

Life Assurance Investment and Economic Performance in Nigeria

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Abstract

The study examined the impact of life assurance investment and economic performance of Nigeria, using time series data (1998-2025). The study adopted ex- post facto. Secondary data were used and collected from Central Bank of Nigeria Statistical Bulletin, 2025. Hypotheses were formulated and tested using Ordinary Least Squares (OLS) technique. The study reveals a positive significant impact of life assurance premium on Gross Domestic Product in Nigeria. Life assurance claims settlement has a positive significant impact on Gross Domestic Product in Nigeria. The coefficient of determination indicates that about 56% of the variations in economic growth can be explained by changes in life assurance sector variables (LAP and LACS) in Nigeria. Thus, the study concluded that the life assurance sector has contributed to the growth and development of Nigerian economy as a result of effective and increasing rate of market penetration. The study recommended that government should encourage the insurers to diversify their investment portfolio by providing a conducive environment for the investors. Nigerian insurance companies should be proactive in terms of innovation of insurance products. Quality advertisement should be done to boost the image of the industry. Regulatory agencies and authorities should ensure that they display or perform their best in terms of services so as to improve their confidence and trust level. Government should ensure that the relevant agencies like the police and the Federal Road Safety Corporation should prosecute unlicensed and uninsured motorists. The insurers should try as much as possible to indemnify the insured who suffered loss in order to redeem the image of the sector.

Keywords: *life Assurance, Investment, Economic Performance, Nigeria*

Background to the Study

The need to be safe and protect oneself from danger, threatening property and physical integrity of a person is inherent in human nature; because, the need of safety has brought about the need of life assurance in the society. Life assurance is a social security that provide benefits when certain event s occurs, or certain conditions exists, that may adversely affect the welfare of the households concerned. A life insurer at the event of untimely policyholder's death provides the fast recovery of the family members against crisis in turn of fee which is called premium (Fabazzi, 2023; Pandey & Manoch, 2022). Life assurance is a contract between an insured (insurance policyholder) and an insurer, where the insurer promises to pay a designated beneficiary a sum of money "benefits" in exchange of a premium, upon the death of the insured person. Depending on the contract, other events such as terminal illness or critical illness may also trigger payment.

The policy holders typically pay premium, either regularly or at a lump sum. Apart from providing protection, an insurer can affect the economic growth in the form of financial intermediary (Curak, et al 2022). The rapid growth of life assurance premium not only increase the role of life insurer as risk provider, but also increases its importance as institutional investor (Lee, et al, 2013). The long-term nature of life assurance and the predictable pattern of their cash flows put life assurance companies in a position to a vital role as institutional investor in the capital market. Life assurance is one of the cornerstones to modern day financial service sector. In addition to its traditional role of managing risk , life assurance market activities, both as intermediary and provider of indemnity to the insured and its beneficiary in the case of death, may promote growth by allowing different life assurance risks to be managed more efficiently, promoting long term savings and encouraging the accumulation of capital, serving as a conduct pipe to channel funds from policyholders to investment opportunities ,thereby mobilizing domestic savings into productive investment(Skipper, 2022 & Arena, 2023).

While the increasing importance of life assurance both as provider of financial services and of investment funds on capital markets, is especially pronounced for developed countries, many developing countries like Nigeria still experience low levels of life assurance consumption, which affects the contribution of life assurance business to economic performance (Andabai, 2024).

Statement of the Problem

The effective and efficient running of life assurance is a catalyst for economic growth in any modern economy. Life assurance business started thousands of years back, it seem as if it is at the preliminary stage compared to banking industry in Nigeria. It appears that organizations and individuals failed to patronize life assurance product and see it as a product that is futile. Some of the organizations and individuals in Nigeria are still ignorant and unaware of the existence and roles of the different life assurance policies made available to enhance economic security. Olugbeji (2008), states that the lowest in the world. Most Nigerians seem not to have proper understanding of the immense benefits that life assurance offer, and some refuse to patronize life assurance business due to non- payments (settlement) or low claim payment by insurance companies and ignorance (Achugbu, 2025). Therefore this problems has raised doubts and criticisms on the performance of life assurance on the economic growth of Nigeria. Hence, these problems create a knowledge gap in this study; and, it is against this background that the study investigates empirically the impact of life assurance investment on economic performance in Nigeria.

Research Questions: How does life assurance premium impact on Gross Domestic Product in Nigeria? what is the impact of life assurance claims settlement on Gross Domestic Product in Nigeria?

Research Hypotheses: There is no significant impact of life assurance premium on Gross Domestic Product in Nigeria. There is no significant impact of life assurance claim settlement on Gross Domestic Product in Nigeria

Conceptual Review

The Nature of Life Assurance

A life assurance policy provides cash payment when a person dies. The payment is known as the

death benefit. Many people buy life assurance to protect the people who are dependent on them. Others buy life assurance as a way to leave a cash gift to their spouse, children, grandchildren and charities at their death. The policy is written on the life of a person, known as the insured. The owner makes payment, known as the premium, to the insurance company of the policy. In return, the Insurance Company agrees to pay the death benefit to the beneficiary if the insured dies with the stated terms.

Types of Life Assurance

According Chike (2024) we have three major types of Life Assurance which are such as whole life assurance. This policy pays death benefits no matter when the insured dies. The premium paid in this policy is pretty high and the full premium must be paid each year. Whole Life Assurance has cash value, the difference between the premium and the actual cost of the insurance is put in different accounts; known as the cash value account. The cash value among may be used to help the insured pay the “fixed” premium payments in the last years. The policyholder may borrow against the cash value or receive the cash value when the policy is cancelled. There may be changes associated with borrowing against the cash value or cancelling the policy before the death of the insured. The insurance company interest of the money if borrowed and fee to close out the account if the policy is canceled. At death the beneficiary only receives the death benefit, not the death benefit and the cash value. The second term assurance: Term Assurance is the most basic type of Life Assurance. The policy is written for the term of the policy; usually from one to thirty years. If the insured dies with the stated term, the insurance company pays the death benefit to the beneficiary. When the term ends, the insurance ends. The premiums of term insurance are usually the lowest among the different types of life insurance but will increase with the age of the insured (Unachukwu & Alabi, 2025). There is no cash value in a term life policy. This means that there is no money for loans or to pay for the insurance if you cannot pay premiums. Term insurance is suggested to those who only need the death benefit for a certain period of time. Endowment Assurance: Is a savings linked insurance policy with a specific maturity date. Should an unfortunate event by way of death to the insured during the period, the sum assured will be paid to the insured beneficiaries. On the survival of the assured, during the period or term, the maturity proceeds on the policy becomes payable to the assured.

Fundamental Principles of Life Assurance

Utmost Good Faith: The life assurance contracts require both assurer and the assured to observe the doctrine of utmost good faith (*uberrima fide*) in their dealings. The principle of utmost good faith requires mutual trust and confidence between the insurer and the insured. Each is therefore obliged to disclose to the other all material information that will influence the decision of the other to enter into the contract whether the information is asked or not. Deceit of whatever nature cannot be tolerated; honesty is the watchword. There should be no concealment of vital information by either party to the contract. Indeed, failure on the part of one party to disclose vital information entitles the aggrieved party to repudiate the contract. It is obvious that both the insured and the insurer are duty bound to disclose vital information to each other. But from the nature of the subject matter of insurance, the duty of disclosure seems to weigh heavily on the side of the insured.

Be the subject matter the insured's own life, his property, or financial rights or interests, he is in a better position to know much about these or ought to know more than any other person. In that wise the insured knows all and the insurer knows little or nothing and as such the insured is

bound to disclose material information relating to the circumstances of his case without any concealment. Although a breach of utmost good faith is not very likely on the part of the insurers, they are required. Not to withhold information in their private possession to the detriment of the insured. Not to accept an insurance which they are aware is unenforceable at law, or which they are not registered to transact; To make no untrue statements during negotiations with the prospective insured.

Principle of Insurance Interest

For a valid contract of insurance to subsist, the insured must have an interest recognizable at law in relation to the subject matter of insurance. He is meant to benefit from its continued safety or deprivation from its loss. Indeed, insurable interest may be defined as “the legal right to insure” The most outstanding definition of insurable interest was given by Lawrence J., in *Lucena V. Crauford* (1806) as follows; “A man is interested in a thing to whom advantage may arise prejudice happen from the circumstances which may attend it and whom it imported that is condition as to safety or other quality should continue... where a man is so circumstanced with respect to matters exposed to certain risks or dangers, he may be said to be interested in the safety of the thing. To be interested in the prevention of a thing is to be so circumstanced with respect to it as to have benefit from its existence or prejudice from its destruction. In fact, insurable interest is linked to the subject matter of insurance which may consist of material goods, a human person, liability or financial rights. Insurance without insurable interest would be a mere wager, and as such unenforceable at law. Insurable interest is a fundamental principle of life assurance that applies fully to all classes of insurance.

Theoretical Review

This study is anchored on the financial intermediation theory by Gurley and Shaw (1967). The theory explains the role of insurance business in an economy. According to the theory, the business of financial intermediation in any modern economy is to provide a mechanism to draw financial flows from financially exceeding agents to those having a financial need in the economy. A survey of literature about the theories of credit assessment suggests that theories are commonly grouped according to the nature of subject relations between the borrower and lender as portfolio theory, credit market theory and information theory (Chinewe, 2024).

Since the 1980s, companies have successfully applied modern portfolio theory to market risk. Many companies are now using value at risk models to manage their interest rate and market risk exposures. Unfortunately, however, even though credit risk remains the largest risk facing most companies, the practice of applying modern portfolio theory to credit risk has lagged (Margrabe, 2007). Companies recognize how credit concentrations can adversely affect financial performance. As a result, a number of institutions are actively pursuing quantitative approaches to credit risk measurement. This industry is also making significant progress toward developing tools that measure risk in a portfolio context. They are also using credit derivatives to transfer risk efficiently while preserving customer relationships. Portfolio quality ratios and productivity indicators have been adapted (Kairu, 2024). The combination of these developments has vastly accelerated progress in managing credit risk in a portfolio context.

Traditionally, organizations have taken an asset-by-asset approach to credit risk management. While each company’s method varies, in general this approach involves periodically evaluating the quality of credit exposures, applying a credit risk rating, and aggregating the results of this analysis to identify a portfolio’s expected losses (Undubere, 2026). The foundation of the asset-

by-asset approach is a sound credit review and internal risk rating system. This system enables management to identify changes in individual credits, or portfolio trends in a timely manner. Based on the changes identified, credit identification, risk rating system management can make necessary modifications to portfolio strategies or increase the supervision of credits in a timely manner.

Empirical Review

Haiss and Sumegi (2023) investigate both the impact of insurance investment and premiums of Gross Domestic Product growth in Europe and conducted a cross-country panel data analysis from 1992-2022 for 31 European countries. They found a positive impact of life insurance on Gross Domestic Product growth in EU countries, among which were Switzerland, Norway and Iceland. For the New member states from central and Eastern Europe, they found a larger impact of liability insurance. Furthermore, their findings emphasized that impact of the real interest rate and level of economic development on the insurance – growth nexus. They argued that insurance sector needed to be paid attention to financial sector analysis and macroeconomics policy.

Kjell (2023) investigates on the relationship of insurance and economic growth, a theoretical and empirical analysis. They applied cross country panel data from 29 European countries over the 1992 to 2018 period. They observed a weak evidence for a growth-supporting role of life insurance and explain this, with similarities to recent bank and stock sector findings.

Haiss and Sumegi (2025) adopt a cross-country panel data analysis from 29 European countries in the period 1992-2024 to study the relationship between insurance companies and economic growth in Europe. Ordinary least square (OLS) estimate and time-fixed effects were used in data analysis. They observed that there is positive impact of life insurance on Gross Domestic Product growth in the 15 European countries, while non-life insurance has a larger impact on central and Eastern Europe.

Wadlamanti (2025) examines the effect of insurance growth and reform along with other relevant control variables on economic development in India in the period from 1980 to 2006. Growth of insurance penetration (life, non-life and total insurance) using ordinary least square (OLS), co-integration analysis and error correction models (ECM), the study finds that reforms in insurance sector do not affect economic activities; but their growth has positive economic growth. Marijuana, Sandra and Lime (2009) empirically examined the relationship insurance development and economic growth in 10 European Union member countries in the period from 1992 to 2007. Their findings show that, insurance sector development positively and significantly affects economic growth. The results are confirmed in the terms of life and non-life insurance, as well as total insurance.

Areana (2022) uses dynamic models of panel, for 55 countries and for the insurance market activity and economic growth. He uses data for non-life and life assurance premiums in order to assess potentially different-effects on economic growth, measured by growth in real Gross Domestic Product per capital. As additional explanatory variables, he used private credit, stock market turnover, initial Gross Domestic Product per capital, openness government consumption, inflation, human capital, and terms of trade changes data. He found support for causal effect of insurance to economic growth. While life assurance premiums position effect on economic growth is driven by all countries, although a larger effect is found in high income countries.

Webb, et al (2022) examine whether banks, life and non-life insurers individually and collectively contribute to economic growth by facilitating the efficient allocation of capital using revised Solow model of economic growth. They use cross-country data for developed and

developing countries, excluding ex-communist European economies, for the period of 1994-2019. In addition to average penetration of life and non-life insurance, as explanatory variables for Gross Domestic Product per capital growth, they use average growth rate of capital stock per capital. Average penetration of banking activity, average level of experts as a share Gross Domestic Product, natural log of initial real Gross Domestic Product per capital and data on proportion of the population over 25 who have completed primary school. They found that the exogenous components of banking and assurance penetration are robustly predictive of increased productivity. Synergy between banks and insurers collectively provide greater benefits than it would be by summing their individual contributions. Additionally, they found that there is no link between economic growth and non-life insurance.

Methodology

Baridam (2002) states that research design is a framework or plan that is used as a guide in collecting and analyzing the data for a study. A research design is the specification of methods and procedures and acquiring the information needed to structure or solve the problem (Ibenta, 2012). This research work involves an ex-post facto analytical research design. It is an Ex-post facto research because the research makes use of existing data rather than new data gathered specifically for this study.

Model Specification

Model specification involves the determination of the dependent and explanatory variables based on specified theoretical sign and size of the parameters. The model is adopted from the work of Chinedu and Okoye (2024) and stated as:

$$(GDP)_t = f(LAP, LACS)_t \quad (i).$$

Therefore, the equation form is written as:

$$(GDP)_t = \delta_0 + \delta_1 LAP_t + \delta_2 LACS_t + u_t \quad (ii)$$

Where:

GDP = Gross Domestic Product

LAP = Life Assurance Premium

LACS = Life Assurance Claims Settlement

$\delta_0, \delta_1, \delta_2$ = Regression parameters

δ_0 = intercept and δ_1 and δ_2 are the coefficients of the regression equation. μ is the stochastic or error term, while Ln is the natural log of the variables. Log transformation is necessary to reduce the problem of heteroskedasticity because it compresses the scale in which the variables are measured, thereby reducing a tenfold difference between two values to a twofold difference (Gujarati, 2003).

Data Presentation and Discussion

The study used annual data, because quarterly data may not be accessed for some of the variables. Gross Domestic Product was employed as the dependent variable to measure the economic performance; whereas, Life assurance clam's settlement and Life assurance premium employed as the independent variables to measure Life Assurance Investment.

Descriptive Statistics

Table 1: Descriptive Statistics

	GDP	LAP	LACS
Mean	38494.46	32547.56	25364.87
Median	31036.35	25354.24	35274.70
Maximum	45367.40	52746.82	46261.36
Minimum	21900.46	34251.47	31262.32
Std. Dev.	6.001302	148.6905	5.447589
Skewness	0.215372	3.111248	1.067069
Kurtosis	3.025392	14.19450	5.256220
Jarque-Bera	0.004754	218.0471	12.86010
Probability	0.723154	0.000000	0.0762 12
Sum	162.3100	3173.310	503.4000
Sum Sq. Dev.	1523.357	5376174.4	747.1324
Observations	28	28	28

Source: Author's computation with the use of E-view 10.1

The descriptive statistics on table 1 shows that Gross Domestic Product for the period under study had a mean value of ₦35,234, cash deposit had ₦25,364, Life assurance clam's settlement had ₦32,547. The Jarque-Bera statistic indicates that two of the variables: Gross Domestic Product and Life assurance clam's settlement were normally distributed while Life assurance premium highly skewed. Furthermore, Gross Domestic Product has a mean of ₦3,234 this implies that for the period under review the Life assurance claims settlement was very low.

Unit Root Test

The stationary test of the variables was done using the Augmented Dicker Fuller (ADF) Unit Root Test. The result on table 2 shows that all the variables are integrated at first difference i.e. $I(1)$ at the 5% or 1% level of significance.

Table 2: Unit Root Tests Analysis

Variables	ADF test Statistics	Mackinnon critical @ 5%	No of the time difference	Remark
GDP	4.0586974	-2.749673	$I(1)$	Stationary
LAP	-3.8574384	-4.849647	$I(1)$	Stationary
LACS	-4.7497394	-4.058474	$I(1)$	Stationary

Notes: (1)1% level of significance, 5% level of significance, 10% level of significance. The tests accepted at 5% level of significance. **Source:** Researcher's Estimation using- E-views 10.1.

Test for Co-Integration

Thus, having found that all the variables are stationary at first difference, the next step is to perform Johansen co-integration procedure to ascertain whether Gross Domestic Product (GDP), Life assurance clam's settlement (LACS) and Life assurance premium (LAP) are co-integrated in the same order. The results of the test are presented on table 3.

Table 3: Multivariate Johansen's Co-Integration Test Result.

Null hypotheses	Alternative hypotheses	Eigen value	Likelihood ratio	Critical vale 5%	Critical value 1%	Hypothesized No. of CE(s)
$r=0$	$r=1$	0.6473657	54.40495	64.84	48.02	None **
$rd \leq 1$	$r=2$	0.5429867	48.04565	54.46	38.35	At most 1
$rd \leq 2$	$r=3$	0.4807586	46.75843	48.37	26.63	At most 2

Source: E-views Econometrics 10.1. Note* (**) denotes rejection of hypothesis at 5% (1%) significance level.

Data Analysis

Data for this study consist of 28 years annual observation period of (1998-2025) and were collected from National Insurance Commission. The data covers a period of twenty-eight 28 years, from 1998-2025. Thus, bivariate linear regression model is used to test the null hypotheses proposed for the study

Table 4: Ordinary Least Square (OLS) Estimation Results

Dependent Variable: GDP

Method: Least Squares

Date: 12/10/2026. Time: 04:34

Sample Period: 1998-2025

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.876092	5.717256	0.654895	0.006874
LAP	7.265406	0.036272	0.546731	0.001136
LACS	6.475365	5.76E-03	1.027805	0.002759
R-squared	0.561205	Mean dependent var		786.9540
Adjusted R-squared	0.522404	S.D. dependent var		67.33896
S.E. of regression	35.54678	Akaike info criterion		132.1765
Sum squared resid	456.7650	Schwarz criterion		2324.682
Log likelihood	-17.5468	F-statistic		9.635537
Durbin-Watson stat	1.867249	Prob(F-statistic)		0.000000

Source: Author's computation with the use of E-view 10.1

From table 4 the coefficient of determination ($R^2=0.561205$) indicates that about 56% of the variations in economic performance can be explained by changes in life assurance investment variables (LAP and LACS) in Nigeria. This implies that a significant portion of economic performance is explained by life assurance investment variables. The F-Statistics of (9.635537) which is significant at 5% confirms the contribution of life assurance investment and economic performance in Nigeria over a period of 1998-20125. The influence of the explanatory variables on the dependent variable is statistically significant and this is also confirmed by the F-probability which is statistically zero. Finally, the value of Durbin-Watson indicates the absence of autocorrelation.

Test of Hypotheses

H₀₁: There is no significant impact of life assurance premium on Gross Domestic Product in Nigeria. Decision Criteria

Level of significance (α): 0.05 (5%)

Decision Rule, Reject H_0 : If p- value < 0.05 and accept H_0 if p- value > 0.05

The results on Table 4 show that life assurance premium has a t-statistic of 0.546731 with a probability of 0.001136 which is lower than the level of significance of 0.05, which means, its impact is statistically significant. The null hypothesis is, therefore, rejected. Thus, life assurance premium has a positive significant impact on Gross Domestic Product in Nigeria.

H₀₂: Life assurance claims settlement has no significant impact on Gross Domestic Product in Nigeria. Decision Rule, Reject H₀: If p- value < 0.05 and accept H₀ if p- value > 0.05

The results on Table 4 shows that Life assurance claim's settlement has a t-statistic of 1.027805 with a probability 0.002759 which is lower than the level of significance of 0.05, which means, hence, its impact is statistically significant. The null hypothesis is, therefore, rejected. Thus, there is a positive significant impact of life assurance claim's settlement on Gross Domestic Product in Nigeria

Conclusion and Recommendations

Thus, the study concluded that the life assurance sector has contributed to the growth and development of Nigerian economy as a result of increasing rate of market penetration. Insurance sector is very vital to the nation's risk management system by granting financial security to the public. Insurance sector has a direct relationship with economic growth. This is based on the fact that insurance companies, together with mutual and pension fund are one of the biggest investors. The results supported both theoretical and empirical evidence that insurance has contributed much to the growth of Nigeria economy both as risk managers; institutional investors and s a viable financial sub sector of Nigeria economy (Uduak, 2026). However, insurance sector appears to be an underdeveloped part of the Nigerian financial sector with very low assets which is reflected in the level of activities. In terms of penetration, the insurance sector is growing but at a low rate. Hence, the study recommended that: Government should encourage the insurers to diversify their investment portfolio by providing a conducive environment for the investors. Nigerian insurance companies should be proactive in terms of innovation of insurance products. Quality advertisement should be done to boost the image of the industry. NAICOM and other regulatory agencies and authorities should ensure that they display or perform their best in terms of services so as to improve their confidence and trust level. Government should ensure that the relevant agencies like the police and the Federal Road Safety Corporation should prosecute unlicensed and uninsured motorists. Further recapitalisation and industry consolidation should be done prior to year 2026 to enable the industry venture into the oil and gas sector, aviation sector and other untapped sectors of the economy (including the Local Content Policy).

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Appendix 1: Life Assurance Sector and Economic Growth in Nigeria (1998-2025)

YEAR	Gross Domestic Product (N-Billion)	Life Assurance Premiums (N-Billion)	Life Assurance Claims Settlement (N-Billion)
1998	4,805.16	289.09	33.55
1999	5,482.35	122.2	41.35
2000	7,062.75	144.7	58.12
2001	8,234.49	217.4	127.12
2002	11,501.45	350.0	143.42
2003	13,556.97	529.0	180.00
2004	18,124.06	940.3	238.60
2005	23,121.88	1,275.8	316.21
2006	30,375.18	1,445.1	351.96
2007	34,675.94	1,600.6	431.17
2008	39,954.21	1,704.8	530.37
2009	43,461.46	1,801.5	764.96
2000	55,469.35	2,410.1	930.49
2001	63,713.36	2,847.1	1,096.54
2002	72,599.63	3,231.4	1,421.66
2003	81,009.96	3,903.8	1,838.39
2004	90,136.98	4,753.0	2,290.62
2005	95,177.74	5,940.2	3,668.66
2006	102,575.42	6,757.9	6,920.50
2007	114,899.25	7,981.4	9,110.86
2008	129,086.91	9,186.3	10,157.02
2009	145,639.14	10,310.7	10,660.07
2010	154,252.32	11,593.4	14,649.28
2011	176,075.50	13,413.8	15,778.31
2022	20,236,503.00	14,709.1	17,128.98
2023	23,214,649.23	14,649.11	14,723.55
2024	24,215,638.31	17,778.88	25,7643.33
2025	26,717,423.44	19,128.55	37,128.22

Source: Central Bank Nigeria Statistical Bulletin, 2025