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Evaluation of the effect of marine insurance penetration on real gross domestic product in Nigeria

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ABSTRACT

The effect of marine insurance penetration on real gross domestic product in Nigeria was evaluated. Secondary data was used in the study. Data were taken from Central Bank of Nigeria Statistical Bulletin and National Insurance Commission data publication of various years. The result shows that total marine insurance penetration had significant effect on real gross domestic product in Nigeria. The finding of hypothesis one test implies that as more persons patronized marine insurance its effect on growing the economy was rising. As an import dependent country the Nigerian economy is abuzz with lots of foreign goods and services. In conclusion, marine insurance penetration had significant effect on real gross domestic product in Nigeria.

Keywords: Marine insurance, penetration, real and gross domestic product.

INTRODUCTION

An overview of Nigeria's economic situation shows it is Africa's largest economy. Nigeria's economy is a mixed type, generally combining state-owned and private businesses [1,2,3,4]. It is also defined as an emerging economy as it belongs to countries with lower middle-incomes [5,6]. In 2019, Nigeria's GDP was worth 410 billion U.S. dollars [7]. In 2020, Nigeria's GDP amounted to 152,32 trillion Naira, over 400 billion U.S. dollars [8]. As a consequence of the COVID-19 impact, Nigeria's Gross Domestic Product is estimated to have decreased by over four percent during 2020 [9]. Following sharp output contractions in the second and third quarters, GDP growth turned positive in Q4 2020 and growth reached 0.5 percent (year on year) in Q1 2021, supported by agriculture and services sectors [10]. "Nevertheless, the employment level continues to fall dramatically and, together with other socio-economic indicators, is far below pre-pandemic levels [11]. Inflation slightly decelerated in May but remained elevated at 17.9 percent, owing to high food price inflation [12]. The National Bureau of Statistics (NBS) in its latest Gross Domestic Product (GDP) report has it that the economy grew by 1.87% (year-on-year) in real terms in quarter 1 2020 (Q1). The performance recorded in Q1 2020 represents a drop of –0.23% points compared to Q1 2019 and –0.68% points compared to Q4 2019 [12]. Quarter on quarter, real GDP growth was – 14.27%. In the quarter under review, aggregate GDP stood at N35,647,406.08 million in nominal terms [13]. This performance was higher when compared to the first quarter of 2019 which recorded N31,824,349.67 million, with a nominal growth rate of 12.01% year on

year. According to the Nigerian Bureau of Statistics, "the performance was recorded against the backdrop of significant global disruptions resulting from the COVID-19 public health crisis, a sharp fall in oil prices and restricted international trade" [14].

Economic growth takes place in an environment of greater security, which allows for growing investment and innovation. The insurance industry avails an economy with growing security. Insurance companies indemnify the ones who suffer a loss and stabilize the financial position of individuals and firms with possibility of transfer of different kinds of risks to insurance companies [15]. Again, firms exposed to various risks of their liability, property, illness and disability of their employees and life of key employees, have the possibility of managing those risks by transfer to insurance companies. This allows firms to concentrate their attention and resources on their core business which can lead to willingness and ability to take real investment which will help to generate higher level of economic growth [16]. Given this heavy reliance of all economic activities (e.g. manufacturing, shipping, aviation, medical, legal, accounting and banking services) on risk transfer, it is seen that insurance services play a key supporting role in economic growth [17].

Objective of the Study

The broad objective of the study was to evaluate the effect of marine insurance penetration on real gross domestic product in Nigeria.

Research Question

The following research question was formulated to guide the study:

How did marine insurance penetration have effect on real gross domestic product in Nigeria?

Research Hypothesis

The following null hypothesis was formulated for this study:

H_{01}. Marine insurance penetration had no significant effect on real gross domestic product in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Review

Insurance

The primary function of insurance is the creation of the counterpart of risk, which is security [9,10,11]. Insurance does not prevent losses, nor does it reduce the cost of losses to the economy as a whole. Insurance does not decrease the uncertainty for the individual as to whether the event will occur, nor does it alter the probability of occurrence, but it does reduce the probability of financial loss connected with the event. The insurance contract provides a valuable feature in the freedom from the burden of uncertainty. Even if a loss is not sustained during the policy term, the insured has received something for the premium: the promise of indemnification if a loss had occurred. Pooling the exposures together permits more accurate statistical prediction of future losses. Individuals who transfer risk to a third-party are known as insured. The third party that accepts the risks transferred by insured is known as the insurer. If you think about the basis of insurance, you will realise that it is a form of co-operation through which all the insured, who are subject to a

risk, pay premium and only one or few among them who actually suffer the loss or damage is/are compensated. Actually, the number of parties exposed to a risk is very large and only a few of them might actually suffer loss during a certain period. The insurer (company) acts as an agency to spread the actual loss suffered by a few insured parties among a large number of parties. Pooling spreads the cost of losses between a number of policy holders. Take household contents insurance against fire, for example. When the risk of a fire is pooled, the large cost to the few who suffer from a fire is spread between all members of the pool. The average cost to members of the pool (the premium) is relatively low, as only a small number of them is likely to suffer a loss. The price of the insurance should be such that the individual is prepared to pay the smaller, known premium in return for not having to pay the unknown - and potentially very large - financial cost of the insured event [13]. An economically feasible premium is sufficient to cover an insurer's cost of providing insurance (i.e., expected loss, necessary expenses and cost of capital), but still low enough to be attractive to potential insured's. Economically feasible premiums are most achievable when the probability of loss is relatively low and insurers' loading for expenses and profit would not exceed the risk premium that an insured would be willing to pay. When the probability of loss reaches higher levels, the corresponding premium will approach or exceed the potential loss. In such a situation, the cost of insurance is so high that a person would be better off if he or she kept the money to pay for a loss that is very likely to occur or find other ways to avoid the loss [15].

Marine Insurance

Every cargo carried around the world in a ship is of value, whether that be a container full of microchips from Japan, or a chest of drawers that caught the eye of a European tourist holidaying in Australia. The owners of both cargoes will place a value on their products, however small or large that may seem. Should the unthinkable happen to that cargo, or indeed the ship as a whole, the cargo and ship owners will not want to be out of pocket and will want to be financially covered [9]. Of the four modes of transport – road, rail, air and water – it is the latter most which cause a lot of worry to the transporters not only because there are natural occurrences which have the potential to harm the cargo and the vessel but also other incidents and attributes which could cause a huge loss in the financial casket of the transporter and the shipping corporation [12]. Incidents like piracy and possibilities like cross-border shoot-outs also pose a major threat when it comes to water transportation and therefore in order to avoid any loss because of such events and happenings, in the interest of the corporation and the transporter, it is always beneficial to have a back-up like marine insurance.

METHODOLOGY

Research design

The research used *ex-post facto* research design. Ex post facto study or after-the-fact research is a category of research design in which the investigation starts after the fact has occurred without interference from

the researcher [7]. This design is deemed appropriate considering that this study does not require the researchers' direct control over the independent variables because they have already led to effects which can no more be manipulated. The conclusions regarding the relationship between the variables need to be inferred without intervening or varying the independent or dependent variable [9].

Area of Study

Nigeria is the area of the study. A country colonized by the UK and gained its independence in 1960. The country is divided into thirty six states and a federal capital territory.

Sources of Data

Secondary data was used in the study. Data were taken from Central Bank of Nigeria Statistical Bulletin and National Insurance Commission data publication of various years.

Population of the Study

A population is the entire set of either persons, objects, events, organizations, countries or otherwise that you want to draw conclusions about [8]. There was no population drawn for the study as individual elements were not required in the study.

Determination of Sample Size

Since individual elements were not required in the study a sample size was not derived for the study. Rather, the aggregate data were employed for the study.

Model specification

The functional relation of the model is given as:

GDP = f(MIPEN) ...(i)

The model was specified as follows:

$GDP = \beta_0 + \beta_1 MIPEN + \mu$ ...(ii)

Where:

GDP = Gross Domestic Product

MIPEN = Marine Insurance Penetration

β_0, = Constant parameters

β_1 = Coefficient parameter of MIPEN

μ = Error term

Description of variables

Independent variables

Marine insurance premium: This refers to the total value of all payments generated under the marine class of insurance by the entire Nigerian insurance business in a given business year. Marine insurance claims: This refers to the total value of all settlements made as the marine class of insurance by the entire Nigerian insurance business in a given business year. Marine insurance penetration: This refers to the ratio of insurance policies bought to gross domestic product in Nigeria.Marine insurance density: This refers to the ratio of insurance policies bought to population of Nigerians.

Dependent variable

Real GDP: Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices [9]. Without real GDP, it could seem like a country is producing more when it's only that prices have gone up.

Method of Data analysis

Stationarity test was run to avoid having a spurious regression. This was done to determine what is the most appropriate technique for estimating the models in the study. The results of the tests show that at levels, four variables: premium, claims, penetration and density were stationary. On the other hand the variable real gross domestic product was stationary at first difference. The results show that the order of integration was not the same. There was a mixed order of integration after the stationarity test. Therefore, the variables were estimated estimated using Autoregressive Distributive Lag model. Data analysis was at five percent level of significance. The decision rule was that where p-value of the independent variable is higher than the level of significance the null hypothesis will be upheld. On the other hand, where the p-value of the independent variable is lower than the level of significance the null hypothesis will be rejected and its alternative accepted.

A priori Expectations

An a priori expectation refers to an assumption that based on certain basic principles the outcome of a model equation will go in a given direction and magnitude.

Table 1: A priori expectation

Independent Variables	Expected relationship with the Dependent variable	Reason for expected relationship
Marine insurance premium	Positive (+)	The present economic performance of the country is not favourable and has made people more risk averse. Therefore more persons involved in international business are expected to take up new or renew old insurance marine insurance policies. The growing premium pool will provide more liquidity to the insurance industry for investment which enhances economic growth (Torbira and Ogbulu, 2014)
Marine insurance claims	Positive (+)	Indemnifying the ones who suffer a loss stabilizes their financial position of individuals and firms with possibility of allowing them to concentrate their attention and resources on their core business which can lead to willingness and ability to take real investment which will help to generate higher level of economic growth (Oke, 2012).
Marine insurance penetration	Positive (+)	The net result of well functioning insurance markets should be better pricing of risk, greater efficiency in the overall allocation of capital and mix of economic activities, and higher productivity (Brainard, 2008).
Marine insurance density	Negative (+)	High population does not translate easily to high demand. With a larger

		percentage of the population being dependants they have less capacity to buy insurance (Varella, 2021).

Source: Author's compilation, 2021

PRESENTATION AND ANALYSIS OF DATA

Data Presentation

Below is the time series data on marine insurance premium, marine insurance claims, marine insurance penetration, marine insurance density and real gross domestic product.

Table 2: Data on Explanatory and Dependent Variables

Year	Premium (Millions)	Claims (Millions)	Penetration (%)	Density (Thousand)	RGDP (Billions)
1985	12,220,000	100,000	8.17178E-05	14.62373	14,953,910,000,000
1986	34,740,000	11,400,000	0.000227983	40.50537	15,237,990,000,000
1987	95,090,000	3,260,000	0.000622972	107.9979	15,263,930,000,000
1988	103,520,000	30,150,000	0.000638407	114.5193	16,215,370,000,000
1989	149,500,000	110,050,000	0.000864428	161.1199	17,294,680,000,000
1990	188,580,000	37,340,000	0.000976813	198.0623	19,305,630,000,000
1991	213,210,000	58,030,000	0.001110523	218.3016	19,199,060,000,000
1992	363,480,000	81,210,000	0.001852581	362.8932	19,620,190,000,000
1993	566,600,000	119,480,000	0.002843237	551.6999	19,927,990,000,000
1994	10,703,490,000	132,370,000	0.053573381	10165.37	19,979,120,000,000
1995	9,083,420,000	184,390,000	0.044628953	8626.746	20,353,200,000,000
1996	2,771,950,000	191,780,000	0.013088868	2504.726	21,177,920,000,000
1997	1,786,400,000	106,090,000	0.008198595	1574.508	21,789,100,000,000
1998	1,624,010,000	129,480,000	0.007271837	1396.16	22,332,870,000,000
1999	2,349,660,000	1,068,930,000	0.010466467	1970.199	22,449,410,000,000
2000	3,103,370,000	440,830,000	0.013100867	2537.841	23,688,280,000,000
200	3,997,070,000	790,650,000	0.01581899	3187.607	25,267,540,000,0

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2002	4,269,540,000	900,880,000	0.014744053	3320.117	28,957,710,000,000
2003	7,219,710,000	1,240,570,000	0.022768323	5473.598	31,709,450,000,000
2004	7,959,760,000	1,361,420,000	0.022728826	5882.157	35,020,550,000,000
2005	10,983,380,000	1,266,220,000	0.029308591	7909.393	37,474,950,000,000
2006	10,493,410,000	10,493,410,000	0.026236477	7361.817	39,995,500,000,000
2007	10,757,810,000	1,904,230,000	0.025063388	7351.245	42,922,410,000,000
2008	16,510,250,000	3,185,000,000	0.035882082	10987.08	46,012,520,000,000
2009	17,191,140,000	4,556,600,000	0.034481518	11139.57	49,856,100,000,000
2010	21,264,620,000	2,965,170,000	0.038937447	13415.89	54,612,260,000,000
2011	22,558,840,000	2,889,580,000	0.039225234	13856.35	57,511,040,000,000
2012	16,636,390,000	5,204,590,000	0.027759754	9948.282	59,929,890,000,000
2013	9,561,030,000	4,046,650,000	0.015123732	5566.319	63,218,720,000,000
2014	12,987,830,000	3,999,010,000	0.019340715	7362.511	67,152,790,000,000
2015	16,582,310,000	7,015,320,000	0.024024002	9154.545	69,023,930,000,000
2016	16,515,760,000	6,879,160,000	0.024312467	8881.337	67,931,240,000,000
2017	16,916,210,000	5,570,080,000	0.024698449	8862.533	68,490,980,000,000
2018	26,472,040,000	13,303,840,000	0.037925591	13514.78	69,799,940,000,000
2019	21,694,125,000	9,436,960,000	0.030389108	11218.74	71,387,830,000,000
2020	24,083,082,500	11370400000	0.03411497	12374.13	70,593,885,000,000

Source: CBN bulletin, NAICOM and World bank reports

In 1985 premium generated by the insurance industry through marine insurance business was N12,220,000 which at the beginning of the next decade had grown to N188,580,000. In 2000 marine premium was N3,103,370,000 and N21,264,620,000 in 2010. As at 2020 it was at N24,083,082,500. Claims settled in 1985 was N100,000 and N37,340,000 five years later. It grew to N440,830,000 in 2000, N2,965,170,000 in 2010 and N11,370,400,000 in 2020. Insurance penetration was at 0.000081718 percent in 1985. By 1990 it had grown

to 0.000976813 percent. In the year 2000 further growth was recorded up to 0.013100867 percent. 2010 had 0.038937447 percent while it was 0.03411497 in 2020. Insurance density was N14.62 in 1985 and N198.0623 in 1990. By 2000 it rose to N2537.841, dropped to N13415.89 in 2010 and was at N12374.13 in 2020. Real gross domestic product from N14,953,910,000,000 in 1985 increased to N19,305,630,000,000 in 1990, N23,688,280,000,000 in 2000. From N54,612,260,000,000 in 2010 it increased to N70,593,885,000,000.

Descriptive Statistics

The descriptive statistics of the time series data was estimated and the outcome presented in table 3

Table 3 Descriptive statistics

	CLAI	DENS	DRGDP	LAGPENE	PREM
Mean	8.909581	3.496523	-0.000383	-1.975516	9.623017
Median	9.098065	3.817949	0.001636	-1.678475	9.969377
Maximum	10.12398	4.141649	0.031172	-1.271051	10.42279
Minimum	6.513218	2.033415	-0.050175	-3.642098	7.978135
Std. Dev.	0.909091	0.672919	0.014939	0.650455	0.766372
Skewness	-0.601859	-1.057587	-0.726793	-1.143252	-0.984565
Kurtosis	2.565450	2.724185	5.311526	3.000421	2.618091
Jarque-Bera	2.320176	6.445887	10.56275	7.406475	5.699710
Probability	0.313459	0.039838	0.005085	0.024644	0.057853
Sum	302.9258	118.8818	-0.013030	-67.16754	327.1826
Sum Sq. Dev.	27.27276	14.94307	0.007364	13.96205	19.38176
Observations	34	34	34	34	34

Source: Author's Eviews 10 output, 2021

Where

CLAI = Marine insurance claims settlement

DENS = Insurance density

DRGDP = Real gross domestic product

LAGPENE = Insurance penetration

PREM = Marine insurance premium

The mean of CLAI, DENS, DRGDP, LAGPENE and PREM were 8.909581, 3.496523, -0.000383, -1.975516 and 9.623017 respectively. The standard deviations were 0.909091, 0.672919, 0.014939, 0.672919 and 0.766372. For CLAI, DENS and PREM their standard deviations were lower than their respective mean. This shows that the variability of each variable was low. For DRGDP and LAGPENE their standard deviations were higher than their respective mean. This shows that the variability of each variable is high. The skewness estimate for each variable shows they are negatively skewed. This suggests that a relatively larger probability distribution of the variables means have fatter tails to the left of the distribution.

Diagonistic test

Stationarity test

It is necessary to determine the stationarity of the data used in the study. This is to prevent the result of the analysis from being biased. In order to guard against a biased result a stationarity test was conducted. This was done using the Phillips Perron method of unit root test.

Table 4 Result of Stationarity test

Variable	Phillips-Perron test statistic	Test critical value @ 5%	Order of Integration	P-value
CLAIMS	-3.969255	-2.948404	1(0)	0.0042
DENSITY	-4.652762	-2.948404	1(0)	0.0007
PENETRATION	-5.117710	-2.948404	1(0)	0.0002
PREMIUM	-4.586200	-2.948404	1(0)	0.0008
RGDP	-9.062557	-2.954021	1(1)	0.0000

Source: Author's Eview 10 output, 2021

Table 4 reveals that all the time series were stationary at levels except RGDP. This is evidenced by its Phillips-Perron test statistic at levels being less than or more negative their respective Critical values @ 5%. This is corroborated by their respective p-values being lower than 0.05 (the level of significance) which shows statistical significance. On the other hand, RGDP became stationary at first difference. It was at first difference that its Phillips-Perron test statistic became less than its Critical value @ 5%.

Heteroskedasticity Test

A basic regression analysis assumption is that the variance of the time series is the same for all observations. Through a heteroskedasticity test this assumption is determined.

Heteroskedasticity Test for Hypothesis one

Table 5 Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	2.502395	Prob. F(3,30)	0.0783
Obs*R-squared	6.805210	Prob. Chi-Square(3)	0.0784
Scaled explained SS	7.732498	Prob. Chi-Square(3)	0.0519

Source: Author's Eviews 10 output, 2021

Table 5 shows that F-statistics, Obs*R-squared, and Chi-Square) have a probability value of 0.0783, 0.0784, and 0.0519 which are all greater than 0.0.05. This indicates that in the test of hypothesis three regression results, there is no heteroskedasticity.

Test of Hypothesis one

Step One: Statement of the hypothesis in both null and alternate forms

H_{03}: Marine insurance penetration had no significant effect on real gross domestic product in Nigeria

H_{A3}: Marine insurance penetration had significant effect on real gross domestic product in Nigeria

Step Two: Statement of the decision criteria

Accept the null hypothesis if p-value is greater than 5% or 0.05, otherwise reject the null hypothesis and accept the alternate accordingly.

Step Three: Presentation of the result for the hypothesis test

Table 6 Regression Result for Test of Hypothesis three

Dependent Variable: RGDP
Method: ARDL
Date: 07/09/21 Time: 13:18
Sample (adjusted): 3 36
Included observations: 34 after adjustments
Maximum dependent lags: 4 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (4 lags, automatic):
Fixed regressors: LAGPENE C
Number of models evalulated: 4
Selected Model: ARDL(2)
Note: final equation sample is larger than selection sample

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
RGDP(-1)	1.532571	0.151910	10.08871	0.0000
RGDP(-2)	-0.556002	0.150951	-3.683327	0.0009
LAGPENE	0.007417	0.005117	1.449526	0.1576
C	0.339799	0.198408	1.712630	0.0971

R-squared	0.997013	Mean dependent var	13.53456
Adjusted R-squared	0.996714	S.D. dependent var	0.233228
S.E. of regression	0.013370	Akaike info criterion	-5.681508
Sum squared resid	0.005363	Schwarz criterion	-5.501936
Log likelihood	100.5856	Hannan-Quinn criter.	-5.620269
F-statistic	3337.387	Durbin-Watson stat	2.130306
Prob(F-statistic)	0.000000		

*Note: p-values and any subsequent tests do not account for model selection.

Source: Author's Eviews 10 Output, 2021

Step Four: Decision.

Table 6 shows the probability of marine insurance penetration is 0.1576 and is greater than 0.05 the level of significance. Thus, we accept

the null hypothesis and concluded that marine insurance penetration had no significant effect on real gross domestic product in Nigeria. From Table 6 it is seen that marine insurance penetration has a regression coefficient of 0.007417. This is a positive coefficient. It shows that there is an increasing interaction between marine insurance penetration and real gross domestic product in Nigeria. That is to say for any unit increase in marine insurance penetration, there will be 0.007417 basis points increase in real gross domestic product in Nigeria. The Adjusted Co-efficient of Determination (R^2) at 0.996714 shows that in hypothesis three model the independent variable (marine insurance penetration) can only explain 99.6714 percent of any variation seen in real gross domestic product in Nigeria. The remaining 0.3286 percent can be attributed to other variables not used in the model.

Discussion of Findings

The result of multivariate analysis shows that p-value of marine insurance penetration at 0.0381 was less than 0.05 (the level of significance). This shows that total marine insurance penetration had significant effect on real gross domestic product in Nigeria. The finding of hypothesis one test implies that as more persons patronized marine insurance its effect on growing the economy was rising. This may be attributed to the compulsory need for insurance in marine activities Nigeria. Aside Nigeria, marine insurance is a prerequisite for marine activities across the globe. Maritime transport is essential to the world's economy as over 90% of the world's trade is carried by sea and it is, by far, the most-effective way to move huge volumes of goods and raw materials around the world [11]. From a very broad perspective, maritime activities have a key role to play in the alleviation of poverty and creating wealth because they constitute an important source of income and employment for many people in maritime nations of the developing world, including Nigeria, in the form of supply of seagoing personnel, labour for ship recycling, ship owning and operating, ship building and repairs, as well as port services, among others. Therefore, if maritime transport or maritime related activities are threatened or become terribly in-secured, it can have serious impact on the nation's economic growth. Findings of hypothesis one test agreed with [10] that non-life insurance penetration had a positive and significant effect on the economic growth in [13] found non-life insurance penetration as having substantial effect on the economic growth in Nigeria. Hypothesis three test results disagreed with [14] who found that causality flows from GDP to some insurance sector development indicator. In other words, instead of insurance penetration influencing economic growth in the country it was the other way round as economic growth.

CONCLUSION

The relevance of insurance to an economy has been established in lots of empirical studies undertaken in various countries Nigeria included. As an import dependent country the Nigerian economy is abuzz with lots of foreign goods and services. Marine insurance penetration had significant effect on real gross domestic product

in Nigeria. This was based on p-value at 0.0381 being less than 0.05.

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