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Stimulating Business Performance in Nigeria through Insurance

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Abstract: *In the world of business, the availability and provision of adequate cover and protection for insurable risks cannot be wished away, as such, insurance remains the risk transfer mechanism of choice which boost, build, and sustain investor's confidence in any economy. This is because in pursuit of their core business objectives, businesses are confronted with a number of risks which have far reaching implications on their profitability, market share, growth, survival, and sustainability. The paper adopted a descriptive survey research design to investigate the catalytic effect of the insurance market on business performance in Nigeria. A review of extant literature was conducted for secondary data while simple random sampling technique was used to select a sample size of 385 respondents and the research hypotheses were tested with Logit Binary Regression statistical test. The findings revealed that a relationship existed between business performance and insurance market activities. It was thus concluded, that a functional insurance market was key to improved business performance as could be seen in the increased economic activities in Nigeria. Subsequently, the study recommended that the government should encourage the growth of the insurance sector through regulations which are aimed at increasing insurance market penetration in the country.*

Keywords: Business performance, insurance, market penetration, risk control.

INTRODUCTION

The primary objective of business organizations is to make profit, grow and survive in the environment in which it operates. Political, economic, and socio-cultural factors are among the uncontrollable environmental factors which have tremendous effect on business activities and firm performance, others are legal, technological and ecological factors (Ajayi, 2016; Eniola & Entebang, 2015; Eruemegbe, 2015).

These factors are made up of macro components such as government regulation, exchange rate, interest rate, and Gross Domestic product (GDP) among others, which impinge on day to day business activities and subsequently, dictate the direction, pace, and performance of businesses in any economy (Akpansung, 2013; Igbinoba, 2017; Murumba, 2013; Olowofeso, Adeleke, & Udoji, 2015; Udoette, 2015). Hence, business operation and activities are conducted in an environment that is not free of risk (Al-Khattab, Al-Rawad, Al Soboa, & Al-Khattab, 2015). Individuals and businesses are exposed to different types of risks such as fire, theft, accidental damage, airplane crashes, bomb blast, explosion, oil spillage and so on. Obviously, some people are exposed to greater danger or risk than others by virtue of their occupation, physical condition, geographical situation, or any of the countless reasons, but each of us and all we have is subject to "the slings and arrows of outrageous fortune (Banjo 2019 P.1). Risk is defined as "likely events whose harsh consequences are difficult to accept or are even unacceptable (Tsai, Lai, Lloyd, Lin as cited in Ennouri, 2013, p.288).

Risk is associated with all business activities and stands as a formidable threat to the achievement of the objectives of the business (Banjo, 2010). However, investors and professional fund managers cannot afford to shy away from business opportunities as a result of business risks as these risks could be managed through a number of risk management options such as risk avoidance, risk transfer, and risk reduction (Fashagba, 2018; Zhara & Mazreku, 2014). Insurance as a risk transfer mechanism is a risk management tool that helps businesses to reduce and manage their risk exposure through professional risk managers (Akpan & Joseph, 2017).

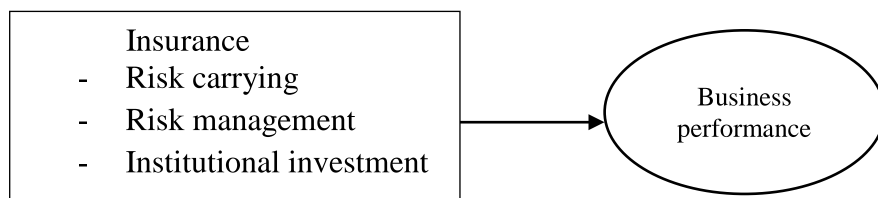
The Nigerian financial sector is made up of banks and non-bank financial institutions which are regulated by a number of agencies of the Nigerian government which include the Central Bank of Nigeria (CBN), the Nigerian Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM), and the Federal Mortgage Bank of Nigeria (FMBN), all supervised by the Federal Ministry of Finance (Onwumere, Onudugo, and Imo (2013). The sub-sectors regulated by each of these government agencies which include the money market, the capital market, the insurance sector, and the mortgage sector carry out complimentary duties for the efficiency of the Nigerian financial system (Dash et al., 2018). But, to the best of the knowledge of the researcher, the attention of researchers in the financial systems have majorly focused on the money market and capital market activities with numerous research attention on Money Deposit Banks (MDB's) operations with little or no attention on the insurance subsector. For instance, the implication of recent banking reforms in Nigeria on sectorial credit allocation and economic growth (Akpansung & Gidigbi, 2014); banking sector reforms and the performance of

Nigerian economy (Ikeora, Igbodika, & Andabai, 2016) and financial intermediation, an econometric analysis using time series data on the developments in the financial sector and economic growth in Nigeria from 1981 to 2017 (Olushola & Uzoma, 2018). This present study attempts to address this gap by having its focus on the insurance sub-sector of the Nigerian financial industry.

Therefore, the objective of the paper is to investigate the stimulating effect of insurance on the improvement of business performance in Nigeria, hence, in this study, the three roles of insurance in an economy which are risk carrying, risk management, and institutional investment shall be considered in line with insurance market penetration in Nigeria. To achieve this objective, the paper is structured into five sections. Following this introduction, the rest of the paper is structured as follows, extant literature is reviewed in the second section, the methodology is presented in the third section, the obtained results and discussions are presented in the fourth section while the conclusion and recommendation are presented in the fifth section.

Literature Review

Conceptual Framework



Source: Authors construct

Figure 1: Conceptual models of Insurance roles and business performance

The survival, growth and productivity of business enterprises are vital for the economic growth, and development of any nation (Azende, 2012). Economic activities are facilitated and strengthened by the availability of a developed and well-functioning financial market which include the capital market, the money market, and the insurance sector (Akpan & Joseph, 2017; Egbulonu & Dim, 2017; Azende, 2012). Insurance is a non-bank mechanism which exists to provide the opportunity and device of transferring risk from the entity likely to suffer loss to professionals and experts who specialize in the management of risk, it offers protection and cover against insurable risks which are present in the business environment (Akpan & Joseph, 2017). Insurance provides a risk transfer mechanism by means of a common pool into which each policyholder pays a fair and equitable premium according to the risk of loss he or she brings to the pool. Insurance also assist commercial transaction via: provision of security which serve as stimulus to commercial and industrial activity, particularly to small businessmen who otherwise would be threatened by a major loss; investment in commerce will often only be made if adequate insurance is arranged; international trade is stimulated, a marine cargo policy is an essential document for discounting a bill of exchange; surveyor's assists in loss prevention and administration; Loss adjusters assess loss and recommend ways of restoring a business to normal; insurers invests in the shares of commercial firms thus broadening their financial base and life assurers grant loans (Banjo, 2019).
Insurance is defined as "the equitable transfer of the risk of a loss, from one entity to another, in exchange for periodic payment" (Azende, 2012). In line with the three major roles of insurance in an economy, which are risk carrying, risk management, and institutional investment as identified by (Egbulonu & Dim, 2017). Safety, liquidity, and growth are the specific objectives that govern insurance investments (Akpan & Joseph, 2017). These three major roles of insurance in an economy are discussed as follows:
Insurance firms engage in risk carrying on behalf of their clients as they absolve the risk involved in operations (Akinlo, 2013). "The core principles of insurance is to understand, manage, and carry risk by pricing and creating a market for risk, it enables it to be pooled, diversified, managed and reduced, thereby protecting society and supporting innovation and economic development" (UNEPFI, 2012 as cited in Egbulonu & Dim, 2017, p.91). Insurance policies depend on the type of risk involved such liability insurance, business property insurance, workers compensation insurance, health insurance, life insurance etc. (Azende, 2012). NAICOM (2013) reported that the inability of the Nigerian manufacturing sector to explore their optimal growth potential was a direct fallout of their negligence to purchase of insurance policy and premium payments, which they blamed on unfriendly operational environment (Egbulonu & Dim, 2017). Only 3 million policy holders are in the Nigerian economy. In a country that houses over 180 million people and the 7 largest in the world terms of population, this figure is very ridiculous as it revealed the level of apathy for insurance among Nigerians (Price Waterhouse Coopers, PWC, 2015). This is because most Nigerians perceive taking up an insurance policy as an added cost (Egbulonu & Dim, 2017).

Risk management is defined as “a coordinated set of activities and methods that is used to direct an organization and to control the many risks that can affect its ability to achieve its objectives” (Ennouri, 2013, p. 291). It is “the protection of assets, earnings, liabilities and people of an enterprise with maximum efficiency and at minimum cost” (Banjo, 2010, p. 19). The reason for risk management is to safeguard assets in the event of losses emanating from economic, financial or operational risk such that the entity is not constrained from accomplishing its mission (Zhara & Mazreku, 2014). Risk management therefore is a process which involves planning, organizing, directing and controlling organizational resources to achieve given objectives when good or bad events are possible (Lopev & Kwanum, 2012). It is also seen as a scientific approach to dealing with pure risks by anticipating possible accidental losses and designing and implementing procedures that minimize the occurrence of loss or the financial impact of the losses that do occur (Yusuf & Dansu, 2013). This is done through the use of insurance as a professional risk management strategy which emanates from a social contract of risk transfer between the firm and the policy buyer (Fashagba, 2018).

To buttress the importance of the insurance sector to economic growth and development, records have it that regarding global institutional investment, the insurance sector ranks among the top three sectors along with pension funds and investment funds. In fact, in most countries the trend indicate that the largest proportion of insurance funds are invested in government bonds and fixed income private bonds (OECD, 2011 as cited in Akpan & Joseph, 2017). According to the Insurance Act 2003, section 25(10) “an insurer shall at all times in respect of the insurance transacted by it in Nigeria, invest and hold investment in Nigerian assets equivalent to not less than the amount of policy holder’s funds in such accounts of the insurer” (Akpan &Joseph, 2017, p.6). Insurance premium performed a dual purpose, first, it serves as a source of funds for investment purposes, and secondly, it serves as a source of insurance industry returns (Sambo, 2016). Through the insurance role of channeling the flow of funds from surplus to deficit agents in the economy, the economy is enhanced for effective and efficient allocation of resources (Momudu, Ezirim, & Abubakar, 2016). But, the continuous changes in government regulations of the insurance sector has continued to hinder the flow of investments in Nigeria, and such low portfolio investment does not facilitate the much needed increase of economic activities in the country (Akpan & Joseph, 2017). Because insurance is a vital source of capital market funds which makes funds available for economic activities (Fashagba, 2018).

The insurance sector catalytic effect on the improvement of enterprise performance in Nigeria

The goal of any investor is to achieve wealth maximization both in the long and short run while reducing cost as much as possible (Akpan & Joseph, 2017). “Insurance plays a very important role in developing a sustainable economy through its products and services. By providing insurance products, and securing the investments of individuals, businesses and the society against the uncertainties of risks, the insurance sector brings about considerable improvement in the standard of living of the society and build the confidence of business executives to take advantage of the opportunities available in the society (Egbulonu & Dim, 2017). “Insurance provides financial assistance and security against the risks to the society with an element of saving and investment” Also emphasizing the role of the insurance sector in the improvement of business operations and the growth of economic activities as observed by (Egbulomu & Dim, 2017, p. 90). Insurance companies’ investment stimulates economic growth in developing countries such as Nigeria, helping to accelerate the process of qualitatively structured economic transformation as stated by (Sambo (2016).

In Nigeria, the reported overall market share of 85% premium for the insurance market has placed the country on the position of the the 5th largest insurance market in the African continent (Africa Insurance Organisation, AIO, 2017 as cited in Egbulonu & Dim, 2017). This indicates growth in insurance market penetration in the country. The Nigerian insurance sector was growing at a very fast rate as stated by (Sambo, 2016). Also, in agreement with the reported increasing insurance market penetration in the country, the reforms in the insurance sub-sector of the Nigerian economy have enhanced the investment capabilities of insurance companies operating in the country (Akpan & Joseph, 2017). By implication, this would increase economic activities in the country and boost business performance.

Empirical Review

It was found that from the period 1996 to 2011, investment portfolios of insurance companies did not contribute significantly to economic growth in Nigeria as indicated in a study conducted (Akpan & Joseph, 2017), hence a drop in business activities. A study on regression and causality analyses of insurance and economic growth nexus in Nigeria (1981 - 2012), using augmented Dickey Fuller test, Phillip Perron test, Johansen Cointegration test, Pairwise Causality test, and Ordinary Least Square Regression Analysis via Microsoft 7.1 econometric software, the study found that insurance sector activity exerted a statistically significant positive relationship with economic growth in Nigeria as conducted by (Rahmon, 2016). In another study on insurance investments, intermediation index, and economic growth: Empirical evidence from Nigeria (Momudu, et al., 2016) in an investigation conducted on both long run and short run effect of insurance operation, the study found that the investment activities of the insurance industry had a positive impact on the insurance inter-relation index and equally on GDP growth of Nigeria. Another study on financial intermediation, an econometric analysis using time series data on the developments in the financial sector and economic growth in Nigeria from 1981 to 2017 (Olushola & Uzoma, 2018), the findings suggested overall that there was a positive and significant relationship between deposit money banks assets, stock market capitalization and economic growth in Nigeria, and as such there was need to improve the Nigerian financial industry by expanding the capital market, enhancing the

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money market through bank consolidation, and improvements in the insurance sector. In another study on the causal relationship between insurance and economic growth in Nigeria from 1986 to 2010, in which Vector Error Correction Model (VECM) was adopted, the result indicated that based on its role of providing long-term investment and absolving risks, insurance contributed to economic growth in Nigeria (Akinlo, 2013). From the foregoing evidence from empirical studies, it could be deduced that the activities of the insurance sector had a positive impact on the Nigerian economy, implying that the increasing insurance market penetration in the country had a positive impact on business performance in the country.

Methodology

The paper adopted a descriptive survey research design to investigate the catalytic effect of the insurance market on business performance in Nigeria. A review of extant literature was conducted for secondary data while simple random sampling technique was used to select a sample size of 385 respondents using the formula for determining the sample size of an unknown population size. The study recorded a response rate of 64.94 per cent which indicated that 250 copies of the research instrument was returned, and used in the analysis of the survey data. While the research hypotheses generated in the study were tested with Logit Binary Regression statistical test.

DATA PRESENTATION AND ANALYSIS

Test of Hypothesis I

$H0_1$: Risk carrying and risk management roles of insurance does not stimulate business growth

Table 1 Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	-54.214[a]	.771	.641

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Source: SPSS 25 Output

Table 2 Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1[a]	Q1	.214	2.140	.954	4	.001	32.111
	Q2	3.241	3.321	2.324	4	.000	3.214
	Q4	.471	1.241	1.211	4	.000	2.354
	Q3	5.541	2.324	5.214	4	.001	5.641
	Q10	1.110	3.311	5.321	4	.021	12.201
	Constant	4.541	5.741	3.352	4	.000	2.251

a. Variable(s) entered on step 1:

Source: SPSS 25 Output

Interpretation for Hypothesis One

The study revealed that Risk carrying and risk management can stimulate business growth up to 77%, while The *Nagelkerke* indicated that Risk carrying and risk management account for about 64% of business growth as shown in Table 1.

Table 2 revealed that there is positive relationship between Risk carrying and risk management and customer satisfaction in the Banks. It means that Risk carrying and risk management is more likely to have more adverse effect on business growth. Consequently, the p-value (0.001, 0.000, 0.000, 0.001, 0.021, and 0.000) is less than the significant level of 0.05. The result in the Table 2 shows that the p-value is less than the level of significance of 0.05. Therefore, Risk carrying and risk management stimulate business growth of banks

Therefore, we rejected the null hypothesis (H_{01}) which stated that the risk carrying and risk management roles of insurance does not stimulate business growth. Hence, the alternative hypothesis (H_1) is accepted which implies that the risk carrying and risk management roles of insurance stimulates business growth.

Test of hypothesis II

$H0_1$: The institutional investment role performed by insurance does not stimulate business growth

Table 3 Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	-44.124[a]	.887	.754

a. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.

Source: SPSS 25 Output

Table 4 Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Q2	4.141	3.212	2.211	4	.000	55.111
	Q10	5.141	3.221	3.321	4	.001	12.214
	Q3	6.251	2.011	6.341	4	.000	1.214
	Q8	5.142	5.141	2.554	4	.000	3.641
	Q1	9.910	2.221	1.241	4	.010	1.240
	Constant	5.141	22.117	5.141	4	.011	2.321

a. Variable(s) entered on step 1

Source: SPSS 25 Output

Interpretation for Hypothesis Two

The study revealed that institutional investment role performed by insurance can explain business growth the up to 88%, while The *Nagelkerke* indicated that institutional investment role performed by insurance account for about 75% of business growth.

Table 3 revealed that there is positive relationship between institutional investment role performed by insurance and business growth in the Banks. It means that Risk carrying and risk management is more likely to have more positive effect on business growth. Consequently, the p-value (0.000, 0.001, 0.000, 0.000, 0.10, and 0.011) is less than the significant level of 0.05. The result in the Table 4 shows that the p-value is less than the level of significance of 0.05. Therefore, institutional investment role performed by insurance have significant effect on business growth. In order words, the institutional investment role performed by insurance has brought about increase in business growth.

Since the p value is lower than 0.05, conclusion is hereby drawn that institutional investment role performed by insurance have a significant effect on business growth.

DISCUSSION OF FINDINGS

The findings indicated that a relationship existed between business performance and insurance activities in Nigeria. This is in agreement with the research findings from other researchers (Akinlo, 2013; Akpan & Joseph, 2017; Momudu, Ezirim, & Abubakar, 2016; Olushola & Uzoma, 2018; Rahmon, 2016).

CONCLUSION AND RECOMMENDATIONS

The findings of the study revealed that a relationship existed between business performance and insurance market activities. It was thus concluded, that a functional insurance market was key to improved business performance as could be seen in the increased economic activities in Nigeria. Subsequently, the following recommendations are made:

1. The government should encourage the growth of the insurance sector through regulations which are aimed at increasing insurance market penetration in the country.
2. An enabling environment should be provided to ensure increasing growth in insurance portfolio investments
3. Given, the importance of insurance to business performance and investment the reforms in the insurance sector should be stability focused and less frequent to encourage long term investments in the country.

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