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GENERAL INSURANCE OPERATIONS AND REAL SECTOR PERFORMANCE IN NIGERIA

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Abstract
This study examined the significance of general insurance operations on real sector performance in Nigeria. The lack of commitment to policies that could strengthen the macro-economic environment to allow for viable insurance industry to thrive is a major obstacle which adversely affect real sector performance. Secondary data and multiple regression method were used in the study. The effect of general insurance was measured through five different proxies such as general insurance penetration, general insurance premiums, general insurance investment and general insurance claims paid and real sector output. Time series data for the period 2000-2021 (21 years) were collated through the Central Bank of Nigeria (CBN) statistical bulletin. The data was analyzed using line graph trend and multiple linear regression method. The findings of the study revealed that general insurance operations had a positive and substantial effect on real sector output in Nigeria during the period under study. The study recommends among others that insurance companies should offer products that are affordable to all class of individuals and businesses which would in turn, help boost insurance business and allow for wider market penetration. More awareness about the existence of insurance should be created, this will help expand the industry.

Keywords: General insurance, Real sector performance, Nigeria, Macro-economic environment, Insurance industry

Introduction

General insurance operates both as a risk pooling and risk transfer mechanism. As a risk pooling mechanism, financial risks are spread amongst a large number of contributors to the business. And as risk transfer mechanism pure risks are transferred from the insured to the insurer who stands in a stronger financial position to pay the loss than the insured.

Insurance companies are one of the non - bank financial institutions whose roles are very significant in financial intermediation within the financial system of any economy. Its double role of risk management and capital formation are very fundamental to every economy. Primarily, insurance provides cover against the various business risks that arises within the economy (Philip, 2012; Din et al., 2017). Accordingly, Ajayi (2000) put it that, insurance is an assurance of repayment when there is an occurrence of loss to individuals or companies.

Insurance is the strong hold of every successful business, giving individuals and firms the faith to invest in business without fear of losing out. According to Adeleye (2011), emerging economies are

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vulnerable to several risks at an increasing rate especially with regards to the increase in assets accumulation, natural disaster and hazards in financial risk exposures. Insurance companies are strong institutional investors in stocks, real estate and bonds markets; hence, positively influencing real sector investment. It constitutes the backbone of risk management system in Nigeria, ensuring financial stability and also serving as an indispensable mechanism in the Nigerian financial market.

According to Olayinka et al. (2015), insurance industry is heavily regulated and the reason for this regulation is to protect the vulnerable retail customers and also avoid market failures. The motive is that, an insurer's default could leave policyholders stranded thereby causing catastrophic loss to the insured. Hence, the focus on insurers' solvency by the regulators and intervening early should solvency be threatened assures the confidence of policyholders and also help enhance real sector performance.

But in spite of this importance, insurance companies are not well patronized by both individuals and organisations in Nigeria (Oke, 2012). In the foreign economy, insurance companies are given prominence and well position, while the Nigerian economy is still faced with poor growth in the industry and very low volume of business underwritten by the insurers. As opined by Adeyele (2011), insurance industry is faced with serious challenges such as poor image, low growth in real terms, low public awareness, low capitalization and capacity. Most of the existing studies on general insurance and growth nexus focused on the developed/industrialized countries. To the best of our knowledge, most studies (Akinlo, 2014; Asif et al., 2023; Aurangzeb et al., 2021; Han, Moshirian, & Tian, 2010; Oke, 2012) evaluated the connection between general insurance and economic growth in sub-Saharan Africa. They analyzed the insurance industry from the premium perspective only which is an injection from the economy.

Also, a micro economic environment that is stable promotes the savings necessary to finance investment which is a pre-condition for achieving vibrant insurance industry and a sustainable real sector performance. Insurance companies are sensitive to most of these economic fundamentals. This equally means that insurance companies factor macro-economic variables into the premiums collected and their investment decisions in other to meet up with claims. The lack of commitment to policies that could strengthen the macro-economic environment to allow for viable insurance industry to thrive is a major obstacle which adversely affect real sector performance, hence; making this study to become imperative.

The aim of this study is to examine the effect of general insurance operations on real sector performance in Nigeria. It seeks to investigate the effect of general or non-life insurance penetration on real sector performance. This study is limited by the complexity and multifaceted nature of general insurance, encompassing various classes, each with its unique characteristics, risks, and market dynamics. While this study aims to examine the effect of general insurance operation on the real sector performance, it may not capture the full complexity of each class of general insurance or consider all possible influencing factors. Further research may be necessary to delve deeper into the intricacies of individual insurance classes and their specific contributions to the real sector of the economy.

Despite these limitations, the study is robust and will provide valuable insights into the effect of the different proxies used to measure the impact of general insurance on the performance of the real sector growth in Nigeria.

Review of Related Literature

Insurance is a mechanism that pools and absorbs the financial consequences of risk thereby allowing individuals and businesses to engage in activities that would have ordinarily exposed them to undesired outcome. Agbakoba (2010) asserts that insurance practice dates to the time when Lloyd's sent runners to the water front to pick up news of ship movements and later would send policy around London for subscription by anyone with sufficient means. Adebisi (2006) expresses insurance as a thorny economic and social benefit for the management of risks to life and property. Gollier (2003) also opined that insurance encompass the transmission of risk from an individual to a group, allotting losses on an impartial basis by all members of the group. Vaughan (1997) sees insurance as a plan with a company in which regular amounts of premium is paid in agreement to pay the costs.

Insurance encourages and soothes entrepreneurship, production and commerce (CEA, 2006). Churchill (2003) asserts that insurance facilitates financial protection by reimbursing losses during crises. Insurance is naturally fashioned to offer protection to the financial well-being of individuals, companies and other entities against unforeseen exposures. This protection is executed through a pooling mechanism in which policy holders who are exposed to the particular risk are brought together into a risk pool. Thus, the protection that insurance renders to businesses increases economic activities as businesses and individuals are more likely to invest in projects that are insured. Again, insurance penetration helps businesses manage their risk, which leads to improved productivity and efficiency of the real sector of the economy. Insurance also improves a company's creditworthiness, enabling access to credit and increasing competitiveness, this is achieved through the premium that is collected from the insureds which is not left idle but given out to investors as credits to boost the productive sector of the economy. As opined by Edu, G. T. et al. (2019), the peace of mind enjoyed by businesses and entrepreneurs is predicated upon the reduced uncertainty derived from the financial protection against unforeseen events which of course emanate from claims settlement after an adverse event had occurred, which ultimately will lead to economic growth. Thus, implying that with a proper risk management in place, businesses are more likely to invest in growth opportunities leading to increased economic activities.

General Insurance Operations and Real Sector Performance

Every insurance arrangement that does not fall within the ambit of life insurance is called general or non-life insurance. Since the assets of individuals, businesses and government are susceptible to damages of different form, general insurance products and services are placed in a better position to offer protection against these unforeseeable contingencies like damage or loss of the asset which however, is at a price called premium and this in turn will impact on the real sector performance positively.

Agbakobu (2010), assert that general insurance is classified into: Property Insurance; this consist of fire special perils, theft insurance, engineering/breakdown insurance, livestock insurance, and money insurance which is on an 'all risk' basis. Pecuniary Insurance; this means 'regulating money' and consist of fidelity guarantee insurance, legal expenses, credit insurance and business interruption insurance. Motor Insurance; this is the insurance of motor vehicles and liabilities arising out of their operation and it include private motor insurance, motor cycle insurance and commercial motor vehicle insurance. Liability insurance; is the legal liability to pay damages to any employee in respect of bodily injury, disease, illness or death arising out of and in the cause of employment by the insured, and includes; employers' liability insurance, public liability, product liability, professional indemnity insurance and officers and directors' insurance. Marine and Aviation insurance; relate to three areas of risk; namely hull, cargo and freight insurance. Aviation insurance covers either loss of or damage to the aircraft (hall) and legal liability to third parties and passengers (liability). Combined or Package policies; an insurance policy that brings together or number of different covers under one policy, this includes household insurance, travel insurance, commercial package insurance and trader's combined policies. Health Insurance; covers expenses that may arise due to an illness and include personal accident insurance, sickness insurance and medical expenses insurance.

The function of providing insurance policies affects real sector performance in a number of ways: it provides protection against the risk of loss that an organization may suffer by guaranteeing the payment of such loss. By providing protection, insurers could affect economic growth through the channels of marginal productivity of capital, technological revolutions and saving rate (CEA, 2006). As a risk pooling and risk transfer mechanism which insurance companies stand for, most economic activities have taken place unhindered without fear of any kind. Businesses which are exposed to the various risks of liabilities, illness, property, disability of key employees have the possibilities to manage those risks by transferring them to insurance companies. This allows firms to strengthen and redirect their attention and resources on their core business which lead to the willingness and capacity to take real investment that will help to generate higher levels of economic growth (Oke, 2012).

The aspect of capital formation where the accumulated funds are invested in productive ventures cannot be over- emphasized. Mobilizing savings from surplus economic unit through premium collections and channeling the savings to deficit economic units such as the business sector is one major function performed by insurance companies in any economy. This mobilization of funds cuts across income levels and geographical areas adequately, timely and at the minimal cost. The multiplier effect of this mobilization of funds will be utilized in the real sector as loans to institutions which invariably will boost economic growth.

Theoretical Review

The relationship between general insurance operations and real sector performance is supported by the following theories namely, the growth theory and the modern theory of financial intermediation. The economic growth theory was developed in the 1950's by R. Harrod (Great Britain) and E. Domar (United States) based on Keynesian principles. In the Keynesian method to the analysis of economic growth, demand does not spontaneously equate supply, nor do savings equate investments automatically. The growth theory established the fact that a well-developed financial intermediation stimulates economic growth through the marginal productivity of capital, technical innovations and the efficiency in directing investment's savings rate (Asghar et al., 2015; Asif, 2022; Onyekachi & Okoye, 2013).

The modern theory of financial intermediation was founded by Merton (1995), it covers conventional theory and variations in the financial environment. The modern theory of financial intermediation emphasizes the establishment of revenue for settling payment to ease the exchange of goods and services; asymmetry of information; allocation of resources; provision of mechanisms to pool resources, establishing means to tackle the problem of moral and physical hazard; management of risk; and provision of price information. The non-life and life insurance companies through these functions by Merton (1995) contributed significantly to economic growth and help individuals manage their income risk efficiently.

Empirical Review

There are several studies on insurance and its effect on economic growth viz a viz ‘‘real sector performance’’ across the world. Haiss and Sumegi (2008) examined the relationship between insurance and economic growth and adopted a growth model with a modified Cobb-Douglas production function and reported positive and significant relationship between real GDP and physical capital. In their study, human capital appears to be negatively related to GDP growth. While, on the order hand, inflation rate and interest rate did not have significant correlation with real GDP. The study established that total insurance premium income and non-life insurance premium income negatively and insignificantly affected economic growth with life insurance premium income having positive but insignificant impact on the output level of goods and services on the economy. Majekwu, Agwuegbo and Olowo Kudejo (2011) in their study of the impact of insurance contributions on economic growth in Nigeria between 1981 and 2008 argued against this view. The study adopted the dynamic factor model on a multivariate time series which studies a functional relationship between the volume of insurance contributions and economic growth in terms of underlying but unobserved random factors. The study shows that real GDP was positively correlated to insurance contributions to economic growth. This implies that the increase in insurance contribution will also lead to an increase in economic growth. The finding agrees with that of Boon (2005) who in his study found that total insurance funds affected both capital formation and GDP growth in the short and long run.

Iyodo, B., Samuel, S. E., Adewole, C., &; Ola, P. O. (2020) investigated the impact of Non-life Insurance Penetration on the Economic Growth of Nigeria. They applied ex-post facto design and purposive sampling techniques in their study. Multiple regression models, descriptive statistics, unit root test and ordinary least squares were used to test the hypotheses. Their results revealed that non-life insurance had a positive and significant effect on the economic growth of Nigeria. It also revealed that insurance profit and investment had a positive effect on the Nigerian economy but not expressively enough.

Babayaro O, S. & Patience, O. O (2020) explored the impact of non-life insurance industry performance on economic growth in Nigeria. According to their study, insurance penetration was measured through five diverse proxies such as, non-life insurance, savings, expenditures, investment and profits of the insurance industry. Using time-series data covering the period 1988 and 2012, they employed ex-post facto research strategy and purposive sampling technique. Ordinary least square regression analysis was adopted to test the hypotheses. The outcome of the findings revealed that non-life insurance penetration had a substantially positive effect on economic growth in Nigeria during the period. Profit and investment were also found to have a positive effect on the economy but statistically insignificant. While savings and government expenditure had adverse effect on the economy. They, recommended an increase in the awareness of non-life insurance services for its impact to be felt at all levels and to encourage participation.

Chizoba, E. P. & Inebimowei, F. K., (2021) investigated the impact of non-life insurance claims on the growth of gross fixed capital formation in Nigeria from 1986-2018. Ex-post factor research design was used and Granger causality test to established the cause effect relationship of the variables under study. Also, multiple regression econometric techniques of ARDL were also applied to test the hypothesis, stationarity of the variable were checked using the Augmented Dickey-Fuller (ADF) unit root test, the study found that non-life insurance claims impacted significantly on gross fixed capital formation

Azman-Saini and Smith (2011) examined the impact of insurance sector development on output growth, capital accumulation and productivity improvement using data from 51 developing and developed countries for the period 1985-2005 and used life insurance penetration ratio as a proxy for the development of insurance markets, employing the panel data methods of analysis, it was reveal that insurance sector development affects growth predominantly through productivity improvement in developed countries and promotes capital accumulation in developing countries.

Methodology

This study uses secondary data in determining the effects of general (non-life) insurance on real sector performance. General insurance proxies; general insurance premiums, general insurance claims paid and investments to the real sector. The study uses multiple regressions in analyzing the data collected.

The study spans from 2000 to 2021 (21 years). Data for the study are mainly secondary data collated from Central Bank of Nigeria (CBN) Statistical Bulletin 2021. Other sources of information are from journal articles and various textbooks.

The general form of the multivariate linear regression model used for analysis in the study is stated thus:

$Y = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu_1$ - - - - - - - *Equation 1*

Where:

Y is the dependent variable

X_1, X_2, X_3 are the independent variables

α_0 is the regression constant

β_1, β_2, β_3 are the estimated coefficients of the independent variables

μ_1 is the error term.

The specific form of the model is expressed thus;

$RSO = \alpha_0 + \beta_1 GIPEN + \beta_1 GIP + \beta_2 GIC + \beta_3 GII + \mu_1$ - - - *Equation 2*

Where,

RSO is Real sector output

GIPEN is General Insurance Penetration which is derived from the ratio of General Insurance Premium to Real Gross Domestic Product (GDP) in Nigeria.

GIP is General insurance Premium

GIC is General Insurance Claims Paid

GIN is General Insurance Investment

Data was analyzed using descriptive statistics and Ordinary Least Square (OLS) with significance of the variables and model earlier specified tested using both the t-statistic and F-statistic at 5% level of significance. The decision rule is to accept the significance of the estimates of an independence variable if the corresponding p-value is less than the critical value at 5% level.

4.1 RESULTS AND DISCUSSION

The data collected for this study was analyzed using line graph trend and multiple linear regression in order to establish the significance of general insurance operations to real sector performance in Nigeria. The data for this study is presented in Table 1.

Table 1

General Insurance Variables and Real Sector Performance in Nigeria from the year 2000 to 2021

YEAR	RSO (₦'Billion)	GIPEN ₦	GIP (₦'Million)	GIN (₦'Million)	GIC (₦'Million)
2000	13649.62	0.951165	22531.46	25192.64	5629.52

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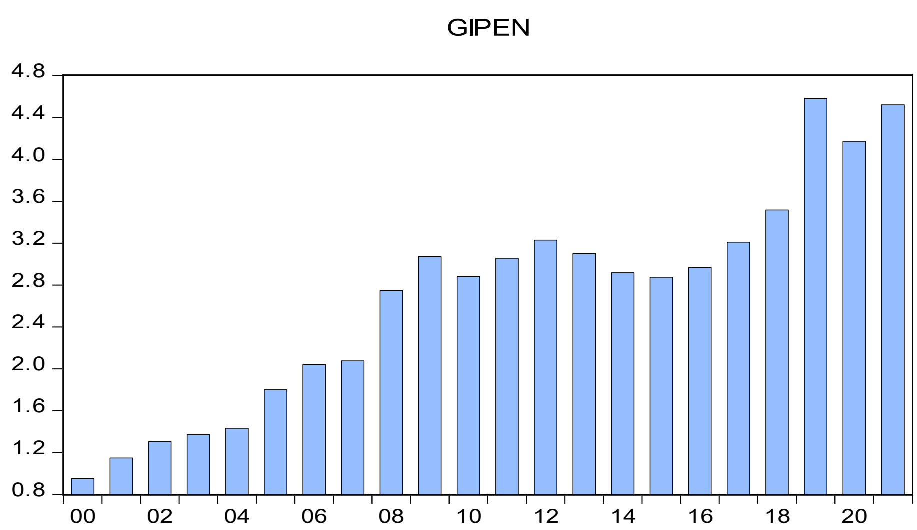
YEAR	RSO (₦'Billion)	GIPEN ₦	GIP (₦'Million)	GIN (₦'Million)	GIC (₦'Million)
2001	14376.40	1.146977	28981.29	32157.27	6110.52
2002	16878.75	1.304174	37765.89	36940.87	6856.15
2003	19258.74	1.369996	43441.81	54642.84	9415.20
2004	20307.17	1.430612	50100.83	74590.75	12084.04
2005	21191.73	1.800284	67465.56	121844.22	12402.40
2006	21704.23	2.039823	81583.75	216359.91	76276.11
2007	22290.83	2.075953	89104.89	329247.93	15843.73
2008	22713.60	2.748607	126470.30	336491.38	25864.87
2009	23683.75	3.071382	153127.12	343894.19	49498.93
2010	25082.09	2.880979	157336.81	351459.87	37589.56
2011	26303.62	3.056052	175756.75	359191.98	39389.16
2012	27357.75	3.228660	193493.25	497799.43	55717.15
2013	27765.03	3.100486	196008.76	526277.81	71602.78
2014	29171.64	2.917047	195887.85	286357.81	65555.70
2015	29271.35	2.874208	198389.16	647504.12	65971.92
2016	28669.39	2.966937	201547.68	702969.29	78574.56
2017	29494.17	3.209161	219798.61	709357.52	113941.92
2018	30067.30	3.515922	245411.17	675713.49	120477.60
2019	33840.93	4.583054	327174.28	556029.90	166526.37
2020	14953.72	4.172533	547621.33	798511.28	372616.33
2021	14883.77	4.521472	549397.22	868373.57	473636.41

Source: Central Bank of Nigeria (CBN) Statistical Bulletin 2021

The trend of General Insurance Penetration (GIPEN) from the year 2000 to 2021 is presented in the diagram below:

Diagram 1

Trend of General Insurance Penetration from year 2000 to 2021 in Nigeria



Source: Researcher's (2022)

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Diagram 1 indicates that the trend of general insurance which is derived by dividing the gross premium of general insurance business by real Gross Domestic Product (GDP), indicates a growing trend from the year 2000. However, there was a decrease from the year 2013 to 2016, which could be attributed to the effects of the reintroduced capitalization of the industry and the structural changes that accompanied it, and also the extent of the effect of the economic recession in the country between 2015 and 2016.

The multiple regression results for the model that will help analyze the effect of general insurance penetration on real sector performance is presented in Table 2.

Table 2

Multiple Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8713.934	2103.170	4.143238	0.0007
GIPEN	7121.168	1690.714	4.211930	0.0006
GIP	-0.029862	0.025101	-1.189636	0.2505
GIN	0.010431	0.004655	2.240594	0.0387
GIC	-0.037827	0.020234	-1.869541	0.0789
R-squared	0.858140	Mean dependent var		23314.34
Adjusted R-squared	0.824762	S.D. dependent var		0.402
S.E. of regression	2469.996	Akaike info criterion		18.65854
Sum squared resid	1.04E+08	Schwarz criterion		18.90650
Log likelihood	-200.2439	Hannan-Quinn criter.		18.71695
F-statistic	25.70918	Durbin-Watson stat		1.913950
Prob(F-statistic)	0.000001			

Source: Researcher's Computation (2022)

The above result shows that real sector output (RSO) will increase by an average of ₦8713.93 billion if all the independent variables are held constant. At the same time, a ₦1m increase in general insurance penetration will lead to a decrease of ₦7121.168 billion in real sector output (RSO), while, a ₦1 million increase in general insurance gross premium collected (GIP) will decrease real sector output (RSO) by ₦0.029 billion. Also, a ₦1 million increase in general insurance total investments (GIN) will lead to an increase of ₦0.01 billion in real sector output (RSO), and finally, a ₦1 million increase in general insurance claims payment (GIC) will decimate real sector output (RSO) by ₦0.04 billion. The Durbin-Watson statistic value of 1.91 indicates an absence of serial correlation given that based on the rule of thumb, a value that is between 1 and 3 is acceptable (Field, 2009). This indicates that the variables are free from autocorrelation issues.

The coefficient of determination R^2 value of 0.8581 indicates a high predictive power of the independent variables in explaining the variations in real sector output within the period covered in this study. This indicates that 85.81% of the variations in real sector output has been explained by general insurance penetration, general insurance gross premium collected, general insurance aggregate investments and general insurance claims paid. The remaining 14.19% of the variations are accounted for by other factors not considered in this study.

At the same time, general insurance penetration, and general insurance total investment showed a statistically significant effect on real sector output in Nigeria. This is shown by their computed t-statistic and probability values at 5% level of significance and at degrees of freedom earlier specified. As the probability value of both general insurance penetration (GIPEN) and general insurance total investments (GIN) are less than 0.05, they are statistically significant, unlike general insurance gross premium collected and claims paid.

Finally, the computed F-statistic value of 25.709 and probability value of 0.000 indicates that the model is a good fit in explaining the changes or variations in the dependent variable, real sector output. Based on this, and as the probability value is within the acceptable 5% level of significance, the null hypothesis is rejected and the alternate accepted

Discussion of findings

General insurance penetration showed a positive and significant effect on real sector output (RSO). This implies that increase in general insurance penetration will cause real sector output to increase and vice versa. This was against the a priori of the researcher, but could be attributed to the improving penetration levels of insurance in Nigeria. The fact remains that insurance prospects in Nigeria are high, but the extent to which it is consumed when compared to the size of our economy (reported to be the largest in Africa) and our huge population, is gradually picking up.

General insurance premium collected showed an inverse and significant effect on real sector output. This indicates that growth in general insurance gross premium will lead to a decrease in real sector output in Nigeria. This underlines the importance of general insurance in property, marine, motor vehicle, oil and gas, liability and others to the real sector in Nigeria. The general insurance claims paid showed an inverse effect on real sector output while general insurance investments showed a direct effect on real sector output. This indicates the strength of general insurance claims management and investments in the economy.

Conclusion and Recommendation

This work examined the effect of general insurance operations on real sector performance in Nigeria. Secondary data and multiple regression method was used in the study and data covering 21 years (2000-2021) were used in examining the effect of four general insurance variables namely general insurance penetration, general insurance premium, general insurance investment and general insurance claims paid (independent variables) and real sector output (dependent variable). The data was analyzed using line graph trend and multiple linear regression. The findings indicated that general insurance penetration and general insurance investment have positive and significant effect on real sector output. This implies that increase in general insurance penetration will cause real sector output to improve and vice versa. General insurance premium collected and claims paid on the order hand, have an inverse and insignificant effect on real sector output, indicating that growth in general insurance gross premium will lead to a decrease in real sector output in Nigeria. This underlines the importance of general insurance. Based on this, it was established that general insurance operations are significant to real sector output since it has improved the overall capacity of the real sector.

It is therefore recommended that insurance companies should offer products that are affordable to all class of individuals and businesses which would help boost insurance business and allow for wider market penetration. More awareness about the existence of insurance products should be created by the industry players. The insurance practitioners should be prudentially supervised based on the large amount of public funds at their disposal as this will help ensure viable and vibrant insurance industry operations.

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