

THE IMPACT OF INSURANCE ON ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

Insurance is one of the major non banking financial institutions that mobilize fund for investment for the wellbeing of an economy. The relationship between and economic growth has been relatively widely research but with divergent findings. This study is interested in the gap created by divergent results of the existing studies on the relationship between life and non-life insurance premium and economic growth in Nigeria. The study used secondary data obtained from the different sources including publications Central Bank of Nigeria. The Ordinary Least Square Regression was used by the study for data analysis. The study found that there is a statistical evidence of positive relationship but not significant between non-life insurance economic growth and negative relationship but also significant between life insurance and the economic growth. The study concludes that the changes in non life insurance positively influence the economic growth positively while life insurance has negative influence on the economic growth.

Keywords: *Premium, Life Insurance, Non-Life Insurance, Capital Market, Economic Growth*

Introduction

Insurance is a social contract that manages the transfer of risk between two or more parties. The emergence of modern insurance has played importance role not only to economy as a whole but also to the social wellbeing of the individuals.

At micro level, insurance raises individual confidence and sense of assurance of financial reinstatement in case of loss. Ubom (2012) observed that the main objective of insurance is ensuring protection of customers against the insured risks. The social benefit of this is that jobs

are sustained after major loss, losses of jobs and sources of income, inability to continue to produce social amenity, losing purchasing power are averted by the insurance reinstatement of the business after a major loss.

Also, premium from the insurance constitute a large segment of the capital market which may be difficult for an individual to produce. Thus insurance generate large fund to the capital market from the premium paid by all individuals insured. The importance of insurance cannot be overemphasized considering the role of the capital market to the economy. Insurance in the non-banking sector provides additional capital to finance economic activities toward the desired growth. Arena (2006) asserted that insurance may contribute to the economic growth by channeling domestic saving into productive investments.

Different studies have attempted to establish the relationship between insurance and the economic growth (e. g. Yinusa & Akinlo, 2013). Research effort in the impact of financial sector on economic growth has recently been shifting toward the relationship between insurance and economic growth (Mojekwu, Agwuegbo & Olowokudojo, 2011). This study intends to find the contributions of insurance to the economic growth from the perspective of both Life insurance premium and Non-life insurance premium.

Research Questions

This study seeks to provide answers to the questions stated below:

- i. Does life insurance premium affect the rate of economic growth in Nigeria?
- ii. Does non-life insurance premium affect the rate of economic growth in Nigeria?

Objectives of the Study

The main objective of this study is to find the relationship between insurance and economic growth in Nigeria. The specific objectives are however given as following:

- i. to determine the effect of life insurance premium on economic growth in Nigeria, and
- ii. to determine the effect of non-life insurance premium on the economic growth in Nigeria.

Review of Empirical Studies

The relationship between insurance and economic growth has been widely studied in the last few decades. These studies have used different aspect of insurance to determine the relationship. Some of the findings of the empirical studies are reviewed in this section.

First and foremost, Oke (2012) studied the relationship between the insurance sector and economic growth in Nigeria and found that there is a strong positive relationship between relevant variables. The result of the cointegration test shows a long-run relationship between economic growth and the development of insurance sector. The study concluded that economic development in Nigeria is enhanced by the development of the insurance sector.

Similarly, Olayungbo (2015) employed Autoregressive Distributed Lag (ARDL) Method to examine the effect of life and non-life insurance on economic growth in Nigeria. Evidence is found in the results of the analysis of an existence of a long-run relationship between premium for both life and non-life insurance and economic growth. Thus the study concluded that life and non-life insurance complement each other to positively affect the economic growth.

Also, Yinusa and Akinlo (2013) found a long-run relationship between the economic growth and premium in their empirical study. The study concluded that insurance development is cointegrated with economic growth.

In Iyiola and Rechar (2004) , the empirical study adopted Ordinary Least square. The result of the test revealed that gross domestic product explains for over 53% of the changes in insurance income with the value of the adjusted R^2 of 0.53, The study concluded however, that insurance did not significantly contribute to Nigeria's real gross domestic product between 1996-2012.

Sambo (2016) examined the effect of portfolio investment of insurance on the gross domestic product of Nigeria. A strong relationship was established between relevant variables in the study.

Kjosevski (2012) used multiple regression method of analysis to examine the impact of insurance on economic growth in Macedonia with data for the period of 1995 to 2010. The three indices of independent variable used are Life insurance, non-life insurance and total penetration.

The findings of the empirical analysis shows that though, while the effect of life insurance is negative on the economy, there is positive and significant effect of insurance development on economic development.

Zouhaier (2014) used static panel data model on data from 23 member countries of the Organisation for Economic Cooperation and Development (OECD) for the period 1990 – 2011. The result of the empirical analysis produced evidence of positive impact of the non-life insurance on economic growth but the effect of the general insurance and non-life is negative. The study measured non-life insurance variable with the rate of penetration. The study concluded, in part, by limiting the relationship between the insurance and economic performance to only developing countries.

Victor (2013) used multiple regression method of analysis to examine the relationship between the insurance and economic growth. Investments in insurance and insurance premium were employed for the independent variable. The R^2 obtained from the finding of the empirical analysis is 0.999. Thus a very strong relationship is established between insurance and economic growth. From the finding, it was concluded that a viable insurance will no doubt help to grow the economy.

Cristea, Marcu & Carstina (2013) sought to find the causal link between the insurance and economic growth in Romania. The result of the Pearson Correlation performed indicated that there is high correlation between the insurance market and gross domestic product growth in term of causal link.

Arena (2006) evaluated the effect of insurance variable on the economic growth .the study found a strong evidence of a causal relationship of insurance on economic growth. The study also noted that while non-life insurance impact on the economic growth is driven by both high-income and developing (middle and low-income) countries, the impact of life insurance on the economic is driven by high-income countries only.

Njegomiv and Syojic (2010) attempted to provide empirical evidence on the impact of insurance on economic growth and interaction of insurance and capital market development. The empirical

result from data obtained from five countries of ex-Yugoslavia showed that gross written premium has a significant effect on the economic growth

Phutkaradze (2014) examined the impact of insurance market on economic growth in post transition countries. The study found that insurance variable statistically does not affect economic growth.

Haiss and Sumegi (2006) sought to find the relationship between insurance and economic growth. The study unlike many others concluded that there is weak empirical evidence for the theoretical influence of insurance on the economic growth.

From the review of the empirical studies on the relationship between insurance and economic growth, the findings seem to favour a positive relationship between the two variables. However, there is no doubt that there is need for more study in the field toward reaching consensus position. This study is initiated to fill the gap created by the existence of the divergent findings,

Methodology of the Study

The study employs secondary data from different sources including Central Bank of Nigeria annual report and other related sources. The independent variable for the study is insurance proxy with life insurance premium, non-life insurance premium and the gross premium while the economic growth as the dependent variable is measured through the annual gross domestic product. The data cover a period of ten (10) years of 2007 to 2016 depending on availability of data. The study adopts multiple regression method of analysis for data analysis in order to be able to ascertain the contribution of each independent variable's components. The model for the analysis is presented below

$$GDP = \beta_0 + \beta_1 \text{LifPrem} + \beta_2 \text{NLifPren} + \beta_3 \text{Gross Prem} + e$$

Where GDP represents the economy

β_0 represents the constant

β_1 represents the coefficient for Non-Life Premium

β_2 represents the coefficient for Life Premium

β_3 represents the Gross Premium

e represents error in computation

Data Presentation and Analysis

The data for independent variable are premium for non-life insurance premium for life insurance and gross premium while the dependent variable is the gross domestic products (current Market US\$) for 2007 to 2016. The data is presented below

Table 1. Annual Premium and Gross Domestic Product for the Period

YEAR	Non Life Insurance Gross Premium (N Million)	Life Insurance Gross Premium (N Million)	Industry Gross Premium(N Million)	GD[P (Current Mkt US \$ Milliobn)
2007	83,924.08	14,629.26	98,553.34	262,220
2008	120,931.88	29,327.67	150,259.55	330,260
2009	153,127.12	36,833.33	189,960.45	297,460
2010	157,336.81	43,039.08	200,375.89	369,060
2011	175,756.76	5799.13	233,752.89	414,100
2012	193,493.25	64,909.05	258,402.30	460,950
2013	196,008.76	80,520.24	276,529.00	574,970
2014	198,546.85	85,655.93	284202.78	568,500
2015	212,445.13	91,651.85	304,096.98	493,840
2016	204,340.83	95,499.40	299,840.23	405,440

Source: Source: Central Bank of Nigeria 2014 Annual Report, Central Bank of Nigeria 2015 Annual Report , Central Bank of Nigeria 2016 Annual Report.

The data is analyzed with multiple regression method of analysis. The table 2 below presents the result of the analysis

Table 2:

Insurance and economicDependent Variable: GDP

Method: Least Squares

Date: 01/06/18 Time: 10:36

Sample: 2007 2016

Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	159641.7	171899.2	0.928694	0.3889
NLIP	0.808102	1.907128	0.423727	0.6865
LIP	-0.002358	0.037545	-0.062815	0.9520
TGIP	2.033612	2.757843	0.737392	0.4887
R-squared	0.694598	Mean dependent var		417680.0
Adjusted R-squared	0.541898	S.D. dependent var		107470.4
S.E. of regression	72739.44	Akaike info criterion		25.51633
Sum squared resid	3.17E+10	Schwarz criterion		25.63736
Log likelihood	-123.5816	Hannan-Quinn criter.		25.38356
F-statistic	4.548755	Durbin-Watson stat		1.048990
Prob(F-statistic)	0.054672			

Source: Author Computation, 2017.

The result of Ordinary Least Square (OLS) test is presented in table 2 above. The adjusted R Square of 0.54 produced by the study indicates that over 50% changes in the economic growth

are explained by the changes in the study independent variables represented by the non-life and life insurance premiums.

The findings of the study reveal that there is a positive but not significant relationship between non-life insurance premium and gross domestic product. Nevertheless, a negative but not significant relationship is found between life insurance premium and the economic growth. This finding is consistent with the conclusion of Arena (2006) that life insurance impact on the economic is driven by high-income countries only.

Thus a one naira (₦1) increase in non-life insurance premium leads to 0.81 Dollar (\$0.81) increase in economic growth proxy by gross domestic product while one naira increase in life insurance premium reduces the economic growth by 0.002 Dollars.

Conclusion

The purpose of this study is to show the relationship between insurance and economic growth in Nigeria. The 10 years data of the premium of non-life and life insurance and the annual gross domestic product proxy for economic growth are analyzed using Ordinary Least Square Regression Analysis.

The findings of the Ordinary Least Square analysis show there exists a positive relationship between non-life insurance and Gross Domestic Products and negative relationship between life insurance and economic growth. This means that while non-life insurance and economic growth move in the same direction, the life insurance premium and economic growth on the hand move in different directions. The unexpected relationship found between life insurance and economic growth in this study might not be unconnected to the fact life insurance has not been well developed in the country. This position of the study agrees with other studies like Iyiole and Richard (2004), Victor (2013) where a similar report of over 50% of the change in economic growth are explained by the independent variables.

Also the results of this study are partially in line with Kjosevki (2012) that reported a similar finding that non-life insurance and total insurance have positive relationship with the economic

growth and a negative relationship between life insurance and economic growth. Only that unlike Kjosvki, there is no statistical evidence of significance of the relationship in the study.

The study therefore concludes that while life insurance has negative effect insurance on the economic growth, the non-life insurance positively influence economic growth in Nigeria. These findings are important to the policy maker as the insurance sector (especially the life insurance sub sector) is still at the developmental stage in the country.

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