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THE EMPIRICAL EVIDENCE OF NIGERIA INSURANCE BUSINESS, CAPITAL MARKET AND ECONOMIC GROWTH

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ABSTRACT: This study examined the significance relationship that exists between insurance investment and the Nigeria capital market, and the significance relationship that exists between total insurance business and economic growth of Nigeria for the period 2000-2011. The Pearson's Product Movement Correlation Coefficient was used to test the hypotheses to determine the extent of correlation, while the t-test was used to find out the significance of the relationship that exists between the variables. The study discovered that there was a significant relationship between Nigeria Insurance market investment and capital market, and there was also a significant relationship between Insurance business and economic growth. The study concluded that Insurance business is a business that have allowed different risk to be managed more efficiently, boosting financial stability, mobilization of domestic saving and accumulation of new capital that enhance the performance of the Nigeria Capital market and Economic Growth. The researchers therefore recommended that National insurance commission (NAICOM) should make policy that will enhance effective growth and development of insurance business in Nigeria and ensures that cooperate organizations and individual embraces the compulsory insurance business in Nigeria.

KEYWORDS: Capital Market, Insurance, Investment, Economic Growth.

1 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Insurance is a form of risk management in which the insured transfers the cost of potential loss to another entity in exchange for monetary compensation known as the premium. Insurance In economic terms is refers to the pooling mechanism for reducing the down-side of risk through resource reallocation from good to stormy states of the world (Masci, Tejerina and Webb, 2007). Insurance facilitates financial protection against by reimbursing losses during crisis. It is designed to protect the financial well-being of an individual, company or other entity in the case of unexpected loss. This protection is accomplished through a pooling mechanism whereby many individuals who are vulnerable to the particular risk are joined together into a risk pool. Each person pays a small amount of money, known as a premium, into the pool, which is then used to compensate the unfortunate individuals who do actually suffer a loss. (Churchill, Craig, Liber, McCord, and Roth, 2003).

Typically, risk coverage is provided through a policy from an insurance company. The extent to which the insurer successfully facilitates coverage (and is able to spread its risk assumptions) is the extent to which the insured can take greater chances and better manage risk exposure. As such, insurance markets are crucial for economic growth and a complementary stimulus to capital market development (Masci, Tejerina and Webb, 2007).

The insurance market has been identified as an institution that contributes to the growth of the capital market. This is made possible through some of the vital roles played such as channeling resources, promoting reforms to modernize the financial sectors, and a veritable tool in the mobilization and allocation of savings among competitive uses which are critical to the growth and efficiency of the capital market. In developed economies, huge amounts of stable, long-term funds were channeled into capital markets by pension funds and the insurance sector and these funds facilitated the emergence of very liquid stock markets in those economies (Economic Survey of Indian Finance Ministry, 2012). Insurance market channels long-term resources that enhance the performance of the capital market, increase productivity, and thus enhancing economic expansion and growth (Alile 1997). The insurance market does not only serve as a source of capital for the capital market and industries, but provide a wide range of security and also enhance socio-economic benefits to any country. Ekundayo (2002) argues that a nation requires a lot of local and foreign investments to attain sustainable economic growth and development. The insurance industry invests in the capital market, hence providing the means of enhancing sustainable economic growth and development. However, the paucity of long-term capital has posed the greatest predicament to economic development in most African countries including Nigeria (Donwa and Odia, 2010).

The Nigeria Insurance Industry is one of the key sectors of the Nigerian economy and plays a very vital role in the nation as a whole (Agbamuche, 2012). The industry mobilizes funds that are channeled into productive investments and also acts as a catalyst of economic growth, helping to accelerate the process of qualitative structural transformation. It basically provides services in the form of security against general uncertainties which are likely to occur in everyday life, thereby resulting in liabilities which translate to a financial loss. These services are usually provided by the insurer to the insured in return for a given small consideration known as a premium which basically serves as the main source of insurance funds and also used in the settlement of claims (Agbamuche, 2012). The accumulated insurance premium and source of insurance fund are not kept dormant rather they are invested in capital market and other investment outlet as specified in Insurance Act of 2003.

The capital market is a network of specialized financial institutions, series of mechanisms, processes and infrastructure that, in various ways, facilitate the bringing together of suppliers and users of medium to long term capital for investment in socio-economic developmental projects (Al-Faki, 2006). The Capital Market is where individuals and institutions trade financial securities. As a whole organisations/institutions in the public and private sectors often sell securities on the capital markets to raise funds. In other words it is the mobilisation of funds from the savings (surplus) sector of the economy to the savings deficit sector. It is a market for the generalization and utilisation of long term funds for development purposes and deals with various securities such as bonds, debentures and equities. The Nigerian insurance industry like most other insurance companies around the world, channels a substantial part of its surplus funds to the capital market.

Olagbegi (2008) complained that while insurance companies are known to play dominant roles in developed economies, the sector in Nigeria is the exact opposite – the insurance industry in Nigeria contributes less than One percent to the nation's GDP. He says that the level of insurance awareness in Nigeria, which is a factor that influences the degree of patronage, remains one of the lowest in the world. Buttressing his point with records sourced from the industry, he showed that Nigeria, with a population of over 140 million people has an insurance density of about 5-10%, as against 40-50% in some developing countries, and 90-98% in most developed countries. This led to ask whether the level of insurance awareness and patronage aid the Nigeria insurance industry to contribute more effectively to economic growth and development. Therefore this journal paper assessed the level of significant relationship between the insurance market and capital market, and the level of the significant relationship between insurance business and economic growth.

2 Literature Review

2.1 Theoretical Framework

The theory that guides this study is the theory of Financial Liberalization Theory. Financial liberalization theory has its origins in the work of McKinnon [1973] and Shaw [1973]. It was Patrick [1966], however, who published the seminal work on the relationship between financial development and economic growth. He hypothesized two possible relationships, a "demand-following" approach, in which financial development arises as the economy develops, and a "supply-leading" phenomenon, in which the widespread expansion of financial institutions leads to economic growth (Arestis, Nissanke and Stein, 2005). Led by seminal papers of McKinnon [1973] and Shaw [1973], a significant number of studies have pointed out that financial liberalization can exert a positive effect on growth rate as interest rate levels rise towards their competitive market equilibrium, while resources are efficiently allocated. Arestis (2005) states that the relationship between financial development and economic growth has received a great deal of attention throughout the modern history of economics.

2.2 EMPIRICAL REVIEW

Demiurgic-Kunt and Levine (1996) using data from 44 countries for the period 1986 to 1993 found that different measures of stock exchange size are strongly correlated to other indicators of activity levels of financial, banking, non-banking institutions as well as to insurance companies and pension funds. They concluded that countries with well-developed stock markets tend to also have well-developed financial intermediaries.

Agbamuche (2012) employed Chi-square model in his study on Investment of insurance funds in the Nigerian Capital market, and find out that; (i) the insurance industry invest substantial parts of its funds in the capital market. This implies that the surplus funds of the insurance companies after claims to policyholders have been paid out is then invested in the capital market in the form of government securities, corporate funds, real estate, mortgages etc. (ii) that the investments of insurance funds contributes to the socio economic growth of the country. This implies that as insurance contributions increase, economic growth would also increase hand in hand, (iii) that the insurance industry contributes positively to the growth of the capital market. This implies that the insurance industry is also a centre of capital formation, mobilization and allocation of resources within the economy because it deals with long term securities and it enables the funding of other deficit sectors of the economy. This finding shows that the major source of funds available to the insurance industry is through premium incomes; however other incomes come in the form of issuance of shares and other investment returns, (iv) that the insurance industry is a relevant sector of the economy. This would suggest that a direct or positive relationship exists between the insurance industry, insurance contribution and economic growth in the country. Ultimately a relevant and formidable insurance sector would help greatly in boosting overall economic growth in Nigeria.

Boon (2005) also observed in his study that total insurance funds affect both capital formation and gross domestic product growth in the short and long term. The importance of Boon's finding have to do with the fact that insurance and its core activities has a lot to do with investment, which in turn has a direct correlation with increased economic growth and productivity.

Mojekwu, Agwuegbu and Olowokudjo (2011) established and found that total insurance funds affect both capital formation and GDP growth in the short and long term. Their study employed dynamic factor model in their study and find out that there is a functional positive relationship between insurance contributions and economic growth in Nigeria.

Ngong (1997) developed an aggregate index of capital market development and use it to determine its relationship with long run economic growth in Nigeria. The study employed a time series data from 1970 to 1994. For measures of capital market development the ratio of market capitalization to GDP (in percentage), the ratio of total value of transactions on the main stock exchange to GDP (in percentage), and the value of equities transaction relative to GDP and listings used. The four measures were combined into one overall composite index of capital market using principal component analysis. A measure of financial market depth (which is the ratio of broad money to stock of money to GDP) was also included as control. The result of the study was that capital market development is negatively and significantly correlated with long run growth in Nigeria. The result also showed that there exists bi-directional causality between capital market and economic growth.

Ewan, Esang and Bassey (2009) appraise the impact of the capital market efficiency on the economic growth of Nigeria using time series data from 1961 to 2004.They found that the capital market in Nigeria has the potential of growth inducing but it has not contributed meaningfully to the economic growth of Nigeria because of low market capitalization, low absorptive capitalization, illiquidity, misappropriation of funds among others.

Haiss and Sümegi (2008) applied a cross country panel data analysis from 29 European countries in the period from 1992 to 2005. The insurance variable is measured by premium income and total net investment of insurance companies. Premium income is split into life and non-life premium income. As estimation method, the authors use ordinary least squares (OLS) or unbalanced panel with country and time-fixed effects. According to the findings, there is a positive impact of life insurance on GDP growth in the EU-15 countries; Switzerland, Norway and Iceland, while non-life insurance has a larger impact in Central and Eastern Europe.

Wadlamannati (2008) examined the effects of insurance growth and reforms along with other relevant control variables on economic development in India in the period from 1980 to 2006. Growth of insurance penetration (life, non-life and total) is used as proxies of insurance sector growth. The author applied ordinary least square (OLS), co-integration analysis and error correction models (ECM). The study confirms positive contribution on insurance sector to economic development and a long-run equilibrium relationship between the variables. While the reforms in the insurance sector do not affect economic activity, their growth has positive impact on economic development.

Marijuana, Sandra and lime (2009) empirically examined the relationship between insurance sector development and economic growth in 10 transition European Union member countries in the period from 1992 to 2007. Three different insurance variables were used; life, non-life and total insurance and other control variables like education, openness, inflation, investment, bank credit, stock capitalization. According to their findings, insurance sector development positively and significantly affects economic growth.

Eze and Okoye (2013) examined the impact of insurance practice on the growth of Nigerian economy. Insurance premium income, total insurance investment and income of insurance development was used as determinants of insurance practice. They employed unit root tests, Johansen co-integration test and error correction model in data analysis to determine the short and long run effect of the model. The study observed that the insurance premium capital has significantly impacted on economic growth in Nigeria; that the level of total insurance investment has significantly effected on economic growth in Nigeria; and that there is causal relationship between insurance sector development and economic growth in Nigeria. Their findings implied that insurance industry would contribute meaningful to the growth of Nigeria economy in the long run. The study concluded that there is a significant positive effect of insurance practice on the growth of Nigerian economy. They recommended that, having seen that there is long-run relationship between insurance industry practice and economic growth in Nigeria. They further advised that more efforts should be made to increase transparency and efficiency in insurance industry through adequate legislation and policy formulation targeted at providing institutional improvement, especially in risk management and product innovations in Nigeria insurance industry.

2.3 The Concept of Insurance and Capital Market

Insurance is a safeguard against risk. It is a device aimed at reducing the chance of a risk occurring or when it happen reduces the extent of its damage and providing the affected person with compensation is a form of insurance (Ogwo, Eche, Ibeabuchi, Nwite and Enwereuzor: 2000). Irukwu (1989) further defined insurance as a device for the transfer of some risks of economic loss from the insured who otherwise would have borne the risks to an insurer in return for a premium.

Irukwu (1989) defined insurance as a social device whereby the participants provide financial compensation to those among them who encounter the many misfortunes or contingencies that could happen in a world full of assorted risks and hazards. Lijadu (1999) describes insurance as the principle of charity put into an official form for business purposes in other to meet financial requirements. It is the conversion of unknown risks into fixed costs by way of consolidation of an economic device where by various the risks associated with living or other economic enterprises are transferred from an individual to a group.

Insurance is a social device that provides financial compensation for the effect of misfortune; the payment is being made from the accumulated contribution of all parties participating in the scheme. Insurance as a modern principle of solving risk-related problem depends on the law of co-operation of large number of people for its success. Its operation involves payment of assessed contribution, known as premium, by the person wishing to insure known as the insured or the policyholder. The payment is made to an organization legally constituted and registered in accordance with the law to function as an insurance company or insurer (Ogwo et al: 2000). The role insurance play encompass: Promotion of industrial safety and general loss prevention measure (Nwite, 2004), encouraging savings (Ogwo et al: 2000), promoting the growth of capital market and foreign direct business, promoting growth and development of the economy (Nwite, 2004), protection against economic insecurity, reduction of the level of unemployment in the country etc.

Capital market is one of the significant aspects of every financial market. It is a market for financial assets that have a long or indefinite maturity. Rose (2009) accord with the above definition by saying that capital market is a market that is designed to finance long term investment.

Capital market is seen as a "market for the mobilization of funds from the savings surplus sector of the economy to the savings deficit sector. According to Al-Faki (2006), the capital market is a "network of specialized financial institutions, series of mechanism, processes and infrastructure that, in various ways, facilitate the binging together of suppliers and users of medium to long term capital for investments in socio economic developmental projects". Adewole (2010) further described the capital market as covering all services rendered institutions and facilities which exist for mobilizing long term funds and for channeling such funds to ultimate users. He divided the market into two segments namely the long term securities market and market for negotiated long term finance, otherwise called the primary and secondary market.

-**Long term securities market**: This constitutes the centre point of the capital market and is involved in productive assets. It includes the new issues market and the stock exchange which exist for the resale of existing securities.

-**Market for negotiated long term finance**: These are dealings in long term funds not covered by negotiable instruments dealings but involve direct negotiation between suppliers and users of long term funds.

The role of the capital market include; Mobilization of Savings, Capital Formation, Provision of Investment Avenue, Speed up Economic Growth and Development and Continuous Availability of Funds Kalyan City Life (2010).

3 RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

The type of study was a correlation study (ex-post-facto research). The work employed analytical research design. Being an empirical research work, the data used were secondary data, and were collected from CBN statistical bulletin and Nigeria Insurers Digest.

In line with previous similar studies on the insurance, capital market and economic growth, Pearson's Product Movement Correlation Coefficient and the student t-test were used to test the hypothesis of the study.

3.2 NATURE AND SOURCE OF DATA

This work employed secondary data. Such data were extracted from Central Bank of Nigeria statistical bulletin and Nigeria Insurance Digest. All data span a period from 2000 to 2011.

3.3 METHOD OF DATA ANALYSIS

The researchers employed Pearson's Product Movement Correlation Coefficient and the student t-test to test the formulated hypotheses. The Pearson's Product Movement Correlation Coefficient in testing the hypotheses is to determine the extent of correlation between the coefficient of correlation, while the t-test is used to ascertain the level of significance that exists between the variables.

3.4 MODEL SPECIFICATION

The Product Movement Correlation Coefficient is used in this study. The formula is thus illustrated:

$$R = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2] \times [n\sum y^2 - (\sum y)^2]}}$$

Where: R= the correlation coefficient

X= independent variable (life insurance)

Y=dependent variable (GDP)

N=number of years

∑= summation sign

Decision Rule:

Accept the Null hypothesis (Ho) if the tabulated value of the T-Test is greater than the calculated value of T-test and vice-versa.

3.5 TESTING OF HYPOTHESES

Hypothesis I:

Ho: there is no significant relationship that exists between the Nigeria insurance market investment and capital market.

Table 1. Structure Showing Total Insurance Business Investment and Market Capitalization in trillion.

Year	Insurance Business Investment (t)	Market Capitalization (t)
2000	0.025	0.472
2001	0.032	0.663
2002	0.037	0.765
2003	0.055	1.352
2004	0.075	2.115
2005	0.122	2.900
2006	0.216	5.121
2007	0.329	13.182
2008	0.336	9.563
2009	0.343	7.031
2010	0.351	9.918
2011	0.359	9.671

Source: CBN Statistical Bulletin

Table 2. Structure of Contingent Table

Year	Insurance Investment (x)	Market Capitalization (y)	x^2	y^2	xy
2000	0.025	0.47	0.00063	0.22	0.012
2001	0.032	0.66	0.00102	0.44	0.021
2002	0.037	0.77	0.00137	0.59	0.028
2003	0.055	1.77	0.00303	3.14	0.097
2004	0.075	2.11	0.00563	4.46	0.158
2005	0.122	2.90	0.0149	8.41	0.354
2006	0.216	5.12	0.0467	26.22	1.106
2007	0.392	13.18	0.1082	173.77	4.337
2008	0.336	9.56	0.0467	91.45	3.213
2009	0.343	7.03	0.1082	49.43	2.412
2010	0.351	9.92	0.1232	98.37	3.481
2011	0.359	9.67	0.1289	93.53	3.472
Total	∑x=2.28	∑y=63.16	$\sum x^2$=0.6641	$\sum y^2$=550.03	∑xy=16.691

Source: field survey (2014)

Applying Pearson's Product Correlation Coefficient Formular;

$$R = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2] \times [n\sum y^2 - (\sum y)^2]}}$$

$$R = \frac{12(16.691) - (2.28)(63.16)}{\sqrt{[12(0.6641) - (2.28)^2] \times [12(550.03) - (63.2)^2]}}$$

$$R = \frac{200.292 - 144.005}{\sqrt{(7.79 - 5.1984)(6600.36 - 3989.19)}}$$

$$R = \frac{56.287}{\sqrt{(2.7716)(2611.17)}}$$

$$R = \frac{56.287}{\sqrt{7237.12}}$$

$$R = \frac{56.287}{85.071} = 0.66$$

$r = 0.66$

It is shown that there is a positive correlation between Total Insurance business investment and market capitalization. Therefore to test the level of its significant of the positive correlation coefficient, the researcher applied t-test formular and converted the value of "r"to "t" score.

The formula is thus illustrated;

$$T = r \quad \frac{n-2}{1-r^2}$$

Where t = the significant correlation

N= sample population

n-2= Degree of freedom

r^2= The coefficient determination

$$T = 0.66 \frac{\sqrt{12-2}}{1-(0.66)}$$

$$T = 0.66 \frac{\sqrt{10}}{1-0.4356}$$

$$T = 0.66 \frac{\sqrt{10}}{1-0.5644}$$

$$T = 0.66 x \sqrt{17.71}$$

T=0.66 x 4.21

T=2.79

At 5% level of significant error the tabulated value of t- test is1.812 at 10 degree of freedom.

Hypotheses 2

Ho: there is no level of significant relationship between insurance business and economic growth.

Table 3. Structure showing total insurance business and GDP

Year	Total Insurance Business(t)	GDP(t)
2000	0.11	4.72
2001	0.14	4.91
2002	0.17	7.13
2003	0.23	8.74
2004	0.29	11.67
2005	0.40	14.74
2006	0.61	18.71
2007	0.86	20.87
2008	1.06	24.55
2009	1.11	25.10
2010	1.12	29.59
2011	1.22	36.55

Source: CBN Statistical Bulletin and Nigeria Insurance Digest.

Table 4. Contingency Table

Year	Total Insurance Business (t) (x)	GDP (t) (y)	x^2	y^2	xy
2000	0.11	4.72	0.012	22.28	0.52
2001	0.14	4.91	0.020	24.11	0.69
2002	0.17	7.13	0.029	50.84	1.21
2003	0.23	8.74	0.053	76.39	2.01
2004	0.29	11.67	0.084	136.18	3.38
2005	0.40	14.74	0.16	217.27	5.90
2006	0.61	18.71	0.372	350.06	11.41
2007	0.86	20.87	0.740	435.56	17.95
2008	1.06	24.55	1.124	602.70	26.02
2009	1.11	25.10	1.232	630.01	27.86
2010	1.12	29.59	1.254	875.57	33.14
2011	1.22	36.55	1.488	1335.57	44.59
Total	∑x=7.32	∑y=207.28	$\sum x^2 = 6.57$	$\sum y^2$=4756.87	∑xy=174.68

Source: field survey (2014)

Applying pension's product correlation coefficient formular:

$$R = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2] \times [n\sum y^2 - (\sum y)^2]}}$$

$$R = \frac{(174.68) - (7.32)(207.28)}{\sqrt{[12(6.57) - (7.32)^2] \times [12(4756.87) - (207.28)^2]}}$$

$$R = \frac{2096.16 - 1517.29}{\sqrt{[78.84 - 53.58] \times [57082.44 - 42965.00]}}$$

$$R = \frac{578.87}{\sqrt{25.26 \times 14117.44}}$$

$$R = \frac{578.87}{\sqrt{356606.53}}$$

$$R = \frac{575.87}{597.17}$$

It is shown that there is a high positive relationship between Total Insurance business in Nigeria and Gross domestic product (GDP). However, to test the level of significant positive correlation coefficient researcher applied t –test formular and corrected the value of "r" to "t" score. The formular is

$$T = r\frac{\sqrt{n-2}}{1\text{-}r2}$$

$$T = 0.97\frac{\sqrt{12-2}}{1\text{-}(0.97)2}$$

$$T = 0.97\frac{\sqrt{10}}{1\text{-}0.92}$$

$$T = 0.97\frac{\sqrt{10}}{0.078}$$

$$T = 0.97\sqrt{128.205}$$

T= 0.97x 11.32

T= 10.98

At 5% level of significant error the tabulated value of t- test is1.812 at 10 degree of freedom.

4 Empirical Result

We investigated the hypothesis by using Pension's Product Movement Correlation Coefficient. The result of the hypothesis one revealed that there is a significant relationship between Nigeria Insurance market investment and capital market. This means that Nigeria insurance contribute to the growth and development of Nigeria capital market.

In the hypothesis two tested, the researcher find out that there is a significant relationship between Insurance business and economic growth, and it means that the Nigeria insurance market contributes to economic growth and development of Nigeria.

5 Conclusions

Insurance business is a business that have allow different risk to be managed more efficiently, boosting financial stability, mobilization of domestic saving, accumulation of new capital etc. hence contributes to the growth of the Nigeria capital market and economic growth of Nigeria. The research work has shown insurance performance in Nigeria.

The importance of the insurance sector within total financial intermediation has risen overtime and the magnitude and relationship between insurance sector and capital market has also risen, thus the contributions insurance sector enhances economic growth and development of the Nigeria.

6 Recommendation

The insurance market activities and its contribution to economic growth are still at minimal to compare with that of developed countries. Therefore, the researcher recommends to that National Insurance Commission should make policy that will enhance effective growth and development of insurance business in Nigeria and ensures that both cooperate organizations and individual embraces the compulsory insurance business in Nigeria.

The Nigeria government should also provide enabling environment that will facilitate the growth of insurance business.

The Nigeria insurance industry should also ensure prompt settlement of genuine claims.

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