examination of how law may influence economic growth.

2.1.8 ENVIRONMENTAL FACTORS AFFECTING INSURANCE MARKET IN NIGERIA

No firm can afford to ignore the changing times. An organization’s performance in the market place is a matter of the degree of alignment between the organization’s environmental opportunities, objectives, marketing strategy, organizational structure and management systems. (Kotler, 1980).

Indeed, the changing face of the financial services is occasioned by the changes in the economy. The changes almost always occur sequel to government policy changes, the dynamic environment, consumer sophistication, technological changes and social reactions etc. These changes may manifest as threats, challenges and opportunities requiring integrated management approach to critically analyse the environment, identifying the environmental threats and opportunities and designing adequate measures to adapt to the environmental changes.

We will approach these environmental factors from the following perspectives as they relate to the insurance market in Nigeria.

2.1.8.1 ECONOMIC ENVIRONMENT

Markets require not only people but also purchasing power. Total purchasing power is a function of current income, prices, savings, and credit availability (Kotler, 1980). The main economic trends that have implications for insurance market are discussed below:

(a) Price

The demand for insurance will be affected by its price as demand for insurance has an inverse relationship to price of insurance. Thus, an increase in the price of insurance may herald a fall in the demand for insurance. Insurance consumers could either opt to carry part or all of the risks
themselves or they may go for a cheaper form of insurance with reduced cover, for instance from comprehensive to third party cover which attracts a lesser premium. On the other hand, if the price of insurance is low in relation to the cost of self insurance and other substitutes then the demand for insurance is expected to increase.

The premium rates of most insurance products differ relatively depending on the segment of the market, customer characteristics, the frequency or severity of loss, the scope of cover granted, government regulations, etc. A good pricing policy should be adequate enough to accommodate all expenses and claims and allows a fair profit to the insurer. It must be precise, simple, competitive and stable but reasonably flexible to accommodate changing risk factors, environmental dynamics and perhaps inflationary tendencies. The major problem here is that the pricing policy in Nigeria has not been so flexible as to reflect changing market positions and taking cognizance of different segments of the market and product offerings.

(b) The size and distribution of the population and National income
The size of the population might be expected to have a particular direct influence on the market for insurance and particularly life assurance. However, this is not necessarily true as other elements such as the density and distribution of the population and demographic and socio-economic factors should be taken into consideration as well. When real income is increasing rapidly, there will be a tendency for personal consumption to increase. At the same time, personal savings will be channelled to the traditional financial institutions like banks and building societies, whilst some will be channeled to life assurance companies. This shows that there will be a large potential market for life assurance when national income increases. However, the major problem here is the competition from other financial institutions and the effects of inflation (Meidan, 1984).

In Nigeria where the national income per head is low, the demand for personal insurance like life, property and liability covers tends to be low. Also, since the economy is more of agricultural than manufacturing as a developing economy, the range of insurance covers sought is not sophisticated compared with those sought in more developed economies like U.S. and Europe. For instance, accident insurance (other than motor vehicle insurance), consequential loss
insurance, credit insurance and life assurance usually represent a small proportion of the overall demand for insurance in Nigeria.

On the other hand, of particular attention are the income differences of consumers. In Nigeria income distribution is still remarkably skewed. There is a very high percentage of the population with incomes only just sufficient to acquire the basic necessities of life and on the other a very small elite with high income and physical assets. The majority of the population thus has limited physical assets that need insurance cover and their ability to buy insurance even on such small assets is often limited by their low income. There is thus the absence of a sizeable and buoyant middle class that has both the physical assets requiring insurance and sufficient income to purchase insurance.

(c) Inflation
There is serious depression from the viewpoint of the common Nigerian because the economy has lost the battle and the main war against inflation. The level of unemployment is very high. Money is difficult to make through genuine and honest endeavours but it is easy to spend. Social services have deteriorated and the hardship index has escalated. Life has become less liveable for the ordinary Nigerian. From the perspective of the genuine industrialist, the state of economic depression is manifest in many ways including:

(i) High production costs arising from high cost of raw materials, high cost of funds and rising wage bills;
(ii) Stock pile of finished products due to depressed effective demand; and
(iii) Under capacity utilization which results in very high average unit cost of production (Okafor, 1993).

With the high level of inflation in Nigeria there has been a general increase in values of existing physical assets and the potential size of liability claims. Government efforts to reduce the inflationary pressures through the introduction of Structural Adjustment Programme and tight monetary and fiscal policies have not yielded enough dividends. These policies have instead resulted in liquidity squeeze within the individual firms and making firms to reduce their demand for insurance in the light of a rise in premium due to rise in price of physical assets and size of claims.
This is the case in aviation insurance, and all property insurance like motor, building, as well as liability insurance where the values of the properties are reviewed upwards due to devaluation of Naira which has christened a high level of inflation. A marketing problem here is the insured’s ability to cope with increased value and the subsequent increase in premium commensurate with it.

2.1.8.2 SOCIAL AND CULTURAL ENVIRONMENT

(a) Urbanization and the breakdown of the extended family system
In primitive traditional societies the idea of insurance was best portrayed by the joint efforts of the kith and kin in helping a relation or neighbour overcome a disaster or misfortune which has the merit of lightening the burden of loss he may have suffered. However, by the turn of 20th century, the traditional approach started degenerating due mainly to the socio-economic and political changes taking place. With the growth in population, cities and industrialization and urbanization, there came a mass exodus of people from rural areas to urban cities for greater opportunities, thereby abandoning the established traditional tribe or family pattern of life and security (Oluoma, 1999). The breakdown of the extended family system brought about personal independence with each individual having to seek for ways of managing the risks that border on their existence like sickness, accident, premature death, maintenance during retirement, protection of personal properties, etc.

Not surprisingly therefore, the increase of personal independence has created a conducive atmosphere for the growth in demand for various forms of private insurance in Nigeria.

(b) Pressure of social responsibility
Social responsibility is an aspect of market development planning and operations which looms ever larger. Even if managements were disposed to overlook it in the interest of single minded profit maximization, they would be prevented by consumerism, the ecological movement and social legislation (Mclver and Naylor, 1980).

The issue of social responsibility is very sensitive. It mirrors the acceptance or otherwise of an organization by the society. Where the organization plays a favourable role as a good corporate
citizen by identifying with the needs of the society in which it operates, there is the tendency that it will acquire a good image which will translate to increase in patronage of its products and services. The insurance companies, banks and some other financial institutions in Nigeria, basking from their inherent conservatism, of recent have tried to relate well with the communities in which they operate as a good corporate citizen, catering for some of their socio-cultural needs. These have been in the areas of donations to charitable organizations, disaster and emergency relief aids, sponsorship of programmes in higher institutions, sporting activities, etc. This change of attitude has indeed endeared the institutions nearer to the public resulting to some increase in demand for their services.

The major implications here is the relationship of the costs and benefits of these social responsibilities and the profitability of the companies.

(c) **Insurance Fraud**

In Nigeria, the duties/responsibilities of the insurer and insured as enunciated in the contract are often not faithfully observed. This has created loss of confidence between the two parties; fraud and dishonesty have been alleged.

It should be noted that insurance fraud is now one of the biggest threats to the existence of the insurance industry worldwide. It may safely be assumed that 30 percent of insurance claims today are fraudulent and particularly in times of recession and depression and high rates of unemployment the insuring public tend to be highly prone to fraud. Marine fraud increased tremendously worldwide in recent years and has also affected the Nigerian insurance market. In the field of motor insurance fraudulent claims have been on the increase in the country. It is a known fact that most car theft cases in Nigeria are fraudulent. It is also suspected that a number of fire claims in the country are fraudulent though it has been difficult to prove arson in such cases. Fraudulent claims in the life insurance business are also becoming rampant. While insurance fraud has always been regarded as a necessary evil by insurers, times are currently changing since the losses caused by insurance fraud have by far surpassed the limits of a tolerable risk. In the United States of America, in Canada and a few European countries, the insurance industry has now started to fight back on a large scale. The insurance industry in these
countries have established their own insurance fraud fighting organizations whose activities have now led to substantial recoveries by companies in such countries (Oyeka, 1998).

Furthermore, reflecting on maritime fraud, First Bank’s monthly Business and Economic Report (July, 1994) revealed that, Nigeria’s Insurance Industry lost about $50 million to maritime fraud in recent times. This amount was lost by unsuspecting insurers to fraudsters, most of them shipowners and chatters through six major techniques, namely: Documentary fraud, certificate racketeering, overstated claims, container fraud, over-valuation of vessels for insurance purpose, and (piracy). In addition, importers also engaged in the fraudulent forging of documents such as Bill of lading, customs Bills of entry, certificate of origin and invoice. The trend has been worsened by dearth of information on operations coupled with the cumbersome process of fraud investigation.

Unlike the establishment of fraud fighting organizations in developed countries mentioned above, in Nigeria such organizations are almost non-existent. In Nigeria fraud detection, prevention and management processes are quite frustrating and ineffective. This will continue to pose a major threat to the insurance market unless concrete steps are taken to arrest this trend.

(d) Increasing wave of crimes and insecurity:
There is a very high level of insecurity of lives and properties occasioned by increasing wave of crimes. Thefts and robberies of insured property have been very rampant especially motor vehicles, cash in banks and in transit, private and commercial premises etc. Most times these are accompanied by killings and assassinations. The efforts of the law enforcement agencies led by the police have not proved effective in curbing crimes and other social vices. This has given rise to the emergence of vigilante groups and ethnic militias like the OPC (Odua Peoples Congress), Bakassi boys, the Egbesu, Massob, etc to complement the efforts of the police.

The insurance industry has thus been at the receiving end. The increasing wave of crimes and insecurity has led to increasing volumes of claims and other expenses on insurance companies which invariably threaten their financial stability and operations. On a larger scale it will discourage foreign investments which will have a spiral effect on the economy.
(e) Insurance and the so-called Nigerian factors

According to Irukwu (2001), during the 1980 some cynics invented the term “Nigerian factors” to describe those negative features of the present Nigerian society that tend to retard the nation’s social and economic development in addition to tarnishing the country’s image. They include such negative factors as selfishness and greed, lack of patriotism, the continuing decline in our value system, corruption at most levels of society and above all, a high level of indiscipline resulting in violent crimes and other social evils that destabilize our society at all levels.

In fact, there is something basically questionable about the value system of the average Nigerian in relation to “success in business”. To the average Nigerian, the successful businessman is not the industrialist or the agriculturist who feeds his community with the product of his endeavour, generates employment opportunities and in the process builds an economic empire that will last once the perceived evidence of the person’s affluence, in terms of liquid funds, fails below the hyperbole level. The creative artist or gifted engineer who designs and fabricates only to earn modest profits is not deemed successful. The value system accords more recognition to the “fast gay” who operates mainly in the non-productive, quick money minting ventures like buying and hoarding to sell at killer profit margins, currency speculation and frauding in all its shades and colours (Okafor, 1994).

These negative factors have taken their toll on the insurance industry. They have adversely affected such matters as claims management resulting in the present high level of fraudulent and grossly exaggerated claims all of which are affecting the stability of most insurance companies.

(f) General misunderstanding of the insurance concept

Another negative factor that has tended to retard the growth of the insurance industry which deserves special mention in this context is the general misunderstanding of the purpose, functions and objectives of insurance as well as its value to the society. This general misunderstanding of the insurance concept and its operational mechanism extends to all levels of society, including government policy makers at both the federal and state levels. This has sometimes resulted in the enunciation of policies and legislation that have tended to retard the development of the insurance industry (Irukwu, 2001).
(g) Absence of an insurance culture and low level of insurance awareness
The level of insurance awareness in Nigeria is one of the lowest in the world, especially if we take into account the country’s population and general level of development. The low level of insurance awareness has made it difficult for the country to realize the full potential of insurance as a key factor in national development. At present, only about 10% of those who should be insured are insured as against an insured population rate of up to 45% to 60% in some developing countries and 90% to 95% in most developed countries. Until the country is able to develop a positive insurance culture, and a more buoyant and stable economy, the desired level of insurance awareness and the full benefits of insurance to national development would continue to elude the country (Irukwu, 2001).

2.1.8.3 POLITICAL & LEGAL ENVIRONMENT

(a). Government as an insurer
As in any other economy, the role of the Nigerian government in the economic system is very extensive. Over the years the nation has evolved an economic system in which both private and state enterprises co-exist. In the Nigerian scene amongst the reasons for government participation in insurance business could be mentioned: leadership role; the desire to provide cover for risks for which private insurers lack the enthusiasm or expertise to venture into; control and state security; provision of social security like health insurance, sickness/accident insurance; local capacity utilization; conservation of foreign exchange; etc. However, in recent times, it could be said that the major reason for government’s active involvement in insurance is purely for revenue drive or profit motive (Oluoma, 1999).

Insurance has become a profit-earning business despite the enormous risks associated with it. Governments in developing economies do not often resist the temptation to join in this quest for profit. In a federation like Nigeria, this is certainly so of the various state-owned companies established with guaranteed government patronage. The main issue that affects the industry is the unfair competitive advantage accorded to these state owned insurance companies by the government with the result that the private insurance sector share of the market is reduced drastically.
Perhaps, a fitting case illustration is the status of NICON in the Nigeria insurance market. Section 93 of the Insurance Decree 1997 reinforces the NICON Act by stipulating that all insurance of Government properties is vested in NICON. This provision has conferred almost absolute monopoly in the market giving NICON significant share of the market thus wiping away perfect competition in the market. Besides, this provision sharply contradicts government’s avowed commitment to liberalization and the removal of excessive government control mechanism in commercial and economic operation (Oluoma, 1999). However, the 2003 Insurance Act has repealed the aspects of monopoly of insurance business by NICON and Nigeria Re. The two institutions are now fully commercialized and privatized to pave way for a healthy competition in the market.

(b) Increase in share capital

The recent increase in the paid up share capital of insurance companies to N2 billion for life, and N3 billion for general business and N10 billion for Re-insurance business is laudable. Although it has been argued by some industry watchers that re-capitalization is not the only yardstick for measuring the health of an insurance company, it is necessary now given the growing number of weak insurance companies in the country. We should not just wait until a weak or distressed company runs aground before saving measures are adopted.

Re-capitalization will no doubt have positive and negative implications for the industry. It has reduced the number of market participants, as there were mergers and acquisitions as weak firms either merged or were acquired by stronger ones. Nevertheless this has resulted in efficiency of the healthy ones in being run very soundly and being in a better position to meet all their obligations.

(c) Impact of Tax Concessions

In fact, in some ways, legislation actually aids the insurance industry in the form of tax concessions which encourage long term saving (e.g. through life assurance policies). In certain countries (including the U.K), relief from tax at the basic rate is granted on half the premium on life policies up to a maximum premium of a certain percentage of the total taxable income (Median 1984). In Nigeria the last three budgets or so addressed the growth of life assurance
and pensions business. Government was able to grant tax allowances in Annuity and Life Assurance policies. These measures are yet to affect consumer preference for our products (Siyanbola 1997). The life sector of the insurance market is weak and lacking in innovation. Statistical information reveals that the life branch contributed an average of 7 percent to the industry’s income. This is a big challenge to the industry and requires product innovation and re-packaging.

(d) **Government as consumer of insurance**

Apart from providing insurance services in some instances as an insurer, the government also needs insurance protection for its properties/assets and personnel. But there is an apparent apathy by government in buying insurance in most cases. Not all government interests are insured, even some strategic government institutions or assets. A case in point is the Ikeja Military Cantonment and various other military and police formations. The recent bomb explosion on the 27th of January, 2002 at the Ikeja Military Cantonment is still very fresh in our memory: many people lost their lives; a lot of people were displaced or rendered homeless or become refugees in their own country; billions of naira worth of properties were destroyed; and the insurance industry was inundated with high volumes of claims.

Despite the indifferent attitude exhibited by the government in purchasing insurance, in areas where government have braced the courage to obtain insurance, it has been found wanting in fulfilling its own premium payment obligations. Often government establishments, ministries, parastatals, etc do purchase insurance without payment of premium within the insurance period and even beyond. The efforts of the insurance institutions severally and jointly in pressing for the payments of the premiums have not been yielding positive results. Insurers have even threaten to go off cover if premiums are not paid, but again the “joy” of participation in government accounts could debar collective action in this regards.

In fact, there is an urgent need for government institutions to lead by example in the payment of insurance premiums. Insurance institutions are business concerns meant to make profits, owing them huge premiums will work against the concept of insurance as a mobiliser of investible funds and against the concept of effective management of risks.
2.1.8.4 TECHNOLOGICAL ENVIRONMENT & CHANGING RISK FACTORS

Economic growth associated with industrialization has been heralded by the successful application of the know-how of science to introduction of new tools (products) and methods of bringing about improved quality of goods and services and efficiency in production processes, mass merchandising, distribution, etc. Indeed new products invariably give rise to additional demand for insurance cover sometimes resulting in new policies being devised.

In fact, the size, value, diversity and complexity of some of the risks that insurers are called upon to underwrite these days are so different from what the situation used to be in the past. For example, the chemical, steel, iron, oil exploration, textile industries, large aircrafts and other aviation risks that insurers are called upon to underwrite raise a number of technical and underwriting problems which are quite often beyond the technical and management skills of most third world insurance institutions who have to rely almost entirely on their associates from the developed markets to solve the problems posed by these new risks (Irukwu, 1989).

Insurers and re-insurers in Nigeria in recent times have tried to manage these risks by employing risk sharing and spreading methods where the loss could be catastrophic. For instance there is the existence of co-insurance and pools arrangements. Nevertheless these have not proved adequate as greater part of these hi-tech risks is ceded abroad creating a continuous challenge to the insurance market in Nigeria.

2.1.8.5 PUBLIC IMAGE

Perhaps amongst the financial institutions, the insurance sector has a very poor public image. Some of the reasons that accounted for this could be summarized as: low level of insurance awareness due to the inability of insurers to properly educate the general public on the benefits and operations of insurance; inability to settle genuine claims promptly and equitably; and poor quality of insurance salesmen (especially life assurance) who lack proper education, possess little skill, lack product knowledge and have poor attitude to work and dishonest etc. These have given rise to misunderstanding, disagreements and loss of confidence in the insurance industry by the insured and the public generally. Although insurers recently have started to address these issues
positively, the methods adopted are still at snail pace and lacks tact and aggression. Until these issues are properly handled the insurance companies are still regarded by some segments of the public as ‘cheats’ and ‘dupes’ creating a big problem in the effective marketing of insurance services and the overall growth of the industry (Daniel (2008); Utomi (2000); Alasiri (2003).

2.1.8.6 RISING STORM OF COMPETITION

Despite the harsh economic environment and government’s direct involvement in altering free market enterprise, competition for the few available businesses is still fierce in the market. The increasing numbers of insurance companies have brought a lot of competitive pressures to bear on the market. There has been a proliferation of market participants and the variety of institutions and products. Also the competition pressure has brought in its wake unhealthy rate-cutting, existence of high ‘PR’ (Public Relation) for business acquisition and retention (which has become a necessary evil), fraud and other unprofessional conducts which have negatively affected the solvency of some insurance companies.

Apart from intense intra-market competition in the insurance industry, there is also competition from other financial institutions like banks. The banks in recent years have made wide incursions into some areas of insurance business, and have been more innovative and flexible in some regards than insurance companies. Indeed the implications for these competition pressure calls for innovation, enhanced efficiency and customer orientation on the insurance market and entire financial services markets.

2.2 EMPIRICAL REVIEW

2.2.1 FINANCIAL STRUCTURE AND ECONOMIC GROWTH

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.

The Nigerian capital market was not left out in the reforms within this period. The period, 1996-2010, marked the implementation of numerous economic reforms by the federal government, which began in 1995 (a year that marked a watershed in the history of capital market operations in Nigeria, especially in the area of the highly desired deepening and widening of the market), with the federal government’s abrogation, on January 15, of the Exchange Control Act of 1962 and the Nigerian Enterprises Promotion Decree (NEPD) of 1989 which removed previous restrictions on foreign participation in the capital market; the promulgation, on July 21, of the Nigerian Investment Promotion Commission (NIPC) Decree (now Act) No. 17 of 1995 and the Foreign Exchange (Monitoring and Miscellaneous Provision) Decree (now Act) of 1995 in their stead. Thus, effectively internationalizing the market and making it more competitive, facilitating unrestricted wider and faster foreign participation in portfolio and direct investments in the economy.

The deregulation of interest rates which made many private investors patronize the equity market to source funds, as bank lending became relatively expensive; and the enactment of the Technical Committee on Privatization and Commercialization (TCPC) Decree (now Act) of 1995 which heralded the second phase of the privatization and commercialization programme, and its implementation, all aimed at enhancing market performance. Other major reforms within the period include: capital market review of 1996 by the Odife panel, commissioning of the CSCS Ltd in April 1997, trading rights in July 1998, and transition to Automated Trading System (ATS) in April 1999. The insurance sector was not left out in reform process. The finance-growth nexus throws up an intriguing research in Nigeria.

The Soludo’s banking consolidation exercise in 2005 generated and is still generating much arguments in Nigeria banking sector history among scholars as it radically changed the landscape of Nigerian banks. Extant literature abound on the implication of the reform on the industry’s performance and as opined by Balogun (2007), the Soludo’s reforms focused on strengthening
the financial systems through banking sector consolidation, foreign exchange market stabilization, interest rates restructuring and the pursuit of stabilization as against structural adjustment policies for monetary and inflationary controls. He noted that the theoretical qualifications to the Soludo’s reform show that in thoughts, it was rooted in the Classical traditions of Say’s Law, but expectation was a Keynesian outcome that money can stimulate expansion in aggregate domestic output. He concluded that there was a need to adopt an interest rate operating procedures for monetary policy in addition to moving the economy consciously towards the ‘law of one market and one price’ for domestic and foreign money markets.

Balogun (2007) again reviewed the perspective of banking sector reforms from 1970 to 2006. He noted four eras of banking sector reforms in Nigeria, vis-a-vis Pre-SAP (1970-85), the Post-SAP (1986-93), the Reforms Lethargy (1993-1998), Pre-Soludo (1999-2004) and Post-Soludo (2005-2006). His empirical results confirmed that the eras of pursuits of market reforms were characterized by improved incentives. However, these did not translate to increased credit purvey to the real sector. He noted that while growth was stifled in eras of control, the reforms era was associated with rise in inflationary pressures. In concluding, the study noted the need to bolster reforms through the deliberate adoption of policies that would ensure convergence of domestic and international rates of return on financial markets investments.

While investigating the impact of financial sector reforms on the performance of the Nigerian economy, Taiwo and Akinlo (2011) found that the means of performance indicators - saving rate, investment ratio and growth of real GDP, were very low relative to pre-reform period and their correlation with financial indicators were mostly low or negative under reform. Also, their analysis showed that shocks to financial indicators had negative or insignificant positive effect on the saving rate, investment and growth during reform and suggested that complementing financial reforms with structural reforms, therefore, is necessary to promote growth in Nigeria.

The early proponents of finance-growth nexus include Bagehort (1873), Schumpeter (1911) and Hicks (1969). Bagehort (1873) and Schumpeter (1911) argue strongly for the important role of finance in promoting economic growth. However, recent literatures have added new dimensions on the role of finance in growth. For instance, Beck, Demirgüç-Kunt, and Levine (1999)
introduced a new database of indicators of financial development and structure across countries over time. This database according to them was unique in that it unites a wide variety of indicators that measure the size, activity and efficiency of financial intermediaries and markets. It improves on previous efforts by presenting data on the public share of commercial banks, by introducing indicators of the size and activity of nonbank financial institutions and by presenting measures of the size of bond and primary equity markets.

Using newly collected data Demirguc-Kunt and Levine (1999) analyzed how the size, activity, and efficiency of financial systems banks, other financial institutions and stock markets differ across different income per capita groups, define different indicators of financial structure (financial intermediaries) relative to markets and look for patterns as countries become richer. Their findings suggest that financial systems across different income groups indicates that Banks, other financial intermediaries, and stock markets all get larger, more active and more efficient as countries become richer. Hence, financial sector development tends to be greater at higher income levels.

Demirguc-Kunt and Huizinga (2000) are of the view that countries differ in the extent to which their financial systems are bank-based or market-based. They presented new evidence on the impact of financial development and structure on bank performance using bank-level data for a large number of developed and developing countries. For countries that have underdeveloped financial systems, they showed that a move towards a more developed financial system reduces bank profitability and margins. Controlling for both bank and market development, they opined that financial structure per se does not have an independent effect on bank performance.

Beck, Demirgüç-Kunt, Levine and Maksimovic (2000) explored the relationship between financial structures, the degree to which a financial system is market-based or bank-based and economic development. They found that economies grow faster, industries depending heavily on external finance expand at faster rates, new firms form more easily, firms’ access to external financing is easier, and firms grow more rapidly in economies with a higher levels of overall financial sector development. They further found that countries with legal systems that more effectively protect the rights of outside investors enjoy greater financial development and
economic growth. Thus, it is overall financial development and not financial structure per se that is critical for economic progress.

Guzman (2000) was of the opinion that recent events have drawn attention to the banking industry. One of the most important and vital sectors needed for an efficient market economy therefore it was important to understand how the various aspects of the banking system in general and the underlying structure of the banking sector in particular affect economic growth and development. It was against this background that he reviewed the economic impact of bank structure based on existing literature. He concludes that it will be important to develop models that not only are better able to mimic the actual relationships between banks, borrowers, and depositors but that also allow the impact of government policy on the banking system and economy to be explicitly analyzed.

Collender and Shaffer (2002) explored the relationship between financial structure and job growth and posit that it could be a possible channel through which financial structure impacts income growth. They found that U.S. nonmetropolitan employment grew faster in 1973-96 where there were fewer locally owned bank offices and a more concentrated initial banking market structure; these linkages were less stable in metropolitan areas. Other findings suggest weak evidence in support of an employment growth channel linking bank structure to subsequent economic growth. Their findings suggest that job creation is not consistently a major channel by which banking structure stimulates income growth and the corollary is that the macroeconomic benefits of banking structure accrue primarily to those already working, rather than new workers.

Contributing to the finance-growth relationship, Rousseau and Wachtel (2011) are of the opinion that although the finance-growth relationship is now firmly entrenched in the empirical literature, increased incidence of financial crises since the 1990s is primarily responsible for the recent weakening of the finance-growth link, but finds no direct evidence that liberalizations played an important supporting role.

FitzGerald (2006) made four major contributions. First was that the potential contribution of financial development to economic growth is considerable, but cannot be taken for granted
depends on the construction of the appropriate institutional structure. Second, conventional measures of financial ‘depth’ (in terms of private assets) and financial ‘development’ (defined as moving from banks towards capital markets) are not associated with higher rates of economic growth. Third, financial liberalisation leads to more efficient and liquid financial intermediation, but does not appear to raise the rates of domestic savings or investment in the aggregate and fourth; the efficiency gains from the standard model of financial liberalisation in terms of investment allocation and corporate governance can be outweighed by news of instability from short-term foreign capital flows.

Irfan, Sulaiman, Hussain and Jalil (2009) explored the long-run relationship between economic growth and financial structure in Pakistan and used the data from the period of 1975 to 2008, and found that the proxy of financial structure is positively correlated with economic growth. The result revealed that the channel of transmission mechanism of financial development to growth is efficient to the financial sector not the volume of investment.

Mitchener and Wheelock (2011) examined the impact of banking market structure and regulation on economic growth using new data on banking market concentration and manufacturing industry-level growth rates for U.S. States between 1899 and 1929, a period when the manufacturing sector according to them was expanding rapidly and restrictive branching laws segmented the U.S. banking system geographically. They found that banking market concentration generally had a positive impact on manufacturing sector growth in the early twentieth century United States, with a somewhat stronger impact on industries with lower rates of incorporation and less reliance on bond markets.

### 2.2.2 FINANCIAL INTERMEDIATION AND ECONOMIC GROWTH

Financial institutions issue and sell indirect securities to the surplus units of the economy and consequently, purchase other securities, which are primary in nature, from the ultimate borrowers of those funds. According to King and Levine (1993), citing Schumpeter (1911), the services provided by financial intermediaries- mobilizing savings, evaluating projects, managing risk, monitoring managers, and facilitating transactions- are essential for technological
innovations and economic development. These aroused their curiosity and were motivated to test, empirically, the logic behind this statement (Shittu, 2012).

Jayaratne and Strathan (1996) affirm that financial development impacts positively on economic growth but with a clause that there is an improvement in the quality of bank lending. Using the bank deregulation reform in the US as a case-study, it was established that the rate of real, per-capita growth in income increased significantly. This impact of the reform in the financial system on economic growth was attributed to the improvement in the quality of bank lending, and not the increase in volume of bank lending.

Odedokun (1998), in his study, emphasised that even though financial intermediation promotes economic growth, the growth-promoting effects are more pronounced in the low-income countries. Using a cross-country data analysis of 71 less developed countries (LDCs) for the period 1960 to 1980, the study expanded the neo-classical one-sector aggregate production function with financial development as an input. Two models were derived with economic growth as the dependent variable, while the regressors include; labour force growth, investment-GDP ratio, real export growth, and financial depth. The models were estimated using the ordinary least squares (OLS) technique, as well as the Generalized Least Squares (GLS) technique. Besides the strong positive relationship that manifested between financial intermediation and economic growth, the study establishes that the impact of financial intermediation is at par with export growth and capital formation. However, its impact on economic growth is superior to labour force growth.

Rajan and Zingales (1998) sought to establish the impact of financial development on industry-specific growth. This necessitated a cross-country, cross-industry study. The primary hypothesis was, “industries that are more dependent on external financing will have relatively higher growth rates in countries that have more developed financial market.” The study designed a multiple regression model, which specified growth as the dependent variable and the financial development, external finance dependency, country specific factors, and industry-specific factors. The average annual real growth rate of value-added was used as a proxy for growth, while value-added and gross-fixed capital formation for each industry obtained from the
Industries Statistics Year Book (1993). Two finance indicators were used as a proxy. These are capitalization ratio and accounting standards. The study asserts that financial development enhances growth in indirect ways.

Demirgue-Kunt and Maksimovic (1998) carry out a firm level-based study to justify their assertion with respect to the relationship between finance and economic growth. This study shows that a developed financial system and legal system stimulates growth. This was achieved by using cross-sectional data drawn from thirty countries (developed and developing) for the period 1983 to 1991. They are of the view that an active stock market is an indication of a well developed financial system. While the firms in a country with a high rate of compliance with the rules and regulations have access to the capital market, the developed financial system will ensure growth of these firms. Hence, finance stimulates growth.

Levine, Loayza, and Beck (2000) changed the face of the argument on the relationship between financial intermediation and economic growth. This study seeks to establish the impact of the endogenous component of financial intermediation on economic growth. A robust methodology, which comprises two models and two estimation techniques, was employed. The first model, which defines economic growth as function of finance indicators and a vector of economic growth determinants, was estimated using the pure cross-sectional estimation technique. The second model is a dynamic panel model and is estimated using the Generalized Methods of Moments (GMM). Both tests confirm the strong positive impact of the endogenous components of financial intermediation on economic growth. They, however, noted that countries with high priority for creditors’ protection, strong will to enforce contracts, and unambiguous accounting standards have the potential for a developed financial intermediation.

McCaig and Stengos (2005) introduced more instrumental variables with a view to establishing a more robust empirical relationship between financial intermediation and economic growth. The study uses a cross-country analysis of 71 countries for the period 1960 to 1995. A linear regression model, which defines economic growth as a function of financial intermediation and a set of conditioning variables, was estimated using the Generalized Method of Moments (GMM). While the instrumental variable introduced included; religious composition, years of
independence, latitude, settler mortality, and ethnic fractionalization, three conditioning variables were also used. These include; simple sets (initial GDP, and level of education), the policy set (simple set, government size, inflation, black market premium, and ethnic diversity), and the full set (simple set, policy set, number of revolution/coup, number of assassination per 1000 inhabitants, and trade openness). This study also supports the argument that a positive relationship exist between financial intermediation and economic growth. However, it emphasized that this will be true if financial intermediation is measured by liquid liabilities and private credit as a ratio of GDP, while it will be weaker if it is measured using the Commercial-Central Bank ratio.

Hao (2006) seeks to establish the relationship between financial intermediation and economic growth, using a country-specific data from China. The study focused on the post-1978 reform period, using provincial data (28 Provinces) over the period 1985 to 1999. The study employed the use of linear model, which expresses economic growth as a function lagged economic growth, financial development indicators (banks, savings, and loan-budget ratio), as well as a set of traditional growth determinants (population growth, education, and infrastructural development). The study uses the one-step parameter estimates for the Generalized Method of Moments (GMM) estimation and finds that financial intermediation has a causal effect and positive impact on growth through the channels of house-holds’ savings mobilization and the substitution of loans for state budget appropriations. However, the study reveals that bank, as an indicator of financial development, is significant but negatively related to growth. This was attributed to the inefficiency in loan distribution and the self-financing ability of the provincial governments.

Romeo-Avila (2007) also confirmed the positive impact of finance on growth. He investigates the relationship between finance and growth, with emphasis on the effect of financial deregulation and banking law harmonisation on economic growth in the European Union. The study establishes that financial intermediation impacts positively on economic growth through three channels. The study by Deidda (2006) is quite informative and unique. It is a micro-based study and uses the inter-temporal approach to explain the theoretical rationale of the impact of financial intermediation on economic growth. It assumes a transition from period 1 (financial
autarky) to the period 2, which is the period when financial intermediation is attained. Although this study is theoretical in nature, the General Equilibrium Analysis was used and it concludes that the growth effect of costly financial development is ambiguous when regime switch is associated with the adoption of more capital intensive technology. There is no empirical work to this effect yet.

Odhiambo (2008) seeks to examine the dynamic causal relationship between financial depth and economic growth in Kenya. The study focuses on the period, 1969 to 2005, and included savings as an intermitting variable. To achieve this task, this study adopted two econometric techniques; the dynamic tri-variate granger causality test and the error correction model (ECM Modelling). This study concludes that one-way direction causality, from economic growth to finance, exists in Kenya. In other words, finance plays a minor role in the attainment of economic growth in Kenya.


Conversely, Odhiambo (2011) argues that economic growth granger causes financial development in South Africa. This study seeks to examine the dynamic causal relationship between financial development, economic growth, and poverty reduction. Using a trivariate causality model and the ECM modelling to analyze the data collected from 1960 to 2006, it concludes that the hypothesis of finance-led growth do not hold in South Africa.

Gries, Kraft, and Meierrieks (2009) seek to test for the causality between financial deepening, trade openness, and economic development. This study focuses on 16 Sub-Saharan African countries, using annual time series observations. For the purpose of establishing the causal
relationships, the Hsiao-Granger method, the Vector Auto-Regression (VAR), and the Vector Error Correction Model (VECM) were used. This study shows sparse support for the hypothesis of finance-led growth. It, however, suggests that the adoption of a more balanced policy approach may reduce financial system deficiencies among the Sub-Saharan Countries.

Kar, Nazliogu, and Agir (2011) focus on developing countries and also introduced new indicators of financial development with a view to establishing the causal relationship between financial development and economic growth. Using countries, which constitute the Middle East and North Africa (MENA) for the period 1980 to 2007, the study uses a simple linear model. This model defines economic growth as a function of financial development. Six new indicators of financial development was introduced and these include; the ratio of narrow money to income, ratio of broad money to income, ratio of quasi money to income, ratio of deposit money bank liabilities to income, ratio of domestic credit to income, and ratio of private sector credit to income. On the other hand, the real income was employed as a proxy for economic growth. The Granger Causality test was employed to establish the causal relationship between financial development and economic growth. The study concludes that the direction of causality is bi-directional, but it is country or financial development indicator specific. This study, however, suggests that a strong link may exist between financial development and the real sector.

Bangake and Eggoh (2011) also support the view of an existing two-way directional causality between financial development and economic growth among developing countries. This study focuses on seventy-one countries, which included eighteen developing countries, for the period 1960 to 2004. The study carried out its empirical analysis using both the Panel Cointegration tests and the Panel cointegration estimation (i.e. Dynamic OLS and panel VECM approach). It establishes that both financial development and economic growth have influence on one another, but suggests that a long-run policy approach may prove beneficial among the developing countries.

Hassan, Sanchez and Yu (2011) focus more on the low- and middle-income countries from 1980 to 2007. This study comprises 168 countries, which are classified by geographic regions, and uses the panel estimation techniques (i.e. the VAR models). The study came up with two
important findings. These include; a strong long-run linkage between financial development and economic growth, and two-directional causality exist between financial development and economic growth among the Sub-Saharan African countries, the East Asian countries, and the Pacific countries. This study emphasized the need for the adoption of long-run policy measures among the developing countries.

2.2.3 INSURANCE INDUSTRY AND ECONOMIC GROWTH

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.

Literature dealing with the interaction between the financial sector and economic growth, however, is merely concerned with bank and stock markets. The role of the financial sector for economic growth became a major topic of empirical research in the last decade, vastly
elaborating on the seminal work of King and Levine (1993a, 1993b) and Rousseau and Wachtel (1998). An impressive number of empirical studies relying on large country samples for the 1960s to the 1980s show that financial sector development can have an economically important impact on growth. The role of bank sector and stock market development vis-à-vis GDP growth was explored via cross-section methodology (Levine and Zervos (1998) and via panel data techniques (Beck and Levine (2001, 2002a). Both bank sector and stock market showed an independent, significant and positive effect on economic growth. Fink et al (2003, 2005a, 2005b) and De Fiore and Uhlig (2005) recently investigate the impact of the bond sector on economic growth. Khan and Senhadji (2000) construct a comprehensive financial sector development indicator comprising the bank sector, stock markets and also bond markets. Again a positive finance-growth link was found.

Apart from sectoral issues, followers of the law-and-finance-view (La Porta et al, 1997, and Levine, Loayza and Beck, 2000) emphasized the important role of legal and accounting status for economic growth. A related strand of literature, Beale et al (2004) and Giannetti et al. (2002), provide evidence that financial deepening and integration can boost economic output. Rousseau and Wachtel (2005), however, find that the bank/stock-finance-growth-relationship that had seemed so robust in earlier studies using data from the 1960s to the 1980 does not carry over to data from the past fifteen years. One of the reasons for this seemingly less robust finance-growth-relationship since the 1990ies may be the rising importance of the insurance sector in financial intermediation and its neglect in the finance-growth-research.

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.

As Wachtel (2001) and Favara (2003) noted, research efforts so far have not examined the impact of other financial markets or instruments on economic growth in similar depth. Compared to the vast literature focusing on bank, stock and bond markets and their respective environment, the insurance sector has hardly been investigated in its role vis-à-vis economic growth. The few research efforts on the insurance-growth nexus, while emphasizing the importance of the topic, concentrated on a few countries over fairly short or distant time horizons (Catalan et al, 2000; Ward and Zurbruegg, 2000), dealt with specific subsectors (Beenstock et al, 1988; Browne et al, 2000) only, are concerned with contagion and other possible negative effects the insurance sector can transmit onto the economy (Das et al 2003) or treats the insurance-growth-link rather as a side issue (Holsboer, 1999). Given the growing importance of the insurance sector and the increasing number of interlinks to other financial sectors, the evolving role of insurance companies vis-à-vis economic growth and stability should be of growing relevance for policy makers and supervisors. With regard to emerging and transition economies, the sequencing of reforms and the role of the insurance sector should also be a major concern in efforts towards catching up in economic growth and systemic stability.

Holsboer (1999) concentrated on the recent changes in the external environment for insurance companies in Europe. He argues that the change of importance of insurance services in the economy is dependent on the growing amount of assets and the increasing competition between the financial sectors, but the author emphasis the prominent role in the services industry and denotes insurance sector development as a determinant for economic growth. Holsboer (1999) build on a model based on Aaron (1966): interest rate (r), growth of the working population (n), the economic growth rate (g); superior benefits of the pay-as-you-go pension system if r < n+g; superior benefits of the funded pension system if r > n+g; and both pension systems providing equal benefits if r = n+g; As population aging and the move from a pay-as-you-go (PAYG) system to privately funded schemes favours the growth of the insurance industry and facilitates capital market development with increasing supply of long-term savings, Holsboer (1999) saw the interaction between the insurance and economic growth as bidirectional.
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 McKinnons and Shaws 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.

Examining two-period model tests estimation 1 and the validation of estimation 2 is conducted by comparing the bankruptcy and insolvency characteristics of insurers and banks. In the short run, where no income or efficiency improvement have emerged yet, savings (asset allocation) decline and due to lesser credit constrains resource dissipation rises. Estimation 1 and 2 is
negated and results may include implications for policymakers because the equations suggest that insurance bankruptcies cause more volatility, and funds intermediation and consumer welfare is lower than those of banks - according to their model (Shaw, 1973).

The main purpose of the model by Das, Davies and Podpiera (2003) was to identify contagious functions and properties of insurances. They further develop new financial soundness indicators for insurance companies by joining their experiences gained under the Financial Sector Assessment Program (FSAP) and from a review of recent failures in the sector. In their model, the insurances’ role as a risk pass-through mechanism, the asset allocation and the insurer’s ability to alter the behaviour of clients and the public contribute to economic growth. Das et al (2003) argued that (1) financial deregulation and liberalisation that allowed bank-type activities, (2) large macroeconomic fluctuations in output and price, and (3) close linkage between banks and insurers could be the main indicators for a possible insurance failure with repercussions to the economy at large.

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 & MM) 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.

The regulatory framework is playing a major role when addressing the problems the insurers have to face. On the liability side, policymakers try to enforce insurance companies and pension funds to offer products with guaranteed minimum return. On the asset side restricted free movement makes it difficult to achieve the necessary surplus. Companies operating in EM
countries further have to overcome obstacles like illiquid bond and equity markets and the small amount of long-term investment possibilities merely matching their liabilities duration. The solvency requirements differ between EM countries implementing either EU or US based frameworks and the requirements create a bias toward fixed-income instruments. The difference between internal investment policy and the local regulations or corollary the differences between the regulations of the motherland and the EM country can be a sore spot for the foreign insurer when it comes to financial turbulences. The local companies may achieve additional payoffs in the short run by switching to tactical decision-making, while the foreign insurers are bound to their internal investment policies. On the other hand, global players mainly have better diversified portfolios, more sophisticated risk management and better financial backing to withstand financial crises, making it possible to extend market share while the domestic competitors struggle.

The authors suggest facilitating insurance companies’ growth by providing more long-term investment possibilities, lessening regulatory constraints to help portfolio diversification and including the calculation of investment at risk into supervisory programs. They identify the institutions as investors of quality due to their long-term investment focus and the continuously rising capital base. But Kong and Singh (2005) agree to the recommendations of Ranade and Ahuja (2001) to favour banks over insurances when addressing economic stability. They note that insurance companies are much more vulnerable to financial downturns because they have to face pressure on both the liability and the asset side of the balance sheet.

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. The Nigeria reinsurance corporation was established in 1977 to provide insurance cover for insurance companies.

In addition the Nigeria reinsurance corporation is expected to assist the government in achieving its economic and social objectives in the field of insurance and re-insurance. 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.

During the last decades, there have been faster growth in insurance market activity in both developing and transition economies given the process of financial liberalisation and financial integration (Brainard, 2008), which raised questions about its impact on economic growth. As noted by Wachtel (2001), Favara (2003) and Levine (2004), research efforts so far have not examined the impact of other financial markets or instruments on economic growth in similar depth. Compared to the vast literature focusing on bank, stock and bond markets and their respective environment, the insurance sector has hardly been investigated in its role vis-à-vis economic growth.

According to Webb et al. (2002), the assessment of a potential causal relationship between insurance market activity and economic growth has been extensively dealt with in the developed world and most of the studies involved the situation in emerging markets. The works of Kugler and Ofoghi (2005) and Adams et al. (2006) also supported the notion of causal relationship between insurance market activity and economic growth. Ward and Zurbruegg (2000) examined the potential causal relationship between economic growth and insurance market activity for nine OECD countries. Using cointegration analysis, the results of the tests suggest that in some countries, the insurance Granger causes economic growth, and in other countries, the reverse is true. Moreover, the results indicate also that these relationships are country specific. Outreville (1990) conducted a cross-sectional analysis on premiums for developing countries onto GDP, income and interest rate development. Problems in the investigated countries are the insufficient demand for insurance services and the resulting unbalanced portfolio of the insurer.

It is believed that insurance market activity may not only contribute to economic growth by itself but also through complementarities with the banking sector and the stock market. In the first
case, the joint effect with the banking sector, the development of insurance activity could encourage bank borrowing by reducing companies market cost of capital, which influences economic growth by increasing the demand for financial services (Grace and Rebello, 1993). Arena (2006) posited that insurance market activity, both as financial intermediary and as provider of risk transfer and indemnification, may promote economic growth by allowing different risks to be managed more efficiently encouraging the accumulation of new capital, and by mobilizing domestic savings into productive investments.

Ward and Zurbruegg (2000) employed Granger causality to test 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.

2.2.4 LIFE INSURANCE AND ECONOMIC GROWTH
There are three main types of life insurance policies in actuarial literature (Black and Skipper, 2000) 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 (Sayin, 2003).

Human life value approach focuses on the economic component of human life. Any event affecting an individual’s earning capacity has an impact on the individual’s human life value. This event may be premature death, incapacity, retirement or unemployment (Black and Skipper, 2000). The human life value concept provides the philosophical basis for the life insurance, which is a product designed to protect the individual against two distinct risks: premature death and superannuation (Browne and Kim, 1993). Thus, while death is not a risk, the time of death is. For most people, death at any age may be considered premature when one dies before
adequate preparation has been made for future financial requirements of dependants. Life insurance thus becomes the mechanism for one to ensure a continuous stream of income to the beneficiaries (Black and Skipper, 2000). In this regard, life insurance may be regarded as a saving medium, financial investment, or a way of dealing with risks (Omar and Owusu-Frimpong, 2006).

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 loose 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.

2.2.5 NON-LIFE INSURANCE AND ECONOMIC GROWTH

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.

Zhuo (1998) focused on China and conducted a cross-regional study for 1995 and a time series analysis for the period 1986 to 1995. In accordance with other findings both the cross-regional and the time series analysis show that GDP per capita and consumer price index are significantly correlated with insurance consumption. Further the children dependency ratio is important, whereas the education level is not causally related.

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 insurance 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 a cross-country and a time-series analysis for the relation between life insurance penetration, density, and percentage in private savings and in force to GDP as the dependent variables and GDP, real interest rate, inflation volatility and others the explanatory figures. 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. The results for the other dependent variables and the time-series and cross-country analysis confirm the findings. When analysing the share of life insurance in private savings, the results suggest that the ratio decreases with an increasing saving rate although the saving rate has a positive coefficient. This could be due to behaviour of the household to limit life insurance expenses and transferring additional income to other saving vehicles. The cross-country analysis shows a negative coefficient for a country being of Islamic origin and adds institutional development to the indicators connected positively to insurance demand.
The work of Davis and Hu (2004) is special in terms of the direction of the regression and the variable setup. The authors test for causality between output per worker (OW) as the dependent variable and pension fund assets (PFA) and capital stock per worker (CS) on the explanatory side with data spanning over 43 years from 1960 to 2003 and for 18 OECD countries and 20 East & Middle East European (EME) countries. The ordinary least square (OLS) regression results give evidence for PFA and CS to have a positive and significant effect on OW. The dynamic heterogeneity models’ findings support the OLS results in the long run. The cointegration test suggests that PFA and CS are co-integrated with OW. The findings also show that PFA development has a stronger impact on OW in EME countries than in OECD countries and the shock response is decreasing in the long run but stays positive.

Zou and Adams (2004) provided insight into the Chinese property insurance market for the years 1997 to 1999. Due to market regulation and specialities of the Chinese market this work is more suitable to provide evidence for the law-and-finance view of La Porta (1998) or the socio-political decision model of Hofstede (1995). The results show a tendency for companies that are highly leveraged or have physical assets intensive production to consume property insurance, while partly state owned or a possible tax-loss carry-forward decreases demand. Increased managerial or foreign ownership and better growth options facilitate demand, while the size of the company enters inversely.

2.2.6 INSURANCE PENETRATION AND GROWTH
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.

Park, Borde and Choi (2002) concentrated their research work on the linkage between insurance penetration and GNP and some socio-economic factors adopted from Hofstede (1983). The
results of analysis of the cross-sectional data from 38 countries in 1997 show significance for GNP, masculinity, socio-political instability and economic freedom. All other factors lack importance and masculinity has to be dropped after checking for heteroscedasticity of unknown form. 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.

2.2.7 INSURANCE DENSITY AND GROWTH
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.

2.2.8 INSURANCE SECTOR DEVELOPMENT AND CAPITAL MARKET GROWTH
The size of funds held by the Insurance Industry in Nigeria represents a reasonable percentage of the Country’s total invisible funds generated by the capital market. These investments in capital market serves as a shield for insurance against predictable underwriting losses which are more prominent than profits (Agwuegbo et al., 2010).

Catalan, Impavido and Musalem (2000) analysed Granger causality of insurance assets for 14 OECD and five developing countries over the 1975-1997 period vis-a-vis GDP growth (among others). According to their analysis, contractual savings seem to have some connection to market
capitalization and value traded in the majority of countries. The correlation between market capitalization and pension funds is showing similar links as its connection to contractual savings, but the nexus of pension funds value traded is mixed. In the Catalan et al (2000) analysis, nine OECD countries support the life insurance – market capitalization link, the results for the developing countries are mixed. Evidence for the connection of life insurance to value traded is not so strong in OECD countries, whereas the majority of non-OECD countries show this linkage. The impact of the non-life business is almost equal to the impact of the life business for market capitalization and less for value traded. The linkage proposed by the authors between contractual savings and market capitalization or VT seems to hold for OECD countries, especially for countries with small and tight markets but enabling regulatory environment. The results of the small set of non-OECD countries are mixed and maybe due to their different regulatory restrictions. The second proposition to favour contractual savings institutions over other institutional investors (non-life insurance) is also supported by the results and induces the authors to recommend an appropriate sequencing of the financial institutions’ development.

Esho, Kirievsky, Ward and Zurbruegg (2004) focused on the legal framework besides the GDP – Property Causality Insurance Consumption (PCI) link. The causality analysis is based on data from 44 countries over a time period from 1984 to 1998 and includes OLS and fixed-effects estimations and GMM estimation on panel data. No matter which methodology is used, real GDP and the strength of the property rights in a country are positively correlated to insurance consumption. The insurance demand is significantly connected to loss probability, but the link with risk aversion rather weak. The price only shows a slight negative impact if investigated with GMM estimator. Although the data set showed big differences between the developments of countries of different legal origin (PCI per capita, GDP, PCI price, etc.), no evidence was found for the legal origin being a significant indicator for PCI consumption. In contrast to other sectors the importance of the property rights suggests that the legal environment facilitates insurance demand.

Boon (2005) investigated the growth supportive role of commercial banks, stock markets and the insurance sector. The author’s findings show short and long run causality running from bank loans to GDP, and a bidirectional relationship between capital formation and loans. GDP growth
seems to enhance stock market capitalization in the short run and the market capitalization enters significantly when determining the capital formation in the long run. Total insurance funds affect GDP growth in the long and capital formation in the short and the long run.

2.3 REVIEW SUMMARY

While, from a theoretical point of view the insurance sector should contribute to economic stability and growth, empirical evidence is mixed at best. The role of the insurance sector in economic growth has hardly been investigated empirically, compared to the vast literature focusing on banking and stock markets. The few papers devoted to the insurance-growth nexus, which concentrated on a few countries over fairly short or distant time horizons (Catalan et al., 2000; Ward and Zurbruegg, 2000), are concerned with contagion and other possible negative effects the insurance sector can transmit onto the economy (Das et al. 2003) or relate to specific insurance product lines only (Beenstock et al., 1988; Browne et al., 2000) or treat the insurance growth-link rather as a side issue (Holsboer, 1999). The predominant methodology to search for correlation and to calculate dependency factors is to implement an ordinary least square model to be used on a cross-sectional data set. As many authors noted, this is due to lack of appropriate time series for a sufficient number of countries. The majority of researches face problems when trying to find an appropriate proxy for insurance expenses per year, insurance assets and disposable income per capita to avoid biases. Total gross premiums and GDP per capita are the most frequently used indicators.

The strength of the link between the insurance sector and economic growth, however, is not static. As the relationship between bank and capital market finance and economic growth varies with the level of economic development (Rousseau and Wachtel, 1998, and Rioja and Valev, 2004), so does the insurance-growth nexus. The insurance sector in developed countries offers a whole bunch of specialized products, service educated and experienced clients and insurance coverage is recognized as an important value. Financial interlocking between institutions is high and sophisticated and international investment and relationships are taken for granted. The potentiality of growth contribution is much higher than in developing countries where the insurance sector hardly reaches the same importance and evolutionary stage.
Overall, income or GDP per capita seems to bear the most significant impact on insurance consumption, followed by interest rate and inflation rate. The importance of the insurance price for insurance demand is ambiguous, but the majority of papers found insurance to be a superior good, implying an income elasticity of more than unity. Given that there is only a small number of papers explicitly investigating the insurance growth nexus, and most results are not tested on co-integration, causality or interdependence, the general inference that insurance services cause GDP or income growth is only backed by weak empirical evidence. To acknowledge the pioneering works of Catalan, Impavido and Musalem (2000), Ward and Zurbruegg (2000) or Davis and Hu (2004) further investigation should be conducted to comprehend the meaning of the insurance sector for the general economy.
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CHAPTER THREE
RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN
This research adopted the ex-post facto research design. Kerlinger (1970) defines ex-post facto research as that in which the independent variable or variables have already occurred and in which the researcher starts with the observation of a dependent variable or variables. While Onwumere (2005) posits that the ex-post facto research design establishes a causal link between them. Based on the nature of this study which is to examine the impact of insurance market development on economic growth which is a cause-effect study as well the use of data which the researcher cannot manipulate, the ex-post facto research design suites this study.

3.2 NATURE AND SOURCES OF DATA
Data was sourced from secondary sources. Secondary data is data which has been collected by individuals or agencies for purposes other than those of our particular research study (Onwumere, 2005). The justification for the use of secondary data in this research is that; it is available (CBN Statistical Bulletin and NAICOM) which is entirely appropriate and wholly adequate to draw conclusions and answer the question or solve the problem. Therefore, the data used for this research was generated from the CBN Statistical Bulletin and NAICOM.

3.3 MODEL SPECIFICATION
A model, according to Onwumere (2009), is a mathematical expression of reality though it can exist in other forms. The model for this study was specified in line with the works of Holsboer (1999), Ward and Zurbruegg (2000). However, the control variables were introduced in line with the work of Njegomir and Stojic (2010) given the hypotheses stated.

Thus, for hypothesis one which states that Life insurance penetration does not exert positive and significant impact on economic growth in Nigeria. The relevant model is-

\[ Gdppc = \alpha + \beta LP + \mu \] .............................. (i)

where;

\[ Gdppc = \text{Gross domestic product per capita} \]
\[ \alpha \] = Constant of the equation  
\[ \beta \] = Coefficient of the explanatory variable  
\[ LP \] = Life insurance penetration  
\[ \mu \] = Error Term

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

\[ Gdppc = \alpha + \beta_1 LP + \beta_2 BCPS + \beta_3 EXP + \beta_4 GEXP + \mu \] .......................... (ii)

where;

\[ BCPS \] = Bank Credit to the Private Sector  
\[ EXP \] = Export rate  
\[ GEXP \] = Government expenditure

For hypothesis two which states that Non-life insurance penetration does not exert positive and significant impact on economic growth in Nigeria. The relevant model is-

\[ Gdppc = \alpha + \beta NLP + \mu \] .......................... (iii)

where;

\[ Gdppc \] = Gross domestic product per capita  
\[ \alpha \] = Constant of the equation  
\[ \beta \] = Coefficient of the explanatory variable  
\[ NLP \] = Non-life insurance penetration  
\[ \mu \] = Error Term

However, incorporating the control variables in equation (iii) we have:

\[ Gdppc = \alpha + \beta_1 NLP + \beta_2 BCPS + \beta_3 EXP + \beta_4 GEXP + \mu \] .......................... (iv)

where;

\[ BCPS \] = Bank Credit to the Private Sector  
\[ EXP \] = Export rate  
\[ GEXP \] = Government expenditure

For hypothesis three which states that total insurance penetration does not exert positive and significant impact on economic growth in Nigeria. The relevant model is-
\[ Gdppc = \alpha + \beta TIP + \mu \]  
where;

\( Gdppc \) = Gross domestic product per capita \\
\( \alpha \) = Constant of the equation \\
\( \beta \) = Coefficient of the explanatory variable \\
\( TIP \) = Total insurance penetration \\
\( \mu \) = Error Term

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

\[ Gdppc = \alpha + \beta_1 TIP + \beta_2 BCPS + \beta_3 EXP + \beta_4 GEXP + \mu \]  
where;

\( BCPS \) = Bank Credit to the Private Sector \\
\( EXP \) = Export rate \\
\( GEXP \) = Government expenditure

Lastly for hypothesis four which states that Insurance density does not exert positive and significant impact on economic growth in Nigeria. The relevant model is-

\[ Gdppc = \alpha + \beta ID + \mu \]  
where;

\( Gdppc \) = Gross domestic product per capita \\
\( \alpha \) = Constant of the equation \\
\( \beta \) = Coefficient of the explanatory variable \\
\( ID \) = Insurance Density \\
\( \mu \) = Error Term

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

\[ Gdppc = \alpha + \beta_1 ID + \beta_2 BCPS + \beta_3 EXP + \beta_4 GEXP + \mu \]  
where;

\( BCPS \) = Bank Credit to the Private Sector \\
\( EXP \) = Export rate \\
\( GEXP \) = Government expenditure
3.4 DESCRIPTION OF VARIABLES

3.4.1 DEPENDENT VARIABLES

Gross Domestic product per capita \((Gdppc)\)

Economic performance will be estimated using the real GDP growth rate. This variable will be used since it has been deflated. However, gross domestic product per capital measures the income per head. In line with the works of Holsboer (1999), Ward and Zurbruegg (2000) and Njegomir and Stojic (2010), this study adopted the per capita gross rate of Nigeria’s gross domestic product as the dependent variable to measure economic growth.

3.4.2 INDEPENDENT VARIABLES

Life Insurance Penetration \((LP)\)

Life insurance is a way of dealing with risk and a saving medium for consumers. It also plays important psychological and social roles. 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. In this study, life insurance penetration was measured by total life insurance premium divided by gross domestic product (Randle and Ahuja, 2001; Szablicki, 2002).

Non-Life Insurance Penetration \((NLP)\)

Non-life insurance is insurance businesses that are not life. Using Outreville (1990) and Beenstock et al (1988), this study adopted total non-life premium divided by gross domestic product. This measure was consistent with the works of Zhuo (1998) who investigated the impact of life and non-life insurance on the growth of China.

Total Insurance Penetration \((TIP)\)

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. Adopting the works of Arena (2008), Holsboer (1999) and Ward and Zurbruegg (2000), total insurance penetration was measured by total insurance premium divided by gross domestic product.

**Insurance Density (ID)**

Insurance density is measured as the total premium divided by population (defined as premium per capita). The premium income directly depicts the interest of the economy in insurance coverage; thus it was used to capture the level of insurance market activity in Nigeria. Insurance market activity is expected to be positively related to economic growth, this implies that the higher people demand for insurance premiums, the higher the economic growth in the country. Therefore in line with the work of Ward and Zurbruegg (2000), this study adopted this measure as a proxy for insurance density.

3.4.3 CONTROL VARIABLES

**Bank credit to the private sector (BCPS)**

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 as:

\[ BCPS = \frac{Core\ Credit\ to\ the\ Private\ Sector}{Gross\ domestic\ Product} \]

**Export Rate (EXP)**

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 represented as:

\[ EXP = \frac{Total\ Export}{gdp} \]
Government Expenditure ($GEXP$)

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;

$$GEXP = \frac{\text{Aggregate Government Expenditure}}{\text{gdp}}$$

3.5 TECHNIQUES OF ANALYSIS

The Multiple Regression analysis was used 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.
REFERENCES


Szablicki, R. (2002). Growth and the life insurance market. Draft paper from the Department of Economics, *Vienna University of Business Administration and Economics*


CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 PRESENTATION AND INTERPRETATION OF DATA

Data are presented and interpreted in line with the objectives and models of the study. The data used to test the hypotheses are presented in table 4.1 through to table 4.4.

Objective 1: To assess the impact of life insurance penetration on economic growth in Nigeria

Table 4.1 Gross Domestic Product per capita and Life Insurance Penetration

<table>
<thead>
<tr>
<th>Year</th>
<th>GDPPC</th>
<th>LP</th>
<th>BCPS</th>
<th>EXP</th>
<th>GEXP</th>
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<td>0.09</td>
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<td>2008</td>
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<tr>
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<td>225.56</td>
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<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>2011</td>
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<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>2012</td>
<td>269.09</td>
<td>1.43</td>
<td>0.36</td>
<td>0.01</td>
<td>0.01</td>
</tr>
</tbody>
</table>

Mean 76.74 0.28 0.14 0.01 0.01

Median 47.26 0.07 0.11 0.01 0.01

Maximum 269.09 1.43 0.37 0.01 0.07
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.

For life insurance penetration, the mean value within the period of this study was N0.28 while the medium value was N0.07. Life insurance penetration in Nigeria was highest in 2012 when the value was N1.43 while the year with least life insurance penetration was in 1995 and 1996 when the value was N0.01. As revealed by the skewness of life insurance penetration, there was a positive skewness (1.68) of life 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 life insurance penetration from 1987 to 2012. Though as indicated by the Kurtosis which was 4.20 > 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-

### Table 4.1: Descriptive Statistics for Key Economic Indicators

<table>
<thead>
<tr>
<th>Minimum</th>
<th>Std. Dev.</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Jarque-Bera</th>
<th>Probability</th>
<th>Observations</th>
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<td>0.00</td>
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<td>1.62</td>
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<td>0.00</td>
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<td>2.08</td>
<td>6.67</td>
<td>33.42</td>
<td>0.00</td>
<td>26</td>
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</table>

**Source:** Researcher’s Excel Computations

**Note:** GDPPC = Gross Domestic Product per capita, LP = Life insurance Penetration, BCPS = Bank Credit to Private Sector Rate, EXP = Export Rate, GEXP = Government Expenditure rate
Bera statistic is an indication of the normality of distributions was 13.78 and since the probability equal to zero, the distribution is normally distributed.

For bank credit to the private sector ratio, the mean value within the period of this study was N0.14 while the medium value was N0.11. Bank credit to the private sector ratio in Nigeria was highest in 2009 when the value was N0.37 while the year with least bank credit to the private sector ratio was in 1995 and 1996 when the value was N0.06. As revealed by the skewness of Bank credit to the private sector, there was a positive skewness (1.42) of bank credit to the private sector ratio indicating that the degree of departure from the mean of the distribution is positive revealing that overall there was a consistent increase in bank credit to the private sector ratio from 1987 to 2012. Though as indicated by the Kurtosis which was 3.58 > 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 was 9.13 and since the probability is greater than zero, the distribution is normally distributed.

For export rate, the mean value within the period of this study was N0.01 while the medium value was also N0.01. Export rate within the period of this study was constant from 1987 to 2012. As revealed by the skewness of export rate, there was a negative skewness (-0.11) indicating that the degree of departure from the mean of the distribution is negative revealing that overall there were no consistent increase in export rate from 1987 to 2012. Though as indicated by the Kurtosis –0.11 < 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 was equal to the mean value of the distribution. The Jarque-Bera statistic is an indication of the normality of distributions was 1.62; the distribution was not normally distributed.

For government expenditure rate, the mean value within the period of this study was N0.01 while the medium value was N0.01. Government expenditure rate in Nigeria was highest in 1987 when the value was N0.07 while the years with least government expenditure rate was from 1996 to 2003 when the value was N0.00. As revealed by the skewness of government expenditure rate, there was a positive skewness (2.08) of government expenditure rate indicating that the degree of
departure from the mean of the distribution is positive revealing that overall there was a consistent increase in government expenditure rate from 1987 to 2012. Though as indicated by the Kurtosis which was $6.67 > 3$ 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 was $33.42$ and since the probability is greater than zero, the distribution is normally distributed. Figure 1 diagrammatically represents the gross domestic product per capita and life insurance penetration for Nigeria from 1987 to 2012.

**Figure 1: Gross Domestic Product per capita and Life Insurance Penetration**

![GDP and Life Insurance Penetration](image.png)

**Source:** Researcher’s Excel Computation

### Objective Two: To assess the impact of non-life insurance penetration on economic growth in Nigeria

<table>
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<tr>
<th>Year</th>
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<td>BCPS</td>
<td>EXP</td>
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<td>Jarque-Bera</td>
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<td>26</td>
<td>26</td>
<td>26</td>
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</table>

**Source:** Researcher’s Excel Computations

**Note:** GDPPC = Gross Domestic Product per capita, NLP = Non-Life insurance Penetration, BCPS = Bank Credit to Private Sector Rate, EXP = Export Rate, GEXP = Government Expenditure rate

For non-life insurance penetration, the mean value within the period of this study was N3.12 while the medium value was N3.39. Non-life insurance penetration in Nigeria was highest in 2009 when the value was N5.10 while the year with least non-life insurance penetration was in 1989 when the value was N1.27. As revealed by the skewness of non-life insurance penetration, there was a negative skewness (-0.09) of non-life insurance penetration indicating that the degree of departure from the mean of the distribution is negative revealing that overall there was no
consistent increase in non-life insurance penetration from 1987 to 2012. Though as indicated by the Kurtosis which was 1.94 < 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 1.24 and since the probability was greater than zero, the distribution is not normally distributed. Figure 2 diagrammatically represents the gross domestic product per capita and non-life insurance penetration for Nigeria from 1987 to 2012.

**Figure 2: Gross Domestic Product per capita and Non-Life Insurance Penetration**

![GDP and NLP Penetration](image)

*Source: Researcher’s Excel Computation*

**Objective Three: To evaluate the impact of total insurance penetration on economic growth in Nigeria**

**Table 4.3 Gross Domestic Product per capita and Total Insurance Penetration**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDPPC</th>
<th>TIP</th>
<th>BCPS</th>
<th>EXP</th>
<th>GEXP</th>
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<tr>
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<td>0.08</td>
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<td>5.31</td>
<td>1.47</td>
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<td>TIP</td>
<td>BCPS</td>
<td>EXP</td>
<td>GEXP</td>
</tr>
<tr>
<td>------</td>
<td>-------</td>
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<td>-------</td>
<td>-----</td>
<td>------</td>
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</tr>
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</tr>
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<td>0.13</td>
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<td>3.57</td>
<td>0.13</td>
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</tr>
<tr>
<td>2006</td>
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<td>3.94</td>
<td>0.12</td>
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</tr>
<tr>
<td>2007</td>
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<td>0.29</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>2009</td>
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<td>6.34</td>
<td>0.37</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>2010</td>
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<td>0.01</td>
</tr>
<tr>
<td>2011</td>
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<td>0.29</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>2012</td>
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<td>5.77</td>
<td>0.36</td>
<td>0.01</td>
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</tr>
<tr>
<td>Mean</td>
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<tr>
<td>Median</td>
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<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>Maximum</td>
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<td>0.37</td>
<td>0.01</td>
<td>0.07</td>
</tr>
<tr>
<td>Minimum</td>
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<td>1.31</td>
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<td>0.00</td>
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<td>Std. Dev.</td>
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</tr>
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<td>2.08</td>
</tr>
<tr>
<td>Kurtosis</td>
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<td>3.58</td>
<td>1.80</td>
<td>6.67</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>5.45</td>
<td>1.21</td>
<td>9.13</td>
<td>1.62</td>
<td>33.42</td>
</tr>
<tr>
<td>Probability</td>
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<td>0.55</td>
<td>0.01</td>
<td>0.45</td>
<td>0.00</td>
</tr>
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<td>Observations</td>
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<td>26</td>
<td>26</td>
<td>26</td>
<td>26</td>
</tr>
</tbody>
</table>

**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 total insurance penetration, the mean value within the period of this study was N3.40 while the medium value was N3.46. Total insurance penetration in Nigeria was highest in 2009 when the value was N6.34 while the year with least total insurance penetration was in 1989 when the value was N1.31. As revealed by the skewness of total insurance penetration, there was a positive skewness (0.33) of total 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 total 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 3 diagrammatically represents the gross domestic product per capita and total insurance penetration for Nigeria from 1987 to 2012.

**Figure 3: Gross Domestic Product per capita and Total Insurance Penetration**

![Graph showing Gross Domestic Product per capita and Total Insurance Penetration](image)

**Source:** Researcher’s Excel Computation

**Objective Four:** To investigate the impact of insurance density on economic growth in Nigeria

**Table 4.4 Gross Domestic Product per capita and Insurance Density**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDPPC</th>
<th>ID</th>
<th>BCPS</th>
<th>EXP</th>
<th>GEXP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>2.17</td>
<td>4.29</td>
<td>0.11</td>
<td>0.01</td>
<td>0.07</td>
</tr>
<tr>
<td>1988</td>
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<td>0.10</td>
<td>0.01</td>
<td>0.05</td>
</tr>
<tr>
<td>1989</td>
<td>4.30</td>
<td>5.64</td>
<td>0.08</td>
<td>0.01</td>
<td>0.04</td>
</tr>
<tr>
<td>1990</td>
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<td>7.79</td>
<td>0.07</td>
<td>0.01</td>
<td>0.03</td>
</tr>
<tr>
<td>1991</td>
<td>6.13</td>
<td>11.63</td>
<td>0.08</td>
<td>0.01</td>
<td>0.03</td>
</tr>
<tr>
<td>1992</td>
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<td>14.83</td>
<td>0.07</td>
<td>0.01</td>
<td>0.02</td>
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<tr>
<td>1993</td>
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<td>0.12</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>1994</td>
<td>15.73</td>
<td>55.81</td>
<td>0.10</td>
<td>0.00</td>
<td>0.01</td>
</tr>
<tr>
<td>1995</td>
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<td>0.06</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>1996</td>
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<td>112.63</td>
<td>0.06</td>
<td>0.01</td>
<td>0.00</td>
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<tr>
<td>1997</td>
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<td>0.01</td>
<td>0.00</td>
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<td>0.09</td>
<td>0.01</td>
<td>0.00</td>
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<tr>
<td>1999</td>
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<td>0.09</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
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<td>191.16</td>
<td>0.11</td>
<td>0.00</td>
<td>0.00</td>
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</table>
For insurance density, the mean value within the period of this study was N352.96 while the medium value was N144.00. Insurance density in Nigeria was highest in 2012 when the value was N1, 551.42 while the year with least insurance density was in 1987 when the value was N4.29. As revealed by the skewness of insurance density, there was a positive skewness (1.46) of insurance density indicating that the degree of departure from the mean of the distribution is positive revealing that overall there was a consistent increase in insurance density 1987 to 2012. Though as indicated by the Kurtosis which was 3.87 > 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 was 10.04 and since the probability was greater than zero, the distribution was normally distributed. Figure 4 diagrammatically represents the gross domestic product per capita and insurance density for Nigeria from 1987 to 2012.

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Std. Dev.</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Jarque-Bera</th>
<th>Probability</th>
<th>Observations</th>
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<td>3.58</td>
<td>1.80</td>
<td>3.58</td>
</tr>
<tr>
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<td>276.67</td>
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<td>0.01</td>
<td>0.00</td>
<td>1.46</td>
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<td>9.13</td>
<td>1.62</td>
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<tr>
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<td>1.46</td>
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<tr>
<td>2005</td>
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<td>0.01</td>
<td>0.01</td>
<td>1.46</td>
<td>1.42</td>
<td>9.13</td>
<td>1.62</td>
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</tr>
<tr>
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<td>0.01</td>
<td>0.01</td>
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<td>1.42</td>
<td>9.13</td>
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<td>33.42</td>
</tr>
<tr>
<td>2007</td>
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<td>582.35</td>
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<td>1.42</td>
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<td>2010</td>
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<td>2012</td>
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<td>0.01</td>
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<td>1.46</td>
<td>1.42</td>
<td>9.13</td>
<td>1.62</td>
<td>33.42</td>
</tr>
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</table>

Source: Researcher’s Excel Computations

Note: GDPPC = Gross Domestic Product per capita, ID = Insurance Density, BCPS = Bank Credit to Private Sector Rate, EXP = Export Rate, GEXP = Government Expenditure rate
4.2 TEST OF HYPOTHESES

Three steps were used to test the hypotheses. In step one; the hypotheses were restated of in null and alternate forms. In step two, the results were analyzed while in step three, decisions were made. The decision rule involved the rejection or acceptance of the null or alternate hypotheses based on criterion of the techniques of analyses.

4.2.1 TEST OF HYPOTHESIS ONE

Step One: Restatement of the Hypothesis in Null and Alternate forms:

\(H_0\): Life insurance penetration does not exert positive and significant impact on economic growth in Nigeria

\(H_a\): Life insurance penetration exert positive and significant impact on economic growth in Nigeria

Source: Researcher’s Excel Computation
Step Two: Presentation and Analysis of Result

Table 4.5 Regression Result for Hypothesis One

. regress gdppc LP bcps expr gexp

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>Number of obs = 26</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>142024.548</td>
<td>4</td>
<td>35506.137</td>
<td>F( 4, 21) = 41.72</td>
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<tr>
<td>Residual</td>
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<td>21</td>
<td>851.05225</td>
<td>Prob &gt; F = 0.0000</td>
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<tr>
<td>Total</td>
<td>159896.645</td>
<td>25</td>
<td>6395.86582</td>
<td>R-squared = 0.8882</td>
</tr>
</tbody>
</table>

|          | Coef.     | Std. Err. | t     | P>|t|  | [95% Conf. Interval] |
|----------|-----------|-----------|-------|------|---------------------|
| gdppc    |           |           |       |      |                     |
| LP       | 145.7029  | 52.89916  | 2.75  | 0.012| 35.69305 255.7127   |
| bcps     | 71.49318  | 244.9488  | 0.29  | 0.773| -437.9057 580.892   |
| expr     | 1282.141  | 1718.794  | 0.75  | 0.464| -2292.288 4856.569  |
| gexp     | -1030.909 | 360.8283  | -2.86 | 0.009| -1781.292 -280.5256 |
| _cons    | 29.64426  | 25.17809  | 1.18  | 0.252| -22.7164 82.00497   |

Source: Researcher’s Stata Result
Gdppc = 29.64 + 145.70LP + 71.49bcps + 1282expr – 1030.91gexp

Table 4.5 shows the result of the regression analysis of the impact of the life 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= 41.72). The coefficient of determination (R-square), which measures the goodness of fit of the model, indicates that 88.8% of the variations observed in the dependent variable were explained by the independent variables. This was moderated by the Adjusted R-squared to 86.7%, indicating that there are other variables other than our explanatory variables that might also impact on the dependent variable. The result shows that LP has a positive and significant impact on the Gdppc of Nigerian (LP coefficient = 145.70, p = 0.012 < 0.05, t-value = 2.75). The control variable, bcps, has positive and non-significant impact on Gdppc (bcps coefficient = 71.49, p = 0.773 > 0.05, t-value = 0.29). Also, Expr had positive but non-significant impact on Gdppc (Expr coefficient = 1282.14, p = 0.46 > 0.05, t-value = 0.75) while Gexp had negative and significant impact on Gdppc (Gexp coefficient -1030.91, p = 0.009 < 0.05, t-value = -2.86).

Decision:
Based on the result above, we reject the null hypothesis and accept the alternate, thus, life insurance penetration exerts positive and significant impact on economic growth in Nigeria.
4.2.2 TEST OF HYPOTHESIS TWO

Step One: Restatement of the Hypothesis in Null and Alternate forms:

\( H_0 \): Non-Life Insurance penetration does not exert positive and significant impact on economic growth in Nigeria

\( H_1 \): Non-Life Insurance penetration exert positive and significant impact on economic growth in Nigeria

Step Two: Presentation and Analysis of Result

Table 4.6 Regression Result for Hypothesis Two

<table>
<thead>
<tr>
<th>Source</th>
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</tr>
</thead>
<tbody>
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<td>4</td>
<td>34148.3872</td>
<td>F( 4, 21) = 30.77</td>
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<tr>
<td>Residual</td>
<td>23303.0965</td>
<td>21</td>
<td>1109.67126</td>
<td>Prob &gt; F = 0.0000</td>
</tr>
<tr>
<td>Total</td>
<td>159896.645</td>
<td>25</td>
<td>6395.86582</td>
<td>R-squared = 0.8543</td>
</tr>
</tbody>
</table>

Source: Researcher’s Stata Result

\[ \text{Gdppc} = -45.42 + 9.11 \text{NLP} + 664.16 \text{bcps} + 1156.55 \text{Expr} - 762.36 \text{Gexp} \]

Table 4.6 shows the result of the regression analysis of the impact of the non-life 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= 30.77). The coefficient of determination (R-square), which measures the goodness of fit of the model, indicates that 85.4% of the variations observed in the dependent variable were explained by the independent variables. This was moderated by the Adjusted R-squared to 82.7%, indicating that there are other variables other than our explanatory variables that might also impact on the dependent variable. The result shows that NLP has a positive and non-significant impact on the Gdppc of Nigerian (NLP coefficient = 9.11, p = 0.347 > 0.05, t-value = 0.96). The control variable, bcps, has positive and significant impact on Gdppc (bcps coefficient = 664.16, p = 0.00 < 0.05, t-value = 6.96). Also, Expr had positive but non-significant impact on Gdppc (Expr coefficient = 1156.56, p = 0.57 >
0.05, t-value = 0.59) while Gexp had negative and non-significant impact on Gdppc (Gexp coefficient = – 762.36, p = 0.16 > 0.05, t-value = -1.47).

**Decision:**

From the analysis above we reject the null hypothesis but accept the alternate which indicates that non-life insurance penetration had positive impact on economic growth in Nigeria although it was not significant.

### 4.2.3 TEST OF HYPOTHESIS THREE

**Step One: Restatement of the Hypothesis in Null and Alternate forms:**

- **H₀**: Insurance penetration does not exert positive and significant impact on economic growth in Nigeria

- **H₁**: Insurance penetration exert positive and significant impact on economic growth in Nigeria

**Step Two: Presentation and Analysis of Result**

**Table 4.7 Regression Result for Hypothesis Three**

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>Number of obs = 26</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>137524.361</td>
<td>4</td>
<td>34381.0903</td>
<td>F(4, 21) = 32.27</td>
</tr>
<tr>
<td>Residual</td>
<td>22372.2843</td>
<td>21</td>
<td>1065.3487</td>
<td>Prob &gt; F = 0.0000</td>
</tr>
<tr>
<td>Total</td>
<td>159896.645</td>
<td>25</td>
<td>6395.86582</td>
<td>R-squared = 0.8601</td>
</tr>
</tbody>
</table>

| gdpc    | 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**


Table 4.7 shows the result of the regression analysis of the impact of the Total 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).

**Decision:**
From the analysis above we reject the null hypothesis but accept the alternate which indicates that total insurance penetration had positive impact on economic growth in Nigeria although it was not significant.

**4.2.4 TEST OF HYPOTHESIS FOUR**

**Step One:** Restatement of the Hypothesis in Null and Alternate forms:

- **H₀₁:** Insurance density does not exert positive and significant impact on economic growth in Nigeria
- **Hₐ₁:** Insurance density does exert positive and significant impact on economic growth in Nigeria

**Step Two: Presentation and Analysis of Result**
Table 4.8  Regression Result for Hypothesis Four

\[
\text{. regress gdppc ID bcps Expr Gexp}
\]

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
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<th>MS</th>
<th>Number of obs = 26</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
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<td>4</td>
<td>38952.2783</td>
<td>F( 4, 21) = 200.12</td>
</tr>
<tr>
<td>Residual</td>
<td>4087.53216</td>
<td>21</td>
<td>194.644389</td>
<td>Prob &gt; F = 0.0000</td>
</tr>
<tr>
<td>Total</td>
<td>159896.645</td>
<td>25</td>
<td>6395.86582</td>
<td>R-squared = 0.9744</td>
</tr>
</tbody>
</table>

\[
\begin{array}{lcccccc}
\text{Coef.} & \text{Std. Err.} & t & P>|t| & [95\% \text{ Conf. Interval}] \\
\hline
\text{ID} & 0.187329 & 0.01837 & 10.20 & 0.000 & 0.1491265 & 0.2255316 \\
\text{bcps} & -92.11216 & 85.63 & -1.08 & 0.294 & -270.1895 & 85.96518 \\
\text{Expr} & -117.3903 & 836.3954 & -0.14 & 0.890 & -1856.77 & 1621.989 \\
\text{Gexp} & -339.7402 & 186.5122 & -1.82 & 0.083 & -727.6136 & 48.13325 \\
\text{cons} & 29.42763 & 9.246452 & 3.18 & 0.004 & 10.1985 & 85.96518 \\
\hline
\end{array}
\]

Source: Researcher’s Stata Result

\[
\text{Gdppc} = 29.43 + 0.19\text{ID} – 22.11\text{bcps} – 117.39\text{Expr} – 332.7414\text{Gexp}
\]

Table 4.8 shows the result of the regression analysis of the impact of the insurance density 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= 200.12). The coefficient of determination (R-square), which measures the goodness of fit of the model, indicates that 97.4% of the variations observed in the dependent variable were explained by the independent variables. This was moderated by the Adjusted R-squared to 96.9%, indicating that there are other variables other than our explanatory variables that might also impact on the dependent variable. The result shows that ID had positive and significant impact on the Gdppc of Nigerian (ID coefficient = 0.19, p = 0.00 < 0.05, t-value = 10.20). For the control variable, bcps, had negative and non-significant impact on Gdppc (bcps coefficient = -92.11, p = 0.294 > 0.05, t-value = -1.08). Also, Expr had negative but non-significant impact on Gdppc (Expr coefficient = -117.39, p = 0.89 > 0.05, t-value = -0.14) while Gexp had negative and non-significant impact on Gdppc (Gexp coefficient = -339.74, p = 0.08 > 0.05, t-value = -1.82).

Decision:

From the analysis above we reject the null hypothesis but accept the alternate which indicates that insurance density had positive and significant impact on economic growth in Nigeria.
4.3.1 IMPlications of Results

The implications of the result was also discussed in line with the objectives of the study.

Objective One: To assess the impact of life-insurance penetration on economic growth in Nigeria

As stated earlier, life insurance is a way of dealing with risk and a saving medium for consumers. It also plays important psychological and social roles. 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. Thus, as observed from the findings of the hypothesis that life insurance penetration exerts positive and significant impact on economic growth could be as a result of (i) life companies have been well placed to invest in any maturity asset from short term securities to infinite maturity securities such as preferred and equity stocks and the short term securities are continually re-invested when they mature (Oyejide and Soyode, 1976) and secondly, life insurance companies facilitate long term investments rather than short term investments as in the case of non-life insurance companies (Randle and Ahuja, 2001). Thus, the findings of this study is in line with works of Randle and Ahuja (2001) and Szablicki (2002).

Objective Two: To assess the impact of non-life insurance penetration on economic growth in Nigeria

Non-life insurance is insurance businesses that are not life. Using Outreville (1990) and Beenstock et al (1988), this study adopted total non-life premium divided by gross domestic product as a measure of non-life insurance penetration. The result of this hypothesis which indicates that non-life insurance penetration had positive impact on economic growth although it was not significant is consistent with the works of Outreville (1990) and Beenstock et al (1988). This could have been induced by insurance consumption not affected by economic cycles or cyclical income variations may have induced the non-significance of non-life insurance penetration on economic growth in Nigeria (Beenstock, Dickinson and Khajuria, 1988). Also the problems associated with insufficient demand for insurance services hence resulting to unbalanced portfolio of the insurer may have also induced its non-significance.
Objective Three: To evaluate the impact of total insurance penetration on economic growth in Nigeria

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 findings of this study which indicates that total 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.

Objective Four: To investigate the impact of insurance density on economic growth in Nigeria

Insurance density is measured as the total premium divided by population (defined as premium per capita). The premium income directly depicts the interest of the economy in insurance coverage; thus it was used to capture the level of insurance market activity in Nigeria. Insurance market activity is expected to be positively related to economic growth, this implies that the higher people demand for insurance premiums, the higher the economic growth in the country. In comparison to Ward and Zurbruegg, who used aggregate variable in their estimation and 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. As revealed from this study insurance density had positive and significant impact on economic growth and is consistent with the work of Ward and Zurbruegg (2000).
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Szablicki, R. (2002). Growth and the life insurance market. Draft paper from the Department of Economics, *Vienna University of Business Administration and Economics*
CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS
Based on the specific objectives and hypotheses tested, the findings emanating from the study are summarized as follows:

1. Life insurance penetration exerts positive and significant impact on economic growth in Nigeria (LP coefficient = 145.70, p = 0.012 < 0.05, t-value = 2.75). The coefficient of determination (R-square), which measures the goodness of fit of the model, indicates that 88.8% of the variations observed in the dependent variable were explained by the independent variables.

2. Non-life insurance penetration had positive impact on economic growth in Nigeria although it was not significant (NLP coefficient = 9.11, p = 0.347 > 0.05, t-value = 0.96). The coefficient of determination (R-square), which measures the goodness of fit of the model, indicates that 85.4% of the variations observed in the dependent variable were explained by the independent variables.

3. Total insurance penetration had positive impact on economic growth in Nigeria although it was not significant (TIP coefficient = 12.42, p = 0.19 > 0.05, t-value = 1.36). 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.

4. Insurance Density had positive and significant impact on the economic growth in Nigerian (ID coefficient = 0.19, p = 0.00 < 0.05, t-value = 10.20). The coefficient of determination (R-square), which measures the goodness of fit of the model, indicates that 97.4% of the variations observed in the dependent variable were explained by the independent variables.
5.2 CONCLUSION

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 through promoting long term savings, encouraging the accumulation of capital, serving as a conduit pipe to channelling funds from policy holders to investment opportunities as well as mobilizing domestic savings into productive investment. 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 insurance market activity had positive impact on economic growth in Nigeria, implying 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.
5.3 RECOMMENDATIONS

This study recommends amongst others that:

1. Life insurance is a way of dealing with risk and a saving medium for consumers. It also plays important psychological and social roles. The major function of life insurance is to protect against financial loss from loss of human life. Life insurance is therefore developed on the concept of human life value as well as a means of savings for the policyholder. Thus, we recommend stronger government policies. Government agencies like National Insurance Commission (NAICOM) and National Pension Commission (PENCOM) should strictly enforce the implementation of compulsory group life insurance cover under the Pension Reform Act, 2004. Also life insurance companies should introduce life products particularly within the low income earners as the target which will enhance penetration and deepen the market. It will also be necessary to develop products that will optimize both investment returns to policy holders and financial protection to their dependants. This will assist in enhancing savings habit of Nigerians thereby increasing the quantum of funds available for investment into the real sectors of the Nigerian economy.

2. 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. Thus, this study recommends an increased diversification of insurance products especially in the non-life business. The insurers should come up with new non-life products and a modification of existing insurance products, thus availing customers the opportunity of choosing from a variety of products. There is also need for the insurance companies to take advantage of the non-life insurance products made compulsory by law to substantially increase their premium income and deepen insurance penetration.

3. 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.

4. The Insurance industry in Nigeria has recorded some reasonable growth since the consolidation exercise in 2007. This phenomenon would be expected to increase in the future under a stable political and macroeconomic environment as insurance fund could provide a veritable source of the much desired in enhancing the growth of the Nigerian economy. Thus this study recommends that National Insurance Commission should strengthen regulation in order to promote the listing of all insurance firms in the country. This will enhance insurance density in the country.

5.4 RECOMMENDATIONS FOR FURTHER STUDIES
For further studies, this study recommends as follows:

1. The interest in this study was to examine the impact of insurance market activity on economic growth in Nigeria. However, there are other savings institutions such as the pension subsector, mortgage subsector etc. The investment of funds from this subsector
could go a long way to growing the Nigerian economy. Thus this study recommends an inclusion of these sectors in determining their impact on economic growth in Nigeria.

2. This study also recommends for further studies, the use of total insurance assets as a measure of insurance market activity. This measure will ensure that investments by insurance businesses are captured.

5.5 CONTRIBUTION TO KNOWLEDGE

This study contributed to knowledge by geographically testing the impact of insurance market activity on economic growth in Nigeria. It has also modified model of the pioneering works of Catalan, Impavido and Musalem (2000), Ward and Zurbruegg (2000) and Davis and Hu (2004) and applied them to the Nigerian situation.
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### APPENDIX

**Quantum Values of Model Proxies**

**Source:** CBN Statistical Bulletin (Various Years), National Bureau of Statistics (Various Year)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP  (N,000)</th>
<th>GEXP (N,000)</th>
<th>EXP  (N,000)</th>
<th>BCPS (N,000)</th>
<th>NLP  (N,000)</th>
<th>LP  (N,000)</th>
<th>TIP  (N,000)</th>
<th>Pop  (N,000)m</th>
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</thead>
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<td>13,168.27</td>
<td>2,152.00</td>
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</tr>
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<td>673,089</td>
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<td>693,116</td>
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<td>367,950</td>
<td>20,027</td>
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<td>4,991.30</td>
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<td>486,648</td>
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<td>23,327.50</td>
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<td>23,327.50</td>
<td>30,043</td>
<td>486,648</td>
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<td>23,327.50</td>
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<td>23,327.50</td>
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<td>486,648</td>
<td>20,027</td>
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<tr>
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<td>23,327.50</td>
<td>30,043</td>
<td>486,648</td>
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<td>2005</td>
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<td>14,604.75</td>
<td>23,327.50</td>
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<td>486,648</td>
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<td>2006</td>
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<td>23,327.50</td>
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<td>693,116</td>
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<td>23,327.50</td>
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<td>486,648</td>
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<td>23,327.50</td>
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<td>11,091,331</td>
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<td>2011</td>
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<td>94,776.44</td>
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