**COMPARATIVE ANALYSIS OF THE PERFORMANCE OF THE INSURANCE AND BANKING INDUSTRIES IN NIGERIA**

**ABSTRACT**

This work appraise the comparative analysis of the performance of insurance and banking industries, the important role they played in the economic development of the nation, and they constitute as the pillar on which the economy of any nation can be created.

In chapter one of this project, the general overview of the study is reviewed, terms used in the study was brought to light. In chapter two literature review on insurance and banking industries as prime movers of the economy were mentioned. In chapter three, Research methodology, Research design ands methods of data collection were used in writing the project. In chapter four, presentation and analysis of data generated were collected and analyzed, which was done by tabulation and interpretation. Also hypothesis stated were tested and the result interpreted.

Finally, chapter five is the summary, conclusion and recommendations.

**CHAPTER ONE**

**INTRODUCTION**

**1.1 GENERAL OVERVIEW OF THE STUDY**

The insurance and banking industries, both of which are components of the Nigerian financial system, play very important role in the country. They jointly for the backbone of the economy without which all economic activities would come to a halt or collapse. There is no doubt that the insurance and banking industries contributed to economic growth and development but how and to what extent they do so is the prerogative of this study. In their joint roles as tools for economic development they converge and diverge at certain points of interest, which characterized the differences and similarities in their setup. It is against this background that I shall carry out a rear exhaustive comparison of the two industries.

Insurance has been in existence and practiced in many ways in our society ever before the colonialists in such co-operative and thrift with group as grades, town unions, Esusu etc with the sole aim of spreading the loss of few amongst many. Modern insurance, however, was introduced into Nigeria as late as 20th century by the British Merchants who had established trading parts on the west coast of Africa. The first insurance company to have full branch office in Nigeria was Royal exchange Assurance Company Limited, which opened it’s office in Lagos in 1921. Until the time of independence in 1960, there was virtually indigenous insurance company 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 office of European Insurance companies. Between the year 1960 and 1975 a large number of wholly indigenous Nigerian insurance companies commenced operation and these companies now under write a substantial volume of the total insurance business in the country. The insurance industry or market in Nigeria has experienced a tremendous growth and development from what it was in the early days of it’s establishment by the British colonialists. The government and individuals have become more aware of the need for insurance in our society and now patronize the insurance industry. The present economic reconstruction programme of the government and it’s subsidiaries in the country. According to statistics carried out in 1989, there existed about 105 insurance companies in the country 81.9% of which were indigenous while, 18.1% is partly expatriate. There are also several insurance brokerage firms, Reinsurance companies, Agency officer, Mutual insurance societies, insurance loss adjusters and surveyors, pensions consultants etc in the country today.

The history of Banking in Nigeria dates back to early colonial period. The activities of transactional corporation, the financial transaction of the colonial government, the decline of the barter system of trade and the increasing acceptance of British silver currency-all these required an institution in the form of commercial bank for the safety and transaction of funds and also for provision of credit to government and trading companies. It was for this purpose that the African banking cooperation based in South Africa was invited by the Elder Dempers & company to open a branch in Lagos followed by the Bank of British West Africa (now known as the first bank), which opened it’s first branch in Lagos 1894. The bank of the British West Africa later superceded the African Banking cooperation and exercised virtual monopoly over banking in Nigeria within that period. From this early beginning, more expatriates Banks continued to open branches in Nigeria until in 1929 when the protocol was broken by the establishment in Lagos of the first indigenous commercial Bank. In addition, there exists the Central Bank (established in 1958) which main objectives is to issue legal tender (currency) in Nigeria, safeguard the international value of the currency, promote monetary stability and a sound financial structure in Nigeria and to act as a financial advicer and Banking industries in Nigeria operated in open and free markets whereby competition is reasonably fair, although government intervenes often to regulate their operations and ensure a fraud free business transaction.

1.2 STATEMENT OF PROBLEM

Our economy today is played with so many problem the most threatening of which is inflation. The Nigerian economy has been under a period of recession ever since unscrupulous individuals squandered the earnings from the oil boom. Government policy has been made to have as a prerogative, the revival and revitalization of the economy through economic reconstruction programmes and activities.

This objectives is achieved with the assistance of the financial intermediaries. The insurance and banking industries play a joint role by the creation of capital, mobilization and distribution of scarce fund into the economy, regulation of money and capital market, assisting growth the provision of financial services. These institutions have been performing these duties in the economy for years now but the question that comes up is-how much have their efforts been aimed at ensuring an improved economy? This gives rise to a number of other questions Like:-

• How do the insurance and banking industries help in economic development?

• How do they finance their financial intermediation activities?

• What impact do their activities make on the economy?

These questions are in themselves problems to which the researcher would find answers.

1.3 OBJECTIVE OF THE STUDY

The purpose of this study is summarized as follows:-

1. To study the activities of the insurance and Banking industries. Thereby determining their impact on the economy and the economy and ascertaining their roles.

2. To bring to light areas of similarities between the two industries and how they interdependent on each order in the fulfillment of their roles.

3. To differentiate and draw a line between the services and purposes the insurance and banking industries serve.

4. Finally, to bring to light the factors the hamper on or resist the activities of the industries and the areas of failure in their operations and reasons for this failure, which would e concluded with suggested solutions.

1.4 STATEMENT OF HYPOTHESIS

A Null Hypothesis

A null hypothesis is an assertion that the population parameter is not different from what it is supposed to be, or what it has been in the past. It represents a status quo situation or an existing belief. This is symbolized thus: Ho:

Alternative Hypothesis

It specifies a population parameter that is different from the status quo.

This is symbolized thus Hi:

Ho: Insurance and banking industries have a very significant impact to the development of economy.

Hi: Insurance and bank industries do not have a very significant impact to the development of the economy.

1.5 SIGNIFICANT OF THE STUDY

By the end of this research work, a strong step would have been taken in bringing to the notice of the public the various roles and importance of the insurance and banking industries in our society and their contribution to growth and development of the economy.

There is also an urgent need to correct the erroneous impression the society has adopted on insurance and banking activities. This study shall go a long way in clearing this cloudy conception. The passive communication network between the industries and the public has further helped the situation and embodied problem is that when people talk of insurance, the image is difficult to visualize even if the type of insurance is specified. Simplification in communication must therefore be an absolute priority in abating this situation.

This study aims at strengthening the relationship between the banking and insurance industries by bringing to light the area in which they can depend on each other and exchange services on furtherance of their economic development.

At the end of this study, the problems facing the insurance and banking industries shall have been tackled eg. The bad public image, restrictions and financial constraints. A good reputation for services, reliability and efficiency will be required. Suggestions made in this study will focus on areas where intensive marketing research would be done in order to solve the problems facing them. Prudent utilization of available funds by way of investment into progressive ventures is necessary and important

1.6 SCOPE OF STUDY

The study is on the investigation of a comparative analysis of the performance of the two sectors in Nigeria.

However, for the purpose of this study, the study, the study will be restricted to NICON INSURANCE PLC and FIRST BANK OF NIGERIA PLC. These organizations are selected to represent the entire insurance and banking industries operating in Nigeria. Furthermore, its important to state here, that the data required for the computation and analysis of this study would be obtained from these industries websites and branches within.

1.7 LIMITATION OF THE STUDY

The subjects – the insurance and banking industries are studied in the wider context of their roles. There is no concentration of either of the industries in one area; rather they are made up of various companies/firms operations in difference parts of the country. They all serve a common role thus the writer shall adapt a general approach in presenting the study and limit himself to few insurance companies and banks in the data presentation and analysis.

It is the researcher’s bank wish to state that this study was out with in limits imposed by practical considerations of financial costs and limited time. To fully investigate the responses of the Nigerian insurance and banking industries to the multifarious economic and social needs of more than 100 million people, the researcher has to reflect the vastness of the nation. The combined factor of time, cost and uneven distribution o insurance companies and banks across the vast expenses of the country has restricted the research to cover Imo and States within its environs.

1.8 DEFINITION OF TERMS

Some o the definitions used in this work will be defined and explained in simple language for easy understanding by the reader.

1. Insurance: this is an agreement between two parties namely the insurer and the insured, whereby on payment of a sum of money called premium by the insured, to the insurer, the insurer promises to indemnity in cases of loss or accident occurrence.

2. Banking: is the practice of financial intermediation and the mobilization of funds by the savings type institutions operating in the financial market.

3. Economic Growth: this is the increase over time in a country’s real output of goods and services or more specifically real output per capital.

4. Money Market: is a market for short-term credit. Those in need of funds borrow for short-term purpose from the money market and also invest on short-term basis in the money market.

5. The Capital Market: the capital market is the long-term and of the financial system just as the money market is it’s short-term end. Those who are short of funds and are desirous of borrowing for long term go to the capital market.

6. Loans and Advances: a bank loan/advance is an agreement by which a customer is offered period, repayable in an agreed manner fixed installment or lump sum. They come in the form of term loans, overdrafts etc.

7. Central Bank of Nigeria: CBN is the nation’s apex bank (financial institution) that regulates the value, supply and cost of fund. It also regulates other financial institutions in Nigeria.

8. Nigerian Deposit Insurance Commission (NDIC): this is one of the regulatory and supervisory authorities within the financial sector of Nigeria’s economy.

9. Capital Adequacy: it is the cushion of equity and other accounts that function to absorb any shock the bank may experience as a result of losses or diminution of it’s assets.

10. Deregulation: the process of allowing the market forces of demand and supply to determine the rate of interest.

11. Claim: this is a demand by the insured for compensation under his policy of insurance. This is the consideration for the payment of premium by the policyholder, which must be provided by the insurer when a loss occurs.

12. Insurance Policy: this is an evidence of the insurance contract containing all the wordings and conditions of the contract between the insured and the insurer. An owner of the insurance policy who is the insured person known as a policy holder.

13. Bank Deposit Account: this includes the current, savings and time or term deposit account in which a bank customer can deposit his surplus funds for a long period and have interest accrue on them. There funds are withdraw able on demand or with notice of interest to withdraw. These deposits form the majority of the banks funds.

14. Economic development: economic development implies the structural changes in the society; both technological advancement and resource discovery Economic development is however the growth accomplished by the changes in the economic and political structure.

15. Insurance premium: this is the monetary consideration for the risk the insurer undertakers to bear. It is however, the price the insurer or policy holder has to pay for transferring his risk to another person who then bears the burden of losses as a result of the risk occurring. This is the major sources of insurance companies’ funds.

**CHAPTER TWO**

**LITERATURE REVIEW**

**Conceptual framework**

Risks threaten human existence and business investments imposing fears on household and corporate individuals. Insurance therefore exists to provide the avenue and mechanism of transferring risk from the person likely to suffer loss to the experts who specialise in the management of risk. These experts are the insurance companies. Holyoake and Weipers (2005) opine that insurance companies act as a stimulus for the activity of businesses that are already in existence. This is done through the release of funds for investment in the productive side of the business, which would otherwise have to be held in easily accessible reserves to cover any future loss.

Investment portfolio must be managed, be it passive or active portfolio. Since the aim of portfolio management is the determination of optimal percentage of investible fund to each security that will sustain investor’s goal for investment. In order to avoid holding a security with low yield, there must be periodic assessment using portfolio selection, revision and performance measurement, so as to evaluate the economic and interest rate impact on them at the short and long run perspectives. There are some aspect of portfolio management such as security analysis, portfolio analysis and selection, fundamental and technical analysis and lastly, industry analysis, which form part of security analysis (Osipitan, 2009). Portfolio analysis deals with the determination of portfolio future return and risk possibility. But portfolio selections focus on selecting the right asset for investment.

Investor’s objective is to maximize their wealth and minimize their loss, which calls for diversification. But to diversify investment, asset must be analyzed through internal, external and policy analysis. Under internal analysis, the firm’s dynamics is analyzed to verify its possibility of generating future cash flow. External analysis compares other firm’s activities in relation to the firm’s profit made and dividend shares. But policy analysis looks at the likely effect of government policy on the firms operation. The positive correlation of this analysis guides the manager/investor on the choice of investment, while negative implies refraining to invest.

According to Section 25 (1-5) of Insurance Act of 2003, “An insurer shall at all times in respect of the insurance transacted by it in Nigeria, invest and hold invested in Nigeria assets equivalent to not less than the amount of policy holder's funds in such accounts of the insurer. Subject to the other provisions of this section, the policy-holders funds shall not be invested in property and securities except; (a) shares of limited liability companies; (b) shares in other securities of a co- operative society registered under a law relating to co-operative societies; (c) loans to building societies approved by the Commission; (d) loans on real property, machinery and plant in Nigeria; (e) loans on life policies within their surrender values; (f) cash deposit in or bills of exchange accepted by licensed banks; and (g) such investments as may be prescribed by the Commission. No insurer shall- (a) in respect of its general insurance business, invest more than 35 per centum of its assets as defined in subsection (1) of this section in real property; or (b) in contract of its life insurance business, invest more than 35 per centum of its assets as defined in subsection (1) of this section in real property. An insurer which contravenes the provisions of this section commits an offence and is liable on conviction to a fine of N50,000. In this section, references to real property include references to an estate in land, a lease or a right of occupancy under the Land Use Act”.

There are three main sources of investment funds for firms:

(1) internal funding using accumulated profits, (2) borrowing either from banks or through the issue of financial assets such as (long-term) bonds or (short-term) commercial paper, and

(3) issuing new shares of stock—new “equity.”

Each of these funding methods imposes explicit and/or implicit costs on the firm. If the firm borrows in order to finance its investment, it pays an explicit interest cost. If it uses internal funds for investment, it is forgoing other uses of those funds. Had the firm not used the internal funds for new capital, it could have earned interest on the funds by lending them or purchasing financial assets. Thus, the implicit cost of each dollar of internally funded investment is (at least) the interest on forgone lending. In a “perfect capital market,” where all borrowers and lenders pay and receive a uniform interest rate, the explicit interest cost of loan-financed investment equals the implicit forgone-interest cost of self-financed investment, so the cost is the same whether the firm finances through borrowing or internally. Issuing new shares of stock creates costs for those who own existing shares. Since the new shares represent claims on the firm’s future profits, they dilute the claims of existing shareholders in direct proportion to the amount of new stock issued.

Insurers are among the top three institutional investors worldwide, along with pension funds and investment funds. In most countries, insurers invest the largest proportion of their portfolio in government bonds and fixed-income private bonds; however, their investment strategies and risk management practices permit them to invest in shares, real estate, other instruments such as loans, as well as more complex financial instruments. The portfolio mix varies across countries depending mainly on the nature of insurers’ liabilities, insurers’ risk appetite, and the risk profile of insurers within the industry. In the life industry, the share of bonds in insurers’ investment portfolios is typically higher than the level found in the non-life and composite insurance industries, to a certain extent due to the fact that investment in long-term bonds allows for a better matching of assets with their long-term liabilities (OECD, 2011).

Economic growth has been a major objective of successive governments in Nigeria. In performing the financial intermediation role, it has been argued that by virtue of this function commercial banks generate economic growth by providing needed resources for real investment (Shaw, 1973; Mckinnon, 1973). Economic growth is one of the important factors that improve living standards in developing countries. It is an indispensable requirement for economic development among other factors. The role of finance in terms of money deposit bank was well acknowledged by researchers. The functions of these banks as financial intermediation involves channeling funds from the surplus unit to the deficit unit of the economy, thus transforming deposits into loans or credits. The role of deposit money banks in economic development has been recognized as credits are obtained by the various economic agents to enable them meet investment operating expenses. For instance, business firms obtain credit to buy machinery and equipment, farmers obtain credit to purchase machines such as tractors, seeds, fertilizers, and erect various kinds of farm buildings. Government bodies obtain credits to meet various kinds of recurrent and capital expenditures. Individuals and families also take credit to buy and pay for goods and services (Adeniyi, 2006).

According to Ademu (2006), the provision of credit with sufficient consideration for the sector’s volume and price system is a way to generate self employment and investment opportunities. This is because credit helps to create and maintain a reasonable business size as it is used to establish and/or expand the business to take advantage of economy of scale. It can also be used to improve informal activity and increase its efficiency. While highlighting the role of credit, Ademu (2006), further explained that credit can be used to prevent economic activity from total collapse in the event of natural disasters. The commercial banks help to make these credit facilities available by mobilizing surplus funds from savers who have no immediate needs for such funds and thus channel such funds in form of credit to investors who have brilliant ideas on how to create additional wealth in the economy but lack the necessary capital to execute the ideas. According to Adekanye (1986), in making credit available, money deposit banks are rendering a great social service because through their activities, production is increased, capital investment are expanded and a higher standard of living is realized.

**Overview Of The Insurance Sector Of The Nigerian Economy.**

Insurance is believed to have originated from the ancient practices of the inhabitants of the valleys of River Tigris and Euphrates in the present day of Iraq in about 4,000 BC. In Nigeria, the “Esusu” system in the ancient western Nigeria and the Age Grade system in the eastern Nigeria represent traditional system of insurance in Nigeria.

Modern insurance started in Nigeria in the early part of the 20th century. In 1950, Dr. K. O. Mbadiwse established the first indigenous insurance company, African insurance company limited. This was following in 1951 by the establishment of the Nigerian General insurance company limited jointly owned by three Nigerians Dr. Akintola Maja, Chief T. A. Doherty and Chief S. O Gbadamosi. Other insurance companies entered the Nigerian market at this period including the lion of Africa insurance company limited which commenced business in 1952. By the year 1960, twenty-five insurance companies were doing business in Nigeria. Four of which were indigenous insurers. This period was thus an era of British insurance companies in Nigeria.

Furthermore, to accelerate the training of Nigerians in the field of insurance, the Insurance Institute of Nigeria was founded in August1959. The institute, the insurance institute became affiliated to the chartered insurance institute of London in 1960. The institute was reconstituted by a decree in 1992.

In August 1962, the insurers consultative body, which has become moribund was revived and reconstituted under the name of the Nigerian insurance consultative committee. In December 1971, it went through another metamorphosis to become the Nigerian insurers Association.

Moreover, competition among insurance companies during the period 1950 and 1969 was health. Dr F. O Ogunlana, commenting on insurance practice in pre-independent Nigeria once said,” whilst insurance as an industry had very low visibility, it employed high credibility. The business was respectable and insurance staffs were ranked as highly as those of the banking industry. Underwriting was scientific and profitable.”

In 1961, the first Nigerian insurance control legislation, the insurance companies Act was enacted by the newly independent Nigerian parliament. The act made provisions for the operation of indigenous and foreign insurance companies in Nigerian provided they registered with the federal ministry of Trade. In 1968, a company decree was promulgated under which every company doing business in Nigeria was required to be incorporated in the country. By virtue of this law, he erstwhile foreign insurance companies operating in Nigeria were incorporates locally and ceased to be branch offices or Agencies of British insurance companies.

Nevertheless, the growth and development of insurance industry is dependent upon three major factors. Firstly, the vicissitudes of the economy, it is heartening to note that one of the first steps taken by the former government.(Obasanjo led administration) was the revision of the national minimum wage and the remuneration package in the public service as well as payment of arrears of pension to retirees. These as well as the poverty alleviation programme have reflected the economy and improved the purchasing power of the citizenry.

It is worthy of note that the Nigeria’s foreign reserves have increased from US $5.44 billion in December 1999 to US $9.26 billion in December 2000. The federal government and its agencies have been able to sustain the interest rate and the rate inflation. However, the economy is still prostrate. Capacity utilization is still low, unemployment rate is high, social infrastructures are far from being satisfactorily. While the cost of doing business is generally low. As regards the review of insurance legislation, there is no doubt that satisfactory progress is being made.

The insurance bill (HB 88), which seeks to repeal the insurance decree of 1997, went through the second reading at the House of Representatives on 29th August 2001. The bill was discussed at a public hearing which was held under the auspices of the house on the 23rd and 24th October 2001. A draft National insurance commission bill, which is intended to be forwarded to the National Assembly, has been prepared by the law review committee of the insurance industry. The draft bill was aimed at repealing and replacing the controversial NAICOM Decree 1997 which was promulgated by Gen. Sani Abacha’s regime. The polices behind the bills include the following:

1. The protection and security of the interests of the insurance public

2. Making insurance business more attractive to investors.

3. Raising the contribution of the insurance industry to the Gross Domestic product.

4. Promotion of a level playing field and fair competition in the industry, and

5. The encouragement of professionalism and self regulation.

In addition to a favorable enabling environment, the much desired enhanced performance of the insurance industry will, to a great extent, depend on the attitude of the operators. The operators in the various aims of the industry needs to exhibit professionalism as well as adhere to the industry’s code of ethics.

Finally, underwriting and reinsurance companies need to go into recapitalization with a view to ensuring the emergence of stronger insurance institutions with increased capacity and enhanced competitiveness. Furthermore, each company needs to engage in research and development with a view to designing innovative products that will meet the needs of consumers. (Irukwu J. O. (2001), Century of insurance).

**Links between economic growth and insurance**

Skipper (1997) indicates that the insurance market place activity, both as a trader of risk transfer and reimbursement and as an established investor, might add to economic growth in mobilising domestic savings; allowing efficient management of different risks, thereby boosting the accumulation of new capital, financial stability; aiding trade, supporting to mitigate losses; and promoting a more efficient sharing of domestic wealth.

The growth in the life insurance market depicts considerable efforts put within the insurance industry. Different questions have arisen over time in the development (both in penetration and in concentration measures) of the life insurance and how it encourages economic growth (Masum, 2014). Previous studies are mostly centred on the link between the financial division and economic growth, primarily banks and stock markets (Boon, 2005; Outreville,1996; Horng et al., 2012; Akinlo, 2013; Hou and Cheng, 2017), while the insurance continued to be overlooked (Haiss and Sumegi, 2008; Njegomir and Stojic, 2010; Verma and Bala, 2013).

Ward and Zurbruegg (2000), the first scholars to investigate the relationship between insurance and economic growth for nine Organisation for Economic Co- operation and Development (OECD) countries, have found sufficient evidence to suggest that the impact of insurance on differs on economic growth built of different economic echelons, however, an insignificant relationship was discovered for the countries United Kingdom and the USA. Similarly, Din et al. (2013) using the autoregressive distributed lag (ARDL) approach, discovered a negative between insurance and economic growth via international trade in Pakistan.

On the other hand, the studies of Haiss and Sumegi (2008) and Ege and Bahadir (2011), both examining twenty-nine OECD countries, discovered a substantial and positive relationship between insurance and economic growth OECD countries. Also, Chang et al. (2014) also examined the association between insurance and economic growth for ten OECD countries. The bootstrap Granger causality model was applied, and the study discovered that one-way Granger causality is successively from all insurance activities to economic growth for the countries, France, Switzerland, Japan, United Kingdom and the Netherlands.

Other studies such as Web et al. (2002), Kugler and Ofoghi (2005), Vadlamannati (2008), Curak et al. (2009), Han et al. (2010), Horng et al. (2012), Ghosh (2013) and Akinlo and Apanisile (2014) have also explored the relationship between insurance and economic growth in various countries and found a significant and positive relationship between the variables. Also, a current study by Din et al. (2017b) examined the relationship between insurance and economic growth for China, United States, Malaysia, UK, India, and Pakistan using ARDL approach. The result discovered a positive and significant relationship between total insurance and economic growth for the countries above. However, life insurance had an inverse but significant effect on the economic growth for China, United States and Malaysia.

Similar studies in Nigeria by Omoke (2012) showed no relationship between insurance and economic growth while Madukwe and Anyanwaokoro (2014) revealed a positive and significant relationship between the variables.

**Theoretical framework**

**Financial Liberalization Theory**

The theory that guides this study is the 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. This theory is relevant to this study because insurance firms and commercial banks are financial institutions in Nigeria, which their expansion and development could contribute to economic growth.

**Finance-Growth Nexus Theory:**

This study is also based on the finance-growth nexus theory by (Schumpeter,1911). Borrowing from Schumpeter, financial services are important for economic growth as long as they improve productivity by promoting technological innovation, investment and helping entrepreneurs with the best chances of success in the innovation process. He argued that mobilization of productive savings, efficient resources allocation, re-investment of mobilized financial resources into the economy would facilitate economic growth. He further stressed that these effects could create a favorable macro-economic framework for strong economic growth. As a matter of fact, theoretical endogenous growth models which integrate financial development support this thesis (King and Levine, 1993; Beck, Levine and Loayza, 2000; Levine, Loayza and Beck, 2000). This theory is related to this study because for economic growth to subsist insurance companies and commercial banks must mobilize their idle accumulated funds and re-invest such funds into the deficit economic unit to boost money supply and capital formation in the economy.

**Market Based Asset Allocation Theory**

This study is further based on market based asset allocation theory propounded by Markowitz (1952, 1959) on portfolio selection, which resulted in a revolution in the theory of finance and laid the foundation for modern capital market theory. Modern portfolio theory explains the selection and construction of asset portfolios based on the measured risk, risk preferences of individuals and the expected return on the investments. An implication of the normative logic of the Markowitz model is that fund managers design their portfolios based upon expected risk and return and the covariance of return between each pair of assets. Portfolios are selected from those lying on an efficient frontier depicting the trade off between risk and return. The frontier is efficient because the choices result in the highest expected return for the given level of risk. This theory is related to this study because diversification of investment portfolio involves risk-taking. The work of Steinbach (2001) deduces that portfolio selection involves the assumptions of the investor about the future, represented by the probability distributions of the asset returns. These probability distributions are based upon the assessment of financial analyst or estimated statistically from historical data. The measurement of the expected portfolio return is based on the mean of the observed asset returns. Risks are assessed as the variance of the portfolio, which is derived from the covariance of the asset returns (Santos and Haines, 2004).

**Empirical review**

Victor (2013) examined the impact of insurance on economic growth in Nigeria. The findings of Victor (2013) revealed that insurance helps to reduce risks, in addition to other functions provide means of accumulating savings. Such accumulated savings provide insurance companies with a pool of funds for investments that aid development. Also, Ubom (2014) examined the link

between investment portfolio of insurance firms and the variables of economic development such as the growth rate of gross domestic product (GDP), unemployment, capacity utilization and inflation rates in Nigeria from 1990 to 2011. Data were analyzed using descriptive and inferential tools. The findings were that insurance companies in Nigeria got over 95% of income on yearly basis from premium and accumulated large sum of funds after expenditures on claims but invest less than 1% of such funds. Stock and bonds, government securities as well as real estate properties and mortgages dominated the investment portfolio of these financial institutions with heavy concentration in the assets of quoted companies. Hence, small and medium scale enterprises were not funded. As such, insurance firms were not making any significant influence on economic development in the country as evidenced in the marginal growth rates of gross domestic products (GDP) and capacity utilization, among others.

Earlier study on the industry also confirmed that investment respond to market conditions given the neo classical investment theory (Akinnifesi, 1981; Jorgenson, 1967). Since investment takes time, the delay which may be attributed to commitment of expenditure, lack of information or delay in making timely investment decisions. As a result of this, the returns on investment are what motivate an investor to invest in a particular asset. Which is best explained through interest on such investment. Interest is the payment for the use of borrowed funds or the change in the value of an asset over a specified period of time. Interest rate is the percentage rate of change in the value of an asset at any point in time or over a period of time (Todaro and Bell, 1969). In reality, there is more than one interest rate due to risk, nature of security, services in addition to the loan (investment) itself, lack of free competition among lenders or borrowers, length of time the loan has to run and others causes. The legislative constraints on the choice of investment of insurers have social, political, and economic advantages, yet these restrictions operate to the disadvantage of the insurers, especially when such outlets are not (highly) profitable (Durojaiye, 1988; Irukwu, 1981; Akintola-Bello, 1986).

According to Randle and Ahuja, (2001) life assurance companies’ investment favoured long term rather than short term based on their liabilities. The nature of business of an insurance company determines the profiles of its liability and the direction of its investment. Life Assurance companies differ from non – life insurance companies in their investment objectives. The life assurance companies has more fund available for long – term investment, while non life insurance companies invested in short – term investment due to its liability structure (Arena, 2008).

The Investment behavior of Insurance Companies in Nigeria was the mainstay of the study by Akintola-Bello (1986) which observed the great variation in the asset holdings of life and non- life insurance companies, owing to the need to match assets with the maturity structure of their liabilities. While non-life companies prize liquidity very highly, life insurance companies did not. For life companies emphasized government securities, mortgages and real estate, common stocks and corporate bonds, all of which are long-term high income-yielding assets in their portfolio. Although portfolios differ widely in maturity structure and in riskiness between life and non-life companies, both hold a wide variety of financial assets.

Omoruyi (1984) made an econometric analysis of the determinants of investments by insurance companies in Nigeria, where he developed models of investment on each asset in the portfolio. Accordingly, each asset is made a function of insurance fund (or total assets) deflated with GDP, average rate of interest as a proxy for returns on investments, premiums/claims ratio and a dummy for legislation years. Use was also made of time-series annual data for 13 years (1969 - 1981) in acquisition of 4 major assets; namely government securities; stocks, shares and bonds; mortgage and loans; as well as cash and bills receivables. The result showed a good fit for life insurance companies using the log linear specification while the non-life and mixed insurance companies had their data showing good fit with the linear form. All the hypothesized variables were found to be statistically significant, though some at 10% significance level.

Haiss & Siimegi (2008) investigated both the impact of insurance investment and premiums on GDP growth in Europe, applying cross-country panel data analysis from 1992 to 2005 for 29 European countries. They found a positive impact of life insurance on GDP growth in the EU-15 countries, Switzerland, Norway and Iceland. For the New EU Member States from Central and Eastern Europe, they found a larger impact for liability insurance. Furthermore their findings emphasized the impact of the real interest rate and the level of economic development on the insurance-growth nexus. They argued that the insurance sector needs to be paid more attention in financial sector analysis and macroeconomic policy (Haiss & Siimegi (2008)).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

Research methodology is the plan, strategy and structure of investigation, concerned with how to obtain answers to question in consolidation of the nature and the purpose which it intended to achieve as well as the anticipated result, Kerlinger in Victor (2013).

3.1 Research Design

This research is a quantitative study aimed at investigating the impact of investment portfolios of insurance companies and commercial banks on economic growth in Nigeria. The study is purely quantitative and relies on secondary data. The choice of the data depends largely on the suitability and reliability in the course of this research work. Research design is a framework for controlling the collection of data. It ensures that the required data are accurately collected. This study is fundamentally designed to find out if investment portfolios of insurance companies and commercial banks’ impacts on the growth of the Nigerian economy. The structural framework of this study is based on ex-post facto research design. According to Kerlinger (1973) in Ndiyo (2005), an ex post facto research is a systematic empirical inquiry in which the scientist has no direct control of the independent variables, inferences about relations among variables are therefore made without a current interaction between the independent and dependent variables hence the cause or the independent variable involved is not manipulated.

**3.2 Sources / Method Of Data Collection**

Generally, secondary data were used in this work. These data were time series and cross section. The data covered the period from 1996 to 2011. The time series is a set of observations taken at specific time, usually at equal intervals. According to Udofia (2005), time series is the arrangement of statistical data collected with respect to the time of occurrence.

3.3 Method of data Analysis

The data collated for this study will be presented in tables of time series. Simple percentages and graphs are used in analyzing the data. In testing the research hypotheses, the multiple linear regression method will be used. The multiple regression analysis method is an analysis of association that simultaneously investigates the effects of two or more independent variables on a single interval scaled or ration-scaled dependent variable. These tools made it possible to carry out empirical analysis describing the trend movements of variables and their implications on economic growth in Nigeria.

Model specification

We adopt the multiple linear regression technique to specify the relationship between the variables in the hypotheses of the study. The multiple linear regression models are specified below:

Y = a0 + a1X1 +a2X2 +Xn + Ut

In the model, a1, a2,an are the parameters or the independent variables’ coefficients and the ut is the stochastic error term or random variable. The model above indicates that ‘y’ is a linear function of X1,X2,.....Xn. Hence, a0 is regression constant or intercept, while X1,X2,…..Xn are independent variables.

The functional equation for testing of hypothesis one is stated below:

GDP = f(GSEC, STBO, REMO, POLS, CHDS, BSEX). The equation is linearized in the hypothesis as:

GDP = a0 + a1GSEC + a2STBO + a3REMO + a4POLS + a5CHDS + a6BSEX + U1

Where;

GDP = Gross Domestic Product. GSEC = Government Securities STBO = Stocks and Bonds

REMO = Real Estate and Mortgage POLS = Policy and Other Loans CHDS = Cash at Hand and Deposits BSEX = Bills of Exchange

U1 is the stochastic error term.

The functional equation for testing of hypothesis two is stated below:

GDP = f(ORSH, PRSH, DEBS, SUBS, OIVS). The equation is linearized in the hypothesis as: GDP = 𝛽0 + 𝛽1ORSH + 𝛽2PRSH + 𝛽3DEBS + 𝛽4SUBS + 𝛽5OIVS + U1

Where;

GDP = Gross Domestic Product. ORSH = Ordinary Shares

PRSH = Preference Shares DEBS = Debentures SUBS = Subsidiaries OIVS = Other Investments

U1 is the stochastic error term.

a0 and 𝛽0 are regression constants.

Apriori expectation

Appriori, the following are expected a1< 0; a2 < 0, a3 < 0; a4 < 0; a5 < 0; a6 < 0; a7 < 0 in the hypothesis one and 𝛽1 < 0; 𝛽2 < 0; 𝛽3 < 0; 𝛽4< 0; 𝛽5 < 0; 𝛽6 < 0; in the hypothesis two.

Considering estimation techniques, we examine the relationship between investment portfolios of insurance companies’ contribution to GDP growth as well as the relationship between investment portfolios of commercial banks’ contribution to GDP growth using multiple linear regression technique. To test the significance of the individual explanatory variables and coefficients to determine whether there is a linear relationship between the independent and dependent variables, we use the t-test to perform the test. If the calculated t-value (tc) is greater than the critical value of t-alpha (ta) at a scaled 5 percent level of significance, the independent variable is considered to have a linear and positive relationship with the dependent variable, and hence the null hypothesis is rejected.

The adjusted R-squared (R2), known as the coefficient of determination adjusted for the degrees of freedom, n-k-1, is used to ascertain the proportion of variations in economic and growth that are explained by the regression model. Testing for the overall utility of the model, we apply the F-statistic shown in the ANOVA table reported by the Statistical Package for Social Science (SPSS). This involves the comparison of the calculated F-statistic (Fc) with the F-alpha at the n- k-1. If the reported F-statistic is greater than F𝖺, n-k-1, it is therefore confirmed that the model has explanatory power, and that the overall model is significant. That is if Fc>F𝖺, n-k-1. It is assumed that the model is significant. We will also use the Durbin-Watson statistic to test the presence or absence of auto – correlation. If the statistic has within the inclusion region, it is assumed that the model is free from both positive and negative serial correlation.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, EMPIRICAL RESULTS AND DISCUSSIONS

4.1 Data Presentation

The secondary data collated for this study is presented below;

Table 1: Investment Portfolio of Insurance Companies in Nigeria, 1996-2011 (N’ Million) comprising of Government Securities (GSEC), Stocks and Bonds (STBO), Real Estate and Mortgage (REMO), Policy and Other Loans (POLS), Cash at Hand and Deposits (CHDS), Bills of Exchange (BSEX), Total investment of the insurance companies (TOIN) and Gross Domestic Product (GDP) at current basic prices

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **GSEC** | **STBO** | **REMO** | **POLS** | **CHDS** | **BSEX** | **TOIN** | **GDP** |
| 1996 | 1,546.2 | 4,047.8 | 2,523.2 | 795.9 | 3,347.1 | 119.3 | 12,379.5 | 4,032.30 |
| 1997 | 2,012.0 | 4,095.4 | 2,683.5 | 842.1 | 3,815.9 | 164.2 | 13,613.1 | 4,189.25 |
| 1998 | 4,145.9 | 3,633.2 | 212.0 | 2,301.2 | 1,993.2 | 3,371.5 | 15,656.9 | 3,989.45 |
| 1999 | 2,987.2 | 4,174.0 | 332.7 | 4,124.5 | 4,184.2 | 5,780.9 | 21,583.5 | 4,679.21 |
| 2000 | 3,559.0 | 4,992.9 | 282.3 | 5,212.1 | 3,844.4 | 7,302.0 | 25,192.6 | 6,713.57 |
| 2001 | 3,842.7 | 6,786.3 | 359.3 | 6,706.4 | 4,284.6 | 10,178.0 | 32,157.3 | 6,895.20 |
| 2002 | 3,752.1 | 8,350.9 | 960.3 | 7,901.0 | 4,095.4 | 11,881.2 | 36,940.9 | 7,795.76 |
| 2003 | 4,489.2 | 11,490.3 | 14,272.8 | 3,767.0 | 6,722.3 | 13,901.2 | 54,642.8 | 9,913.52 |
| 2004 | 4,169.1 | 20,071.9 | 21,832.2 | 6,769.1 | 5,461.4 | 16,287.1 | 74,590.8 | 11,411.07 |
| 2005 | 4,178.1 | 61,800.8 | 33,788.2 | 5,590.7 | 10,185.4 | 6,301.1 | 121,844.2 | 14,610.88 |
| 2006 | 4,858.1 | 121,813.1 | 45,186.8 | 7,884.7 | 30,314.2 | 6,303.0 | 216,359.9 | 18,564.59 |
| 2007 | 20,914.8 | 222,278.9 | 45,331.9 | 12,945.8 | 22,508.7 | 5,267.8 | 329,247.9 | 20,657.32 |
| 2008 | 21,374.9 | 227,169.1 | 46,329.2 | 13,230.6 | 23,003.9 | 5,383.7 | 336,491.4 | 24,296.33 |
| 2009 | 21,845.2 | 232,166.8 | 47,348.5 | 13,521.7 | 23,510.0 | 5,502.1 | 343,894.2 | 24,794.24 |
| 2010 | 22,325.8 | 237,274.4 | 48,390.1 | 13,819.2 | 24,027.2 | 5,623.2 | 351,459.9 | 54,612.26 |
| 2011 | 22,816.9 | 242,494.5 | 49,454.7 | 14,123.2 | 24,555.8 | 5,746.9 | 359,192.0 | 62,980.40 |

**Sources:** CBN Statistical Bulletin, 2014

Table 2: Investment Portfolio of Commercial Banks in Nigeria, 1996-2011 (N’ Billion) comprising of Ordinary Shares (ORSH), Preference Shares (PRSH), Debentures (DEBS), Subsidiaries (SUBS), Other Investments (OIVS), Total Investments of commercial banks in Nigeria (TOIN) and Gross Domestic Product (GDP) at current basic prices

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **ORSH** | **PRSH** | **DEBS** | **SUBS** | **OIVS** | **TOIN** | **GDP** |
| 1996 | 0.4 | 0.1 | 0.2 | 0.4 | 1.3 | 2.5 | 4,032.30 |
| 1997 | 0.5 | 0.1 | 0.9 | 0.4 | 1.5 | 3.5 | 4,189.25 |
| 1998 | 1.0 | 0.1 | 0.9 | 1.7 | 0.6 | 4.2 | 3,989.45 |
| 1999 | 0.8 | 2.0 | 0.1 | 1.4 | 1.0 | 5.2 | 4,679.21 |
| 2000 | 2.7 | 0.0 | 1.1 | 1.6 | 2.5 | 7.9 | 6,713.57 |
| 2001 | 6.5 | 0.1 | 1.5 | 2.2 | 5.7 | 15.5 | 6,895.20 |
| 2002 | 10.9 | 0.0 | 5.8 | 3.8 | 14.9 | 35.4 | 7,795.76 |
| 2003 | 24.6 | 0.5 | 15.1 | 8.8 | 14.0 | 62.9 | 9,913.52 |
| 2004 | 32.0 | 2.3 | 13.2 | 9.6 | 15.7 | 72.8 | 11,411.07 |
| 2005 | 31.8 | 10.9 | 17.0 | 13.6 | 15.1 | 88.4 | 14,610.88 |
| 2006 | 75.8 | 0.0 | 2.7 | 19.0 | 44.1 | 141.6 | 18,564.59 |
| 2007 | 177.4 | 0.0 | 0.6 | 38.9 | 75.5 | 292.3 | 20,657.32 |
| 2008 | 317.5 | 0.0 | 1.3 | 84.5 | 77.5 | 480.7 | 24,296.33 |
| 2009 | 612.0 | 0.0 | 27.6 | 156.0 | 94.8 | 890.3 | 24,794.24 |
| 2010 | 486.0 | 0.0 | 56.6 | 156.3 | 1,170.3 | 1,869.1 | 54,612.26 |
| 2011 | 355.8 | 0.0 | 74.8 | 226.0 | 1,918.0 | 2,574.7 | 62,980.40 |

**Source**: Central Bank of Nigeria (CBN) Statistical Bulletin, 2014

4.2 Data Analysis

As observed in table 1, GSEC stood at N1,546.2 million in 1996 and rose to N22,816.9 million in 2011 representing 1,376% increase and average annual growth rate of 86% increase within the period under study. Also, STBO stood at N4,047.8 million in 1996 and rose to N242,494.5 million in 2011 representing 5,891% increase with average annual growth rate of 368% increase. Further analysis revealed that REMO rose from N2,523.2 million in 1996 to N49,454.7 million in 2011, which represents 1,860% increase with annual average growth rate of 116%. POLS stood at N795.9 million in 1996 and rose to N14,123.2 million in 2011 representing 1,674% increase with 105% average annual growth rate. CHDS stood at N3,347.1 million in 1996 and rose to N24,555.8 million in 2011 representing 634% increase with annual average growth rate of 40%. BSEX stood at N119.3 million in 1996 and rose to N5,746.9 million in 2011 which represents 4,717% increase with 295 % average annual growth rate within the period under study. Total investment of insurance companies (TOIN) rose from N12,379.5 million in 1996 to N359,192.0 million in 2011 representing 2,802% increase with 175 % average annual growth rate within the period under study. Finally, Gross Domestic Product (GDP) at current basic prices stood at N4,032.30 billion in 1996 and rose to N62,980.40 billion in 2011 representing 1,462% increase with average annual growth rate of 91% increase within the period under study.

Furthermore, in table 2, ORSH stood at N0.4 billion in 1996 and rose to N355.8 billion in 2011 representing 88,850% increase with average annual growth rate of 5,553%. Also, PRSH declined from N0.1 billion in 1996 to zero stage in 2011 as reported by CBN (2014). DEBS rose from N0.2 billion in 1996 to N74.8 billion in 2011representing 37,300% increase. SUBS stood at N

0.4 billion in 1996 and rose to N226.0 billion in 2011 representing 56,400% increase. OIVS rose from N1.3 billion in 1996 to N1,918.0 in 2011 representing 147,438% increase. Finally, total investment of commercial banks (TOIN) stood at N2.5 billion in 1996 and rose to N2,574.7 in 2011 representing 102,888% increase. Comparatively, while there was 2,802% increase in the total investment of insurance companies, it was observed that total investment of commercial banks in Nigeria increased at 102,888%.

Figure 1: *Researchers’ graphical representation of Investment Portfolio of Insurance Companies in Nigeria from 1996-2011 (N’ Million) comprising of Government Securities (GSEC), Stocks and Bonds (STBO), Real Estate and Mortgage (REMO), Policy and Other Loans (POLS), Cash at Hand and Deposits (CHDS), Bills of Exchange (BSEX), Total investment of the insurance companies (TOIN) and Gross Domestic Product (GDP) at current basic prices*

400000

350000

300000

250000

200000

150000

100000

50000

0

Year GSEC STBO REMO POLS CHDS

BSEX

*Figure 2: Researchers’ graphical representation of Investment Portfolio of Commercial Banks in Nigeria from 1996-2011 (N’ Billion) comprising of Ordinary Shares (ORSH), Preference Shares (PRSH), Debentures (DEBS), Subsidiaries (SUBS), Other Investments (OIVS), Total Investments of commercial banks in Nigeria (TOIN) and Gross Domestic Product (GDP) at current basic prices*

4.3 Empirical Results

Hypothesis one

Ho: There is no significant relationship between government securities, stock of bond, real estate and mortgage, policy and other loans, cash at hand and deposits, bills of exchange of insurance companies and economic growth in Nigeria.

The empirical results of hypothesis one are presented below;

Model Summaryb

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin- Watson |
| 1 | .922a | .850 | .750 | 8.8354811E3 | 2.091 |

* 1. Predictors: (Constant), BSEX, REMO, GSEC, POLS, CHDS, STBO
	2. Dependent Variable: GDP

# ANOVAb

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 3.985E9 | 6 | 6.642E8 | 8.508 | .003a |
|  | Residual | 7.026E8 | 9 | 7.807E7 |  |  |
|  | Total | 4.688E9 | 15 |  |  |  |

1. Predictors: (Constant), BSEX, REMO, GSEC, POLS, CHDS, STBO
2. Dependent Variable: GDP

# Coefficientsa

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 (Constant) | 8251.470 | 6547.540 |  | 1.260 | .239 |
| GSEC | -1.502 | .503 | -.691 | -2.986 | .015 |
| STBO | .356 | .186 | 2.109 | 1.910 | .088 |
| REMO | -.173 | .504 | -.212 | -.342 | .740 |
| POLS | -.691 | 2.601 | -.185 | -.266 | .797 |
| CHDS | -.590 | .753 | -.341 | -.783 | .454 |
| BSEX | .908 | 1.221 | .225 | .744 | .476 |

a. Dependent Variable: GDP

***Sources***: Researchers’ computation

The result is summarized as below:

GDP=8251.47-1.502GSEC+0.356STBO-0.173REMO–0.691POLS–0.590CHDS+0.908BSEX

t-statistic= {1.260}{-2.986}{1.910}{-0.342}{-0.266}{0.783}{0.744}

Std. Error = {6547.54} {0.503} {0.186} {0.504} {2.601} {0.753} {1.221}

R2 = 0.850 Adjusted R-squared = 0.750

F-statistic = 8.508

Std. Error of the Estimate = 8.8354811E3

Durbin-Watson = 2.091

Hypothesis Two

Ho: There is no significant relationship between ordinary shares, preference shares, debentures, subsidiaries, other investments of commercial banks and economic growth in Nigeria.

The empirical results of hypothesis two are presented below;

# Model Summaryb

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin- Watson |
| 1 | .983a | .966 | .950 | 3.9685234E3 | .896 |

1. Predictors: (Constant), OIVS, PRSH, ORSH, DEBS, SUBS
2. Dependent Variable: GDP

# ANOVAb

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum ofSquares | Df | Mean Square | F | Sig. |
| 1 | Regression | 4.530E9 | 5 | 9.060E8 | 57.530 | .000a |
|  | Residual | 1.575E8 | 10 | 1.575E7 |  |  |
|  | Total | 4.688E9 | 15 |  |  |  |

1. Predictors: (Constant), OIVS, PRSH, ORSH, DEBS, SUBS
2. Dependent Variable: GDP

# Coefficientsa

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 (Constant) | 7618.724 | 1344.987 |  | 5.665 | .000 |
| ORSH | 70.891 | 24.224 | .797 | 2.927 | .015 |
| PRSH | 844.917 | 466.514 | .131 | 1.811 | .100 |
| DEBS | -196.580 | 182.225 | -.245 | -1.079 | .306 |
| SUBS | -138.079 | 101.201 | -.558 | -1.364 | .202 |
| OIVS | 39.495 | 9.572 | 1.200 | 4.126 | .002 |

a. Dependent Variable: GDP

***Sources***: Researchers’ computation

The result is summarized as below:

GDP= 7618.724+70.891ORSH + 844.917PRSH – 196.58DEBS – 138.079SUBS + 39.495OIVS

t-statistic={5.665} {2.927} {1.811} {-1.079}{-1.364}{4.126}

Std. Error = {1344.987}{24.224} {466.514} {182.225} {101.201} {9.572}

R2 = 0.966

Adjusted R-squared = 0.950

F-statistic = 57.529 Std. Error of the Estimate = 3.9685234E3 Durbin-Watson = 0.896

Discussion of findings

The test of the null hypothesis against the alternate hypothesis is to reject Ho if (tc)> ta/2, n-k-1 where ta/2, n-k-1 is obtained from the t-distribution table. In the first hypothesis, therefore, at a selected 0.05 percent level of significance with n=16, k = 6, such that t 0.05/2, 16-1-6 = t 0.025, 9, we have critical value of 2.26 and a t-statistic (tc) of 1.260 and ta/2, 9 = 2.26, it therefore means that tc = 1.260 < tt = 2.26. Therefore the null hypothesis is accepted that there is no significant but a positive relationship between government securities, stocks and bonds, real estate and mortgage, policy and other loans, cash at hand and deposits, bills of exchange of insurance companies and economic growth in Nigeria from 1996 to 2011. A regression coefficient of 8251.47 implies that there is a positive relationship between government securities, stock of bond, real estate and mortgage, policy and other loans, cash deposits, bills of exchange of insurance companies and economic growth in Nigeria from 1996 to 2011. The coefficient of determination (R2) was 0.850 which implies that about 85% variations in GDP were caused by GSEC, STBO, REMO, POLS, CHDS, and BSEX while the remaining 15% were due to other variables outside the regression model which also affects GDP growth rate in Nigeria.

To determine the significance of the independent variables, we conduct a t-test for the parameter. The test of the null hypothesis against the alternate hypothesis is to reject Ho if (tc)> ta/2, n-k-1 where ta/2, n-k-1 is obtained from the t-distribution table. Therefore, at a selected 0.05 percent level of significance with n=16, k = 6, such that t 0.05/2, 16-1-6 = t 0.025, 9, we have critical value of 2.26. Thus, since GSEC has a t-statistic (tc) of -2.99 and ta/2, 9 = 2.26, it therefore means that tc = -2.99 < tt = 2.26, which means that government securities (GSEC) has a negative influence on GDP growth and behaves insignificantly in explaining the changes in the contribution of insurance companies investment portfolios to the economic growth in Nigeria within the period under study. Stocks and Bonds (STBO) has a t-statistic (tc) of 1.91 and ta/2, 9= 2.26, it therefore means that tc = 1.91 < tt = 2.26, which means that STBO has a positive influence on GDP but behaves insignificantly in explaining the changes in the economic growth in Nigeria. Also, real estate and mortgage (REMO) has a t-statistic (tc) of -0.342 and ta/2, 9 = 2.26, it therefore means that tc = -0.342 < tt = 2.26, which means that REMO has a negative influence on GDP and behaves insignificantly in explaining the changes in the economic growth in Nigeria. Policy and Other Loans (POLS) has a t-statistic (tc) of -0.266 and ta/2, 9 = 2.26, it therefore means that tc = -0.266 < tt = 2.26, which means that POLS has a negative influence on GDP and behaves insignificantly in explaining the changes in the economic growth in Nigeria. Furthermore, Cash at Hand and Deposits (CHDS) has a t-statistic (tc) of 0.783 and ta/2, 9 = 2.26, it therefore means that tc = 0.783 < tt = 2.26, which means that CHDS has a positive influence on GDP but behaves insignificantly in explaining the changes in the economic growth in Nigeria. Also, bills of exchange of insurance companies (BSEX) has a t-statistic (tc) of 0.744 and ta/2, 9 = 2.26, it therefore means that tc = 0.744 < tt = 2.26, which means that BSEX has a positive influence on GDP but behaves insignificantly in explaining the changes in the economic growth in Nigeria.

Considering the F-statistic of 8.508 and relating this to Fa, n-k-1 at 0.05, level of significance from the F-distribution, we have F0.05, 9 = 2.26. Thus, since Fc = 8.508 > F0.05, 9 = 2.26, it infers that the model behaves significantly in explaining changes in the contributions of investment portfolios of insurance companies to economic growth in Nigeria. The F-statistic of 8.508 also confirms that there is a linear relationship between GDP and at least one of the independent variables. The Durbin-Watson statistic of 2.091 also shows that the model does not suffer from auto-correlation error.

In the second hypothesis, therefore, at a selected 0.05 percent level of significance with n=16, k= 5, such that t 0.05/2, 16-1-5 = t 0.025, 10, we have critical value of 2.23 and a t-statistic (tc) of 5.666 and ta/2, 10 = 2.23, it therefore means that tc = 5.666 > tt = 2.23. Therefore the null hypothesis is rejected and the alternative hypothesis accepted which states that there is a significant relationship between ordinary shares, preference shares, debentures, subsidiaries, other investments, total investments of commercial banks and economic growth in Nigeria from 1996 to 2011. A regression coefficient of 7618.724 implies that there is a positive relationship between ordinary shares, preference shares, debentures, subsidiaries, other investments of commercial banks and economic growth in Nigeria from 1996 to 2011. The coefficient of determination (R2) was 0.966 which implies that about 96.6% variations in GDP were caused by ORSH, PRSH, DEBS, SUBS, and OIVS while the remaining 3.4% were due to other variables outside the regression model which also affects GDP growth rate in Nigeria.

To determine the significance of the independent variables, we conduct a t-test for the parameter. The test of the null hypothesis against the alternate hypothesis is to reject Ho if (tc)> ta/2, n-k-1 where ta/2, n-k-1 is obtained from the t-distribution table. Therefore, at a selected 0.05 percent level of significance with n=16, k = 5, such that t 0.05/2, 16-1-5 = t 0.025, 10, we have critical value of 2.23. Thus, since ordinary shares (ORSH) has a t-statistic (tc) of 2.927 and ta/2, 10 = 2.23, it therefore means that tc = 2.927 > tt = 2.23, which means that ordinary shares (ORSH) has a positive influence on GDP growth and behaves significantly in explaining the changes in the contribution of commercial banks’ investment portfolios to the economic growth in Nigeria within the period under study. preference shares (PRSH) has a t-statistic (tc) of 1.811 and ta/2, 10 = 2.23, it therefore means that tc = 1.811 < tt = 2.23, which means that PRSH has a positive influence on GDP but behaves insignificantly in explaining the changes in the economic growth in Nigeria. Also, debentures (DEBS) has a t-statistic (tc) of -1.079 and ta/2, 10 = 2.23, it therefore means that tc = -1.079 < tt = 2.23, which means that DEBS has a negative influence on GDP and behaves insignificantly in explaining the changes in the economic growth in Nigeria. Subsidiaries (SUBS) has a t-statistic (tc) of -1.364 and ta/2, 10 = 2.23, it therefore means that tc= -1.364 < tt = 2.23, which means that SUBS has a negative influence on GDP and behaves insignificantly in explaining the changes in the economic growth in Nigeria. Furthermore, other

investments of commercial banks (OIVS) has a t-statistic (tc) of 4.13 and ta/2, 10 = 2.23, it therefore means that tc = 4.13 > tt = 2.23, which means that OIVS has a positive influence on GDP and behaves significantly in explaining the changes in the economic growth in Nigeria.

Considering the F-statistic of 57.529 and relating this to F𝖺, n-k-1 at 0.05, level of significance from the F-distribution, we have F0.05, 10 = 2.23. Thus, since Fc = 57.529 > F0.05, 10 = 2.23, it infers that the model behaves significantly in explaining changes in the contributions of investment portfolios of commercial banks to the economic growth in Nigeria. The F-statistic of 57.529 also confirms that there is a linear relationship between GDP and at least one of the independent variables. The Durbin-Watson statistic of 0.896 also shows that the model does not suffer from auto-correlation error.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

Considering the findings of this study, it was concluded that there is no significant relationship between government securities, stock of bond, real estate and mortgage, policy and other loans, cash deposits, bills of exchange of insurance companies and economic growth in Nigeria from 1996 to 2011. This implies that investment portfolios of insurance companies do not contribute significantly to economic growth in Nigeria within the period under study. Also, there is a significant relationship between ordinary shares, preference shares, debentures, subsidiaries, other investments, total investments of commercial banks and economic growth in Nigeria from 1996 to 2011. This implies that investment portfolios of commercial banks do contribute significantly to economic growth in Nigeria within the period under study. It was further observed that the total investment growth rate of commercial banks was moving faster than the growth rate of insurance companies’ investments in Nigeria. Based on these, the following recommendations are made;

[1] Insurance companies in Nigeria should increase their investments on government securities, real estate and mortgage, policy and other loans, as well as cash at hand and deposits for more feasible contribution to the economic growth in Nigeria.

[2] Commercial banks in Nigeria should also channel their investment efforts on other subsidiaries and debentures for more realistic contribution to the economic growth in Nigeria.

[3] Investment environment Nigeria makes it difficult for insurers in all sectors (life, non-life, and composite) as well as commercial banks to generate returns on their generally large holdings of securities. This should induce them to increase their risk-taking by engaging in asset allocation or other types of strategies that increase risks for the portfolio.

[4] Increasingly competitive conditions appear to be driving some insurers and commercial banks to rely on investment returns to maintain profitability. There is therefore a need for a close monitoring of investments portfolio as well as the adoption of good portfolio management strategies.

[5] Since the total investment growth rate of insurance companies are not growing at a faster rate compared commercial banks’ investment, there is need to identify profitable investment opportunities by the insurance companies with proper project or investment appraisal techniques in order to diversify their investment portfolios.

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