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Impact of Life Assurance Business on the Growth of Nigeria Economy

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ABSTRACT

This research work examined the impact of life assurance business on the growth of Nigeria economy. The study focused on the selected insurance companies in Enugu metropolis. Descriptive research deign was used to carry out this study. A sample size of 100 was derived from a total population of 150 staff using Taro Yamane sampling formula. Data analyzed in this study were gotten from a well-structured questionnaire. And z-test statistical model was utilized in testing then research hypothesis.Based on data analyzed, it was discussed the life assurance business has a positive impact on the individuals and the growth of Nigeria economy. Based on the analysis the following recommendations were made: that there is need for insurancepractitioners to periodically develop new products to meet the insurance needs of Nigeria awareness campaign should be carried out about the benefits of life assurance, genuine claims should be properly settled, competent workers should be employed among other issues,

keywords: life assurance, insurance Business, insurance practitioner and benefits of life assurance

INTRODUCTION

According to Nwite (2007), the development of life assurance business can be traced as far back as 1583. It was in this year that we have the first evidences of life assurance contract know today. A policy was taken on 18th June 1583 on the life of WILLIAM GIBONS for a sum of $38 2 the contract was for twelve months and the Money was to be paid if g Gibons died within the twelve months. He did infact died on 8th May 1584. After a slight dispute over whether twelve moths meant twelve calendar months, the money was paid.

The short-term form of policy taken by William Gibson was the type of life assurance policy issued in those early days. The provision of life assurance continued almost unaltered for the next century with the short-term policy mentioned above, a form of mutual association similar I design to the ancient burial societies where members contribute to a common fund out of which payments were made on the death of members (Nwite, 2007)

Olufawo (2005) states that, “today, we have thousands of life assurance polices issued in Nigerian in form of whole life assurance endowment assurance, term assurance and joint life assurance.” interestingly in advanced

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countries, life assurance business has become the greatest area of investment because it even encourages savings.

According to Popoola (2011), life assurance is a contract between an insured and an insurer, Where the insurer promises to pay a designated beneficially a sum of money (the benefit) 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 holder typically pays a premium either regularly or as a lump. Sum other expenses (such as funeral expenses) are also sometime included in the benefits.

The primary objective or aim of life assurance is to provide assurance guarantee (financial protection) against the happening of an insured event which could either be death of the life assured or the expiring of specified period. Life assurance in the first instance existed to pay the sum insured in the event of policy holder's death. This is the basic theory of life assurance, but the investment aspect of it has tended to overshadow the primary purposes of protection against premature death (Nwite, 2007). In Nigeria, pension business was handled for many years by insurers until a group sold the idea of a contributory pension scheme to the former scheme) were pensioners could not got their pensions (benefits) after queuing for day led to the collapse of the old scheme (Nwite, 2007).

The repeal of the old pension Act of 1979 and consequent amendment of the Nigeria social assurance Trust Fund Act of 1993 brought in the new pension Reform Act, 2004. Today, the pension fund has grown tremendously and is in excess of N1.6 Trillion, about 10 times the premium of N164.5 Billion recorded in the assurance sector in 2008 (Fola, 2012). In the present dispensation, the sector stands the chance to get boosts from some of the statutory polices set for enforcement. They are employers and annuity opened for voluntary patronage by pensioners. The Workmen's compensation Decree of 1987provided cover for permanent or partial disability, accident, sickness and death of workers arising in the course of their employment. Section 40 of the Act compelled majority factory owners to have this policy for all their employees, regarded as workmen.

Section 9 (3) of the Act states that, "employers shall maintain life assurance policy in favour of the employee for a minimum of three times annual total employment of the employee, under the group life scheme.

Section 4 of the pension Act 2004 provides that on attaining the age of 50 years or at retirement age, which is stipulated by the employees' organizations, a pensioner's RSA shall not be withdrawn but shall be utilized either as programme withdrawal or as annuity.

The Act delegates the duty of providing the annuity services to the life insurers, but their share of the fund depends on their ability to win the confidence of retires (Aneke, 2006).

According to Ademeso (2013), life assurance business is still developing in Nigeria. What the operators had done in the past was to sell the same traditional products until recently when new products started becoming viable. He noted that though life business is still low in the country, it is not worth comparing the Nigerian economy with others due to certain factor. Some of the foreign economics with developed assurance sector, he says include pension accounts as parts of their industries' (insurance industries) gross figure, which is not the same in Nigerian. He points out that, "Pension contribution in Nigeria as at report in 2012 was about N1.6 Billion; so, imagine that if this is part of the figure we record in insurance, we will not be talking about the kind of low figure that we constantly talk about in life business".

According to 2008 statistic world's life premium stood at $2.5trillion from a total of $437trillion, which African's record revealed a life premium of $37.9billion from a total premium of $54.7billion. In Nigeria, the life arm raked in 40.19billion out of a total premium of $1.24 billion in 2012. In developed economics that have strong insurance industries, the life arm usually derived the sector by contributing the biggest premium amount. For instance, South Africa, the largest insurance market in Africa has population of 40million people and contributed, 78.13 percent of the continent's premium (Popoola, 2011). According to Popooal (2011), Nigeria has continued to record the lowest penetration level in Africa's life insurance market, in spite of its huge population. Nigeria is the biggest life insurance market on the continent. He stated that, if the country's life assurance business is well positioned, it can attain a leadership position on the continent. This research, therefore, is geared towards investigating the impact of life assurance business on the growth of Nigerian economy.

Statement of the problem

Life assurance business has not been popular in Nigeria for years now, despite the introduction of contributory pension scheme in 2004 and the National Health assurance Scheme (NHIS) which are supposed to favour the growth of life assurance business in Nigeria. Nigerian insurance companies have not fully utilized the introduction of contributory pension scheme to market annuity products in Nigeria, due to poor marketing strategies adopted by most Nigerian assurance companies. Life assurance business has suffered set back with its insignificant contribution to the industry's premium (Ademeso, 2013). He stare that, "Nigeria's life assurance business contributes just about 16 percent of the industry total premium. According to Odo (2005), marketing seems easy to describe but extremely difficult to practice. Developed and implementing efficient and effective marketing strategies that incorporate relevant dimensions of the marketing concept which involves the organic tasks of selecting a target market has remained a mirage in Nigeria life assurance marketing. Nigeria has continued to record the lowest penetration level in African's life assurance market, in spite of its huge population that is capable of driving the biggest assurance market on the continent. The life arm of Nigeria's insurance business contributes just about 16 percent of the industries total premium while, the life arm f South African's assurance market alone generates about 70 percent of the industry's total premium income which has estimated to account for 17 percent of South Africa's Gross Domestic product (GDP).

Therefore, it is against these backdrops that this research wants to investigate the impact of life assurance business on the growth of Nigerian economy; a study of selected insurance companies as case studies.

Objective of the study

The broad objective of this research is to assess the impact of life assurance business on Nigeria economy. While the specific objectives of the study include. To provide insight into the possible reasons for low penetration of life insurance business in Nigeria.

- To identify major factors affecting the growth of life assurance business in Nigeria.
- To determine the significance of life assurance business in Nigerian economy.
- To find various strategies and techniques to be used for effective marketing of life assurance business in Nigeria.

Research Question

This research work will evaluate the following research questions.

- What are the factors affecting the growth of life assurance business in growth of Nigeria?
- What are the factors affecting the growth of life assurance business in Nigeria?
- What are the significance of life assurance business to economic growth of Nigeria?
- What are the various strategies and techniques to be used for effective marketing of life assurance business in Nigeria?.

Research Hypotheses

H0: There are no significant reasons for the low penetration of life assurance business in Nigeria.
Hi: There are significant reasons for the low penetration of life assurance business in Nigeria.
H0: There are factors significantly affecting the growth of life assurance business in Nigeria.
Hi: There are factors significantly affecting the growth of life assurance business in Nigeria.
H0: Life assurance business will not significantly contributed to the economic growth of Nigeria.
Hi: Life assurance business will not significantly contribute to the economic growth of Nigeria.
H0: There are no strategies and techniques to be used for the effective marketing of life assurance business in Nigeria.
Hi: There are strategies and techniques to be used for the effective marketing of life assurance business in Nigeria.

Significance of the study

This research work will be of great benefits to the following set of people.

1. The study will help the policy makers and regulators to have insight into the possible reasons for low penetration of life assurance business in Nigeria. The study will also assist them to identify major factor affecting the growth of life assurance business in Nigeria.
2. The study will immensely assist the regulators of the industry to fine-tune their policy frameworks to fast-track the growth of life assurance business in Nigeria.
3. The study will help the marketers understand the best techniques and strategies to market life assurance business in Nigeria.
4. This study will also assist the policy holders to appreciate the benefits of life assurance business to individuals and the economic growth of Nigeria.
5. The result of this study will be beneficial to future academic researchers who would want to further

investigate the impact of life assurance business on the growth of Nigerian economy and other related research topics.

REVIEW OF RELATED LITERATURE

Empirical Review

Chien-Chiang, Chi-Chuan and Yi-bin (2012) used seemingly unrelated Regressions Augmented Dickey-Fuller (SURADF) Test to investigate the link between life assurance and economic growth. They examine the stationary properties of real life assurance premiums per capital of 41 countries within three levels of income covering 1979-2009. The result shows that a 1% increase in the real life premium raises real GDP by 0.06%. They determine that development of life assurance markets and economic growth exhibit long-run and short-run directional causalities. They concluded that increase in life assurance business has a direct relationship to economic growth of the countries studied and vice versa.

Wadlaman (2009) empirically examined the relationship between life assurance business development and economic growth in 10 transition European Union member countries in the period 2001 to 2010. The result shows that effective marketing increases the growth of the econ0omy of any given country and it wills also boast the GDP per capital.

1. The effect of life insurance and an increase in life insurance premium tax-rate on economic savings and consumption.
2. The causality feedback between life insurance growth and economic growth. The result suggests that growth in the life insurances industry causes an increase in economic growth. The study further suggests that growth in the life insurance business has contributed to productivity growth and economic growth. The conditional directional feedback from life assurance growth to economic growth suggests that life assurance growth explains approximately 14% of the variance in economy growth. he discovered that a unit shock in the Insurance premium tax-rate has a positive impact on economic growth but a negative impact of life assurance growth in the short-run.

Fuster (1999) empirically analyzed the effect of growth in insurance on the growth of capital and output based on cross-country data of 20. European counties for the period of 2004 to 2008. The insurance variable was measured by aggregate. Insurance penetration of life assurance products. At the first stage of Ordinary Least Square (OLS) estimation; exogenous financial variable indicate positive effect on the marketing of life product. The result showed that the higher the sales of insurance products, the higher the rate of economic growth.

Benabou, and Roland (2002) analyzed life assurance consumption per capita for 45 countries for the year 1999 to 2001. They used multiple regression models to analyze the effect of life assurance business on economic growth. Using cross-sectional data on various economic variables such as income, social security expenses, inflation rate, dependence rate and interest rate. Their result showed that growth in life assurance business is positively correlated to economic growth.

THEORETICAL FRAMEWORK

This study will be anchored on two theoretical frameworks; Yaari's theoretical models of 1965 and economic growth theory.

Yarrri (1965) Theoretical model was based on mortality and uncertainty of lifetime. According to Yaari, survival uncertainty can simply be incorporated using mortality table. Yaari's model has undoubtedly become the most applied theory in life insurance theoretical framework of studies because it focuses on mortality and model to explain the demand for life insurance. The assumption of the theory was manly connected to the 1941 ordinary mortality table.

Economic growth theory was developed in 1950s' in USA which was based on Keynesian premises. In the Keynesian approach to the analysis of economic growth, demand does not automatically equal investment, demand especially demand for capital investment plays a key role in economic growth.

The assumption of the theory, according to Keynesian model of economic growth states that; "the rate of accumulation is the main strategic factor and the Basic parameter of long-range economic growth. Such growth is stable when savings are stable, proportion of income and capital is in stable relationship to output, creating what is known as guaranteed rate of growth. The choice of these two theories was included by the fact that life based contracts tend to fall into two major categories;

1. **Protection polices**: This types of policies are designed to provide a benefit in the event of specific event, typically a lump sum of the event. A common form of this design is term assurance. Hence, without proper calculation of mortality, adequate premium will not be charged based on the age and life expectancy of the insured to prospective insured. This, Yaari (1965) theoretical model will be relevant for this study.
2. **Investment Policies:** The main objective of these topics is to facilitate the growth of capital by regular or single premiums. Without accumulation of fund through variable investment returns, this objective would have been undermined. This is in line with the assumption of economic growth theory according to Keynesian model which states that; "the rate of accumulation is the main strategic factor and the basic parameter of long-range economic growth.

RESEARCH DESIGN

The research made use of descriptive research design to investigate the impact of life insurance business on the growth of Nigeria economy. According to Udeze (2005), descriptive methods simply call for a researcher making an observation of his environment and recording events in a particular phenomena or condition. It is a systematic gathering of information from respondents for the purpose of predicting some aspects of the behavior of the population or a phenomenon which they have been exposed to. The choice of the design was based on the fact that the researcher made use of primary data to carry out this study.

FINDINGS

Based on the data presented and analysis done by the researcher in chapter four, the following findings were made:

1. That the patronage rate of life insurance business in Nigeria is still very low.
2. There are major factor significantly affecting the growth of life assurance business in Nigeria. The factors include.
   - Poor capital base of Nigerian insurance companies
   - Under developed domestic financial market
   - Consumer poor awareness of the benefits of life assurance polices.
   - Poor infrastructural development in the country such as “ICT”.
   - Poor image of the Nigeria insurance industry.
   - High rate of inflation and economic instability which affects life assurance investments.
   - Insufficient actuarial data in Nigeria.
3. Life assurance business has positive impact on individuals and the growth of Nigerian economy.
4. There are strategies and techniques that could be used for effective marketing of life assurance policies in Nigeria as well as the patronage level.
5. However, it was discovered that as moment (presently) life assurance business has not significantly contributed to Nigeria’s Gross Domestic Product (GDP).

CONCLUSION

Based on the findings of this research the researcher reached the following conclusion.

Life assurance business will significantly contribute to the economic growth of Nigeria. However, at the moment life assurance business has into meaningfully contributed to Nigerian’s economic growth due o some systematic problems as identified in this research.

Life assurance business despite its tremendous benefits to individuals and the economy at large is yet to attain its pride of place in Nigeria. The penetration or patronage rate of life assurance business is still very low, but the ugly trend could be reversed if adequate strategies and techniques are employed in the marketing of life assurance policies.

RECOMMENDATIONS

The following recommendations were made by the researcher to help improve the business of life assurance in Nigeria.

There is need for stakeholders in the insurance industry to embark on aggressive public enlighten campaign to sensitize Nigerians about the benefits of life assurance polices.

There is need for insurance practitioners to periodically develop new products to meet the insurance needs of Nigeria. This could be achieve through marketing research.

Insurance marketer should have good and in dept knowledge of the life assurance product the market

Insurance companies should promptly and adequately settle genuine claims do as to help improve the image of Nigerian insurance industry.

Insurance companies should make it a point of duty to regularly retain their employees and inadequately motivate them just like their counterparts in the banking industry.

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