International Journal of Research Publication and Reviews, Vol 3, no 12, pp 2797-2803, December 2022

International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

The Impact of the Structure and Growth of the Insurance Industry on the Nigerian Economy

[1]Disu Babatunde Sulaiman, [2]Odogu Laime Isaac

[1,2] Department of Accountancy, Bayelsa State Polytechnic, Aleibiri Ekeremor Local Government Area, Bayelsa State, Nigeria

ABSTRACT

The purpose of this study is to investigate the Impact of the Structure and Growth of the Insurance Industry on the Nigerian Economy. To carry out the study effectively, we studied-ten Insurance Companies in Rivers State, type of Ownership and the paid-up capital of the insurance Industry, Premium Income and the number of Insurance Companies, Assets of the Insurance Company and the type of Business undertaken, and the investment patterns of the Insurance companies by the type of business undertaken by them, which serve as the measures of variables in the study. Questionnaires were designed to obtain the primary data for the study. The Analysis of Variance (ANOVA), Statistical Techniques was used to analyse and test the significant of data collected. The results of the analysis reveal that there is a positive difference between type of ownership and paid-up capital of the Insurance Companies; and that a significant difference exist between the Premium Income and the number of Insurance Companies in Nigeria, that the assets of the Insurance Companies and the type of business undertaken by them have no significant differences and finally, there is also a significant difference in the Investment patterns and the type of business undertaken by the Insurance Industry. The implication of the study led to the recommendation that the Government, society should design policies and programmes that could stern the evil practices and establishment of the Insurance Companies; as it does have a favourable or positive impact on the Nigerian Economy.

Keyword: Paid-up-capital, undertaken, risk management, policy, broker

1. INTRODUCTION

The world we live in is full of risks and uncertainties as part of everyday life. As individuals or organizations, we are exposed to all sorts of risks and dangers. Nobody is sure or certain as to what might happen to him or her as an individual or to his/her business enterprises at any point in time. There is therefore, an atmosphere of uncertainty surrounding all our activities and these uncertainties constitute risk. Almost every day, we witness major accidents resulting in loss of lives and properties in our homes, factories, offices, roads, air, sea etc. in as much as most of these accidents could be avoided or minimized by other methods, insurance stands as the most veritable mechanism of risk management. Basically, Insurance Industries are important and key players in the financial system which assumes risk and pool the risks together in consideration for a premium. The indeterminate nature of a likely peril or future loss is a factor which makes insurance firms look for additional protection by investing the premium into various short- and medium-term investments, mostly into both money and the capital market as stated in Nzotta (2019).

The Insurance Industry in Nigeria has not had a free ride through its growth and development to the present position, certain problems both structural and socio-economical have in one way or another attempted to strangle the industry. Some of the main problem as rightly put by Irukwu (2019) range from shortage of manpower, especially top management personnel, poor public image of the industry, limited knowledge of insurance consciousness, limited demand for life assurance cover, to the low literacy level. Other problems also identified are stiff competition and inefficiency in operations. All these problems are not unexpected. Their presence or lack of it are measures of the level of development and they have effect on the growth and structure of the industry. Economic development we all know is a gradual process and so any obstacle in the process not taken care of by a special provision leads into a halt or even a drawback. Insurance is that special provision and depending on how it is managed, its effect is obvious. All these and many more make it extremely desirable to appraise and appreciate the presence and importance of insurance industry vis-à-vis economic development in Nigeria. The general economic recession, which started since 1979 also, prevailed through the 1980s to 1990s and 2020 to 2021, Nonetheless, available statistics indicate that the insurance sector of the economy continues to grow; there is a rise in the contribution of the insurance industry to the Gross Domestic Product (GDP) of Nigeria which was somehow remarkable.

The problem of lack of prompt payment of premium by the insured which negatively affect the performance of the insurance industry. In terms of reinsurance, there is a problem of no exchange of technical information within the insurance industry. Most companies find it difficult to compete in the reinsurance because of lack of experience and financial backing. The problem of delay in remitting premium often times cause cancellation of treaty arrangement for some insurance companies. Furthermore, there also exist the problems of government regulations which limit the scope of operation of reinsurance arrangement. The law is all embracing and requires that share capital of companies carry out life insurance business shall not be less than N20m and even in the case of general insurance business as quoted in the Budget Speech, (Ani 2017). From the aforementioned issues, insurance industry has been pointed out as a sector having important role in the economic development of a nation. Obviously, the structure of the insurance industry in Nigeria has undergone certain changes, which has been necessary as a result of the growth of the industry. With all these, and many others, this work intends to investigate the impact of the structure and growth of the insurance industry on the Nigeria Economy.

1.1 RESEARCH QUESTIONS

Following the purpose of this study, the following research questions have been organized to give direction to this fact-finding activity.

i. To what extent has the structure and growth of the insurance industries contributed to the economic development of the country.

ii. What are the changing growths of the insurance industries over the years?

Based on the purpose of this study, the following hypotheses are postulated and tested.

i. There is no positive and significant difference between the type of ownership and the paid-up capital of Insurance Companies.

ii. There is no significant difference, between the Premium Income of insurance companies in Nigeria and the number of Insurance Company in Nigeria.

2. LITERATURE REVIEW

This part presents the review of related and relevant literatures to this study, and our discussion fall under the following sub-themes namely Concept, of Insurance, Nature of Insurance Industry, importance of insurance and insurance laws in Nigeria.

2.1 CONCEPT OF INSURANCE

The term Insurance is seen by many people from various viewpoints. Irukwu (2016) defined insurance as a contract where by a person called an insurer or assurer agrees in consideration for the money paid to him called premium by another person called the assured to indemnify the latter against loss resulting to him on the happening of certain events. From the individual viewpoint, insurance is an "economic device" where by an individual substitute a small (certain) cost (the premium) for a large (uncertain) financial law (the contingency insured against) which would exist if it were not for insurance". The society views insurance as "a plan aimed at providing social welfare". From the economic point of view" it is a device for the transfer of some risk, to an insurer in return for a premium. The standard legal definition of modern insurance is that it is a contract where by one party, known as the insurer, undertakes in return for a consideration known as the premium to pay the other, known as the insured, assured or policy holder, a sum of money in the event of the happening of one or more uncertain events" as stated by Zakariya'u (2017) in Business Times. Given the above definition, its relevance as a cushion in time of disaster, mishap or catastrophe becomes clearer.

2.1.1 Origin of Insurance

The story of insurance dates back through hundreds of years in human history, when communities and groups recognized the dangers or perils around them and made collective effort to help each other bear the burden. Evidence to confirm the existence of some form of risk/loss sharing among seafarer as early as the ninth century. Historians believe that modern insurance had its origin in Rome through the activities of Italian trader in connection with their Maritime trade. Realizing the potential danger of seafaring and the possibility of loss of ship and cargo, merchant devised a system of bearing the financial burden of their colleagues who suffered losses at sea. Under the arrangement, merchants agreed amongst themselves to contribute certain sums of money to a common fund. The contribution was normally done at the end of voyage by merchants whose goods arrived safely in Port and it is out of this that other merchant whose goods were imperilled got compensated. From Italy, the practice spread to London, through the activities of the Lombard's in the 16th century. There is evidence that life and fire insurance started in London in the 16th and 17th c "century respectively. Other classes of insurance developed later in the 18th century. In reaction to socio-economic and industrial development that was transforming the business environment (Inyang, 2019). The transformation from the ancient to the modern practice was gradual but steady in view of its significance as a veritable tool of development.

Historically, some form of social insurance existed in Nigeria in the guise of mutual and social schemes which evolved through the existence of the extended family system and social associations such as grades and clan unions. In its simplest form, it was practiced by means of providing cash donations, materials etc. to members of the extended family and social associations who suffered mishap. The age grade collected funds at pre-determined intervals in the same way as in industrial life Assurance. The funds are used to assist members who may suffer misfortunes such as death, illness, unemployment etc. these practices, however, gave way to modern insurance following changes in the socio-economic and political environment culminating in urban migration as narrated by Zakariya'u (2017).

2.2.2 Origin of insurance practice in Nigeria

Specifically, modern insurance was first in Nigeria by colonial traders towards the close of the last century to provide financial protection for their business. All underwritings are done at the metropolitan head office. Subsequently, local agent was appointed, culminating in the establishment of a Branch Office of the Royal Exchange Assurance by 1921 in Lagos. The UAC formerly known as the Royal Niger Company established an agency with

Northern Assurance in 1930 which later became the United Nigerian Insurance Company (UNIC) discussed by Nzotta (2019). In 1949, the Norwish Union Fire Insurance Society established its office in Lagos followed by the establishment of Tobacco Insurance Company Limited and the Legal and General Assurance Society Ltd. Following this development, more insurance companies were established in the country. The promulgation of the 1968 companies at also facilitated the establishment of more insurance companies in the country". The foregoing coupled with the increase in the level of economic activity in the country, occasioned by the oil boom of the 1970s and 1980s, catalysed in increase in the demand for insurance services in line with the pace of socio-economic and industrial development. As a veritable tool for social, economic and technological development of any national its services acts across all spheres of human endeavours, such that no sustainable development can take place in the absence of a vibrant insurance industry. Regrettably, however in spite of the over eighty (80) years of existence in Nigeria, statistics show that insurance is yet to be embraced as a way of life in the country (Nwanna - Nzewunwa & Osaat, 2019). While we lament the near hopeless state of insurance, we are quick to add that there are numerous factors responsible for this, as highlighted below:

i. High level of illiteracy/low level of awareness.

ii. Cultural and religious factors.

iii. Harsh economic environment/high level of poverty.

iv. Poor underwriting and management of insurance companies.

v. Low capitalization and inadequate working capital.

vi. Poor image of the industry.

vii. Lack of innovation in product development.

viii. Inefficient supervision by the government, e.t.c.

With all these, attendant militating factors, it becomes obvious why Nigeria ranks behind even in African (Ani, 2017).

2.2.3. Nigerian Insurance Market Organizational Set Up

a. Controlling Authority

Insurance Department of the Federal Ministry of Finance and the office of the Director of Insurance. The Insurance Department is responsible for the control of the activities of Insurance Companies so as to ensure compliance with the provisions of the Nigerian Insurance Decree and other relevant legislation and regulations touching upon the business of insurance in the country. The Insurance Department of the Federal Ministry of Finance is assisted in its responsibility in this regard by the Nigeria Reinsurance Corporation and the National Insurance Corporation of Nigeria. These three institutions ensure that Government Policy in the field of insurance is complied with by the Nigeria Insurance Market.

b. Federal Government Corporations:

Nigeria Reinsurance Corporation established under the Federal Government Decrees No. 49 of 1977 to transact the business of Reinsurance within and outside Nigeria. National Insurance Cooperation of Nigeria established under the Federal Government Decree No. 22 of 1969 to transact the business of Insurance in Nigeria.

c. Intermediaries

The main intermediaries and distributors of insurance business in Nigeria today are agents and brokers.

Agent: there are two categories of agents.

Full-time agents are employed on full-time basis by the various insurance companies and remunerated either by way of salary or commission or in some cases salaries and commission. Part time agent includes bank Managers, accountants, solicitors, estate agents, garage proprietors and travel agents. These are appointed mainly on the grounds that by the nature of their profession, they are in a position to attract the attention of prospective policy holders to insurance companies. They are usually remunerated by way of commission. Some companies allow proposers of insurance to act as their own agent in introducing their own insurance. This is the fact that agents are now required to be registered in accordance with the provisions of the insurance Decree.

Brokers: Although, there is a statutory distinction between an agent and a broker as reflected in the mode of registration as contained in the Insurance Decree, the generally accepted distinction between an agent and a broker is also applicable to the Nigerian Insurance Market. Here an agent at Law is a person who has been employed to perform an act or act on behalf of his principals within specified guidelines. For the purpose of simplification, the broker on the other hand, is an "Independent Operator" not in any one's direct deployment. He merely sets himself to the task of bringing parties to an insurance transaction together. Traditional, when this is done the broker's responsibility comes to an end. The broker conducts his business with all and Sundry. He does not represent, or endeavour to obtain business for, one office or groups of offices to the exclusion of others as explained in the Nigerian Insurance Digest (Ani, 2017).

2.2.4 Indigenous Participation in Insurance Business

Until the time of independence in 1960, there were virtually no wholly indigenous insurance companies in the country. Prior to the incorporation of the first set of indigenous insurance companies, insurance business in the country had been underwritten by offices which were primarily branch offices of European Insurance Companies with their Headquarters based in Europe. With independence and the consequent economic involvement of Nigerians in all aspects of the Nations Economic life, there emerged a few indigenous insurance companies. Between the years 1960 and 1975, a large number of indigenous Nigerian Insurance Companies commenced operations and these companies now underwrite a substantial volume of the total insurance business in the country.

At present, the leading indigenous direct insurance companies in the country is the National Insurance Corporation of Nigeria (NICON) which is fully owned by the Federal Government of Nigeria and which underwrites at least 20% of the total insurance business in the country (NIYB, 2016).

2.2.4.1 Government Interest and Participation in Insurance in Nigeria

One of the most interesting developments in recent years in the African Insurance Scene is the growing interest and participation of most African Government in the business of insurance and reinsurance. In the past, most governments in Africa showed no interest whatsoever in the business of insurance and that probably accounted for the slow development of the industry. With the realization in recent years, by various African government of the economic and social values of insurance, and the important part that the business can play in national development there was a change of attitude and most African governments started showing keen interest in insurance. As regards reinsurance, the need to conserve foreign exchange also played a part in government awareness and interest in reinsurance. The position today is that practically every African country has an indigenous insurance company and, in some cases, a national reinsurance company. Nigeria is one of those African Countries that have both a national insurance company and a national reinsurance corporation (Nzutta, 2019).

2.2.4.2 International Connections

The Nigerian Insurance market recognizes and accepts the international nature of the business of insurance and reinsurance. Practically every insurance company in the market has some form of international connection with a leading international reinsurance based either in the London market or in the continent of Europe or America. Furthermore, with the development of regional co-operation in the field of insurance and reinsurance, a lot of business is exchange on a regional basis with other insurers and reinsurers in other parts of Africa, Asia and other Third World Countries, as narrated in the NIYB (2016).

2.3 The Structure of Insurance Industry in Nigeria

Bearing the objectives of this study in mind, it is pertinent to look at the structure from the developmental point of view. Therefore, it is going to be considered from these perspectives namely.

i. The structure by organizational set-up. They have several implications on the structure and growth of the insurance industry.

ii. The structure by ownership, number and type.

2.3.1 Organizational structure

The insurance industries generally have the following divisions in the organizational set up.

a) The administrative division

b) Technical division and

c) The Finance division

Administrative division: is always saddled with the responsibilities of maintaining the administrative and personnel records and interpreting the policy of the company as to the generality of the staff as well as the unions. It also creates a link between the management and the staff and ensures that the policy decision of the board is implemented. Finally, it serves the various meetings of the board.

The finance division: ensures the safe-keeping of the financial records of company and complies with the stipulations in the various departments, the establishing the company on submission of accounts to the appropriate authority.

The Technical Division: implements the various policies underwritten by the company as well as canvass for business and designs policies for purpose of insurance cover. It protects business and holds consultations with brokers and agents who offer supportive services to the company (Inyang, 2019).

Theoretically, this research work is anchored on Subrogation Theory which specifies that an insurer that has paid a loss under an insurance policy is entitled to all the rights and remedies belonging to the insured against a third party with respect to any loss covered by the policy (Eghwubare, 2019).

It revolves around the substitution of one claim for another, especially the transfer of the right to receive payment of a debt to somebody other than the original creditor. It is a provision in a contract, especially for insurance, giving somebody the right to act on behalf of another person in legal actions related to the subject of the contract. The transfer of indemnity/losses is at a price called premium. At this instance; the higher the patronages of insurance businesses in Nigeria, the higher the economic inflow from the subsector. By extension the ownership structure and growth of the subsector could play significant role in the "*common pool problem*" where revenue are drawn from every part of the economy and from the larger population fund expenditure programs as characterized in public finance (Beredugo & Ekpo, 2022). It therefore requires great attention from successive government in Nigeria.

2.4 Empirical Review

Peter and Kjell, (2016) studied the Relationship of Insurance and Economic Growth – A Theoretical and Empirical Analysis, they find The role of the insurance sector and links into other financial sectors have grown into importance. While there is a plethora of research on the causal relationship between bank lending and economic growth and capital markets and economic growth, the insurance sector has not received ample attention in this respect. We fill this gap by reviewing theory and empirical evidence and identify channels of influence. We apply a cross-country panel data analysis using annual insurance premium data from 29 European countries over the 1992 to 2004 period. We find weak evidence for a growth supporting role of life insurance and explain this with similarities to recent bank and stock sector findings.

Jordan and Stopanska (2011) examine the impact of insurance and economic growth, with empirical analysis for the Republic of Macedonia. We apply multiple regression and control for other relevant determinants of economic growth. The analysis used data for the period 1995 - 2010. In order to solve the model in the analysis will use the technique of least squares, followed by analysis of variability in order to identify the effects of each variable. Insurance development is measured by insurance penetration (insurance premiums in percentage of GDP). We used three different insurance variables - life insurance, non-life insurance and total insurance penetration. According to our findings, insurance sector development positively and significantly affects economic growth. The results are confirmed in terms of non-life insurance, and, total insurance, while the results show that life insurance negatively affect economic growth.

3. METHODOLOGY

This Research made use of the "Quasi Experimental Research Design" for the study, the various elements of the study design are not under the control of the researcher as explained in Baridam (2001:51). The study selected insurance companies in Rivers state and the cross-sectional survey method was also employed. Questionnaires, personal interview and survey of existing documents were used in the collection of data. The statistical tool employed in testing the postulated hypotheses in this study is the Analysis of Variance (ANOVA). It is used to determine whether mean scores on one or more factors differ significantly from each other (Baridam 2011). The F-Test is employed to prove any mean differences, The ANOVA formula in Baridam (2011) is adopted in this study:

4. RESULTS AND DISCUSSION OF FINDINGS

Hypothesis 1: States that "there is no positive and significant difference between the type of ownership and the paid-up capital of insurance companies

Table 1 Computation of the difference between the type of ownership and the paid-up capital of Insurance Company Industry

Years	**GROUP 1 Wholly foreign**		**Group 2 Joint**		**Group 3 Foreign**	
10	X_1	X_1^2	X_2	X_2^2	X^3	X_3^2
	76.4	5837.0	23.6	557.0	42.1	1772.4
	66.6	4435.6	33.4	1115.6	35.4	1253.2
Total	Ex1 = 813.7	Ex12 = 6770 0.2	Ex2 = 186.3	Ex22 = 4960.2	Ex3 = 113.3	Ex32 = 3315.1
	X1 = 81.37		X2 = 18.63		X3=11.33	

Table 2: Result of the computation of the difference between the type of ownership and the paid-up capital of Insurance Company Industry

Source of variation	SS	Df	MS	F-ratio	Level of significance
Between groups	29650.7	2	14825	119.6	0.05
within group	5010.2	27	185.6		
Total	34660.9	29			

F - Ratio

Table value with 27 and 2 degrees of freedom at 0.05 level of significance is 3.39

Decision: Since calculated F - ratio value (119.6) is greater than the table F ratio value of (3.39), we reject the null hypothesis that "there is no positive and significant difference between the type of ownership and the paid-up capital of the insurance companies. And accept the alternative hypothesis that there is a positive and significant relationship among the measures of the three groups.

Hypothesis 2:

There is no significant difference between the premium income of insurance companies in Nigeria and the number of Insurance Companies in Nigeria.

Table 3: **Computation of the difference between the premium income of insurance companies in Nigeria and the number of Insurance Companies in Nigeria**

YEARS	**GROUP 1 Life**		**Group 2 Non-Life**		**Group 3 mixed**	
10yrs	X_1	X_1^2	X_2	X_2^2	X^3	X_3^2
	21.99	483.7	31	961	58.1	3375,6
	58.44	3415.3	62.97	3965	67.47	4552.20
Total	152	3899.6	192	4926	309	7927.8

Table 4: Result of the significant difference between the Premium Income of Insurance Companies in Nigeria and the number of Insurance Companies in Nigeria (%) Nm

Source of variation	SS	Df	MS	F-ratio	Level of significance
Between groups	22.7	2	11.4	35.5	0.05
within group	1033.3	27	38.3		
Total	1056.0	29			

F ratio table value with 27 and 2 degrees of freedom at 0.05 level of significance is 3.39

Decision: since the calculated value of F - ratio is (35.5), which is greater than the table F ratio at (3.39), which is greater than the table F - ratio value of (3.39), we therefore reject the null hypothesis which states "that there is no significant difference between the premium Income of the Insurance Company in Nigeria and the number of Insurance Companies in Nigeria.

The primary data was analysed using the Simple Percentage and ANOVA (Analysis of Variance) from the secondary data. The result shows that: There is a positive and significant difference between the type of ownership and the paid-up capital of Insurance Company. There also exists significance difference between the premium income of the Insurance Companies in Nigeria and the number of insurance company Nigeria

5. DISCUSSION OF FINDINGS AND CONCLUSION

The study thoroughly examined the impact of insurance's structure and growth on the economy of Nigeria; and it revealed that the insurance industry is a notable non-banking institution which not only partakes on the shouldering of risks for both groups, individuals and corporate bodies, but which also mobilizes resources from the surplus sectors (via premium) to the deficit sectors, in the form of investments. The test of hypothesis one, found out that there exist a positive and significant difference between the type of ownership and the paid up capital of the insurance companies. This is as a result of the increase in both the indigenous as well as the joint venture companies. From the computation of hypothesis two, shows that there also exist a significant difference between premium income of the insurance companies in Nigeria and the number of Insurance Companies in Nigeria. It is evidence from the study that Insurance Industries as a responsible corporate body, has contributed immensely in ensuring the achievements to the citizenry and in economic development of the country. However, in the course of this study, it has been discovered that the insurance industries encounter some difficulties in Nigeria in as much as there is an improvement in the structure and growth of the industry. Having studied the impact of the structure and growth of the insurance industry on the economic development of Nigeria, the following recommendations are made; Government should review existing laws bordering on the industry. This will enhance the performance on the entire sectors of the economy; Need for Joint Venture in Insurance, we recommend that the way insurance industry can grow and expand in structure is through joint venture with foreign firms. This will equally enable them have contact offices abroad where they will be part owners of business earning income abroad to settle foreign currency requirement, as well as enhancing economic development of the country.

REFERENCES

Baridam, D. M. (2015). Research Methods in Administrative Sciences University of Port Harcourt Publishing House Choba, Port Harcourt.

Beredugo, S. B. & Ekpo O. Bassey (2022). Fiscal Irresponsibility: A Bane to Financial Accountability in The Nigerian Public Sector. *International Journal of Research Publication and Reviews*, 3 (10), 1140-1148.

CBN's Summary of Gross Premium Income (2019). CBN Statistical Bulletin. 11, 2 Nigeria Insurance Digest (20). Lagos

Eghwubare H. (2019), Critical Analysis: The Doctrine of Subrogation and it Application in Nigeria. W.aaachambers.com.LITE.

Inyang, D. (2019). Importance of Records in the Administration of an Insurance Firm "Federal Might, 2 (4).

Irukwu, J. O. (2019). Insurance Law and Practice in Nigeria. Generation press, Lagos Nigeria Heinemann educational book plc. Ibadan.

Irukwu J.O. (2016). International Expansion of the Nigerian Market. The Nigerian Insurance Year book. Reinsurance Corporation.

Jordan K. & Stopanska B., (2011) Impact of insurance on economic growth: the case of Republic of Macedonia: ISSN 1804-5839. *European Journal of Business and Economics*.

Nzotta, M.S (2019). Money, Banking and Finance. Theory and practice Intercontinental Educational Books and Publishers Review Owerri.

Peter, H. & kjell S,. (2016), The Relationship of Insurance and Economic growth – A Theoritical and Empirical Analysis. University of Economic and Business AdministrationVenna Australia.

Zakariya'u B. (2017), Introduction to Insurance. Business Times 26 (20), 3-5