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EFFECT OF INSURANCE SECTOR REFORMS ON POVERTY REDUCTION IN NIGERIA

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ABSTRACT
This study examined the effect of Insurance sector reforms on poverty reduction in Nigeria. To be specific, the study appraised the effect of Insurance industry investments in financial assets on per Capita income in Nigeria. The study covered a period of 12 years i.e. 2004-2015. The data for the study were sourced from Central Bank of Nigeria Statistical bulletin and National Bureau of Statistics yearbooks, Nigerian Insurers Association publications among others. The application of descriptive statistics and regression analysis were considered suitable for the study. The findings of the sturdy revealed that the insurance industry investment in financial assets has negative and significant impact on poverty Reduction in Nigeria. It is therefore recommended that the compulsory insurance stipulated by the Insurance Act should be properly marketed and publicized as it will lead to generation of funds for economic development which will in turn lead to poverty reduction within the economy.

Key words: Reforms, Insurance sector and poverty reduction.

INTRODUCTION
Reform refers to bringing about change that is capable of provoking improvement. It is generally distinguished from revolution. While revolution may be seen as basic or radical change, reform may be no more than fine tuning, or at most redressing serious wrongs without altering the fundamentals of the system. Reform therefore seeks to improve the system as it stands (Bazot, 2015).

In order to ensure the necessary improvement, the Federal Government of Nigeria embarked on reforms of several sectors of the economy of which the insurance sector is one (Onuoha,2012). Nigeria adopted insurance sector reform as part of its economic reform program which was kick started by President Obasanjo's administration in 2004. Prior to this reform, the insurance sector's contribution to the national gross domestic product was less than 1% (Ozuomba, 2013). People then had little or no interest in insurance companies as focus then was placed on health insurance companies so as to aid the nation's health program. The insurance sector reform started through forced consolidation of banks to meet to meet up with insurance and reinsurance of the banks in order to protect depositors interest(Monogbe,2015).

The Nigerian insurance sector had witnessed tremendous changes in recent times owing to the reforms. These include the introduction of Risk Based Supervision, Migration to International Financial Reporting Standards (IFRS) from Nigerian Generally Accepted Accounting Principles (NGAAP), Market Conduct Reforms, Claims Settlement Reforms, Financial Inclusion etc., were all geared towards developing the industry and improving the general perception about insurance. To sanitize the insurance industry and ensure that only capable and reputable firms who were to carry out insurance business as effectively as they ought to, the minimum capital was revised and increased for various classes of insurance. This increase had a significant effect on the industry as it reduced the number of insurance companies operating in Nigeria from 103 to 49, which were duly certified in order to operate.

Accordingly, Federal Government of Nigeria pursues compliance of the compulsory insurance stipulated by the Insurance Act which is intended to generate funds for economic development; and improvement in risk management, Nigeria is still being ranked as a poor nation, hence this study.

The main objective of the study was to ascertain the effect of insurance sector reforms on poverty reduction in Nigeria.

The specific objective is -

To ascertain the effect of insurance industry investment in financial assets on per capita income in Nigeria.

Statement of Hypotheses

Insurance industry investment in financial assets does not have a positive impact on per capita income in Nigeria.

The study was based on Nigeria Economy using the Federal Government of Nigeria. In line with the objective of the study, the macro-economic indices used are: insurance industry investments in financial assets, GDP, poverty index. The study spans 2004 to 2015 that is 12 years.

The Structure of Nigerian financial system

The financial sectors in Nigeria are made up of a wide array of institutions and instruments that gave the system its character and uniqueness. According to Oyegoke (2007), the financial system refers to a set of rules and regulations and the aggregation of financial arrangements, institutions agents that interact with each other to forester economic growth and development of a nation. The institutions that make up the financial sector of the economy are the Bank and Non-Bank financial institution such as the central bank, deposit

money banks, Development banks, micro-finance banks, Insurance and Re-insurance companies, leasing firms, capital ventures, stock broking firms, pension fund administrators etc.

As a key sector in the nation's economy, the financial sector deals with the finances of the country and thus has a major role in the calculation of the nation's gross domestic product (GDP), which places her in the world ranking of nations financial wealth. The Insurance sector plays a significant role in the financial sector as it basically deals with risks and sustenance of the economy According to Oke (2012), reform of insurance sector has some ripple effects on the financial sector as they help pump money into the economy by investing premiums; help to stabilize the occurrence of risks as well as damage/loss that may be suffered with the occurrence of such risk; boost the confidence of the investing public who have become aware of the protection of risks as the insurance companies are available to indemnify them in the event of any loss or damage.

Poverty Reduction

Poverty reduction in this work is represented by per capital income. Per capital income measures the average income earned per person in a given area in a specified year. It is calculated by taking a measure of all sources of income in the aggregate and dividing it by total population. It can apply to the average per-person income for a city, region or country and is used as a means of evaluating the living conditions and quality of life in different areas.

Theoretical Framework

The theoretical framework underpinning the study is the 'Human Capital Theory'. The human capital theory term refers to the stock of knowledge, habits, social and personal attributes, including creativity, embodied in the ability to perform labour so as to produce economic value. This theory was popularized by Becker (1994) and Mincer (1993).

Alternatively, human capital is a collection of traits – all the knowledge, talents, skills etc possessed individually and collectively by individuals in a population (Wikipedia, 2014.) These resources are the total capacity of the people that represents a form of wealth which can be directed to accomplish the goals of the nation. "Human capital theory" asserts that human capital is a key determinant of economic success.

Methodology

This section deals with the research design and the procedure adopted in carrying out this study. Research design refers to the structure and constructional plan of a research work. This work is aimed at evaluating the effects of insurance sector reforms on poverty reduction in Nigeria. It therefore stands to reason that it is interested in finding out if the insurance sector reform, with its attendant injection of funds to the economy has led to improved wellbeing of the citizenry. Therefore, the design adopted in this study is the Ex-post facto research design. This design is appropriate because it seeks to determine the extent of the association between the variables and to draw inferences. Such inferences concerning the relationship between the variables involved can then be used for purposes of prediction, in this case, the effects of insurance sector reforms on poverty reduction in Nigeria.

The area of the study is the geographical area or boundaries where the study is carried out. The study was carried out on the economy of the Federal government of Nigeria. However, the researcher concentrated his research program on the insurance sector.
The data for this research work were sourced from Central Bank of Nigeria, National Bureau of Statistical yearbooks and Nigeria Insurers Association (NIA) publications.
The population of the study therefore is the federal republic of Nigeria as the study covers the entire economy of the country.
The sample size of the study therefore is insurance sector of Nigerian economy. The sample used here was drawn from raw data extracted from the sources listed below and were used in constructing tables for data presentation and analysis as well as testing of the hypotheses in this study:

i. Central Bank of Nigeria Annual Report and statement of Accounts (covering financial years 2004 - 2015);
ii. The Nigerian Insurers Association annual accounts(2011 – 2015)
iii. Central Bank of Nigeria Statistical Bulletin;
iv. National Bureau of Statistics Year Books.

DATA PRESENTATION AND ANALYSIS

Data Presentation

This section presents the data used in the test of hypotheses. The data were firstly presented and analyzed using a trend analysis to show the increases and decreases in data trend as well as the interactions between variables.

Table 1 : INSURANCE INDUSTRY INVESTMENT IN FINANCIAL ASSETS FOR SELECTED YEARS

Year	Investment (N’m)	GDP N’bn	Ins-inv/GDP %
2004	74590.8	11411-07	6.536705
2005	121844.2	14610-88	8.339279
2006	216359.9	18564-59	11.65444
2007	329247.9	20657-32	15.93856
2008	336491.4	24296.33	13.84947
2009	343894.2	24794-24	13.86992
2010	351459.9	54612-26	6.435549
2011	359192.0	62980-40	5.703235
2012	185257.21	71713-94	2.583280
2013	229591.8	80092-56	2.862581
2014	263655.9	89043-62	2.960975
2015	306346.6	94144.96	3.253988

Source: CONSTRUCTED WITH DATA SOURCED FROM CBN STATISTICAL BULLETIN & NIA ANNUAL REPORTS

Analysis:
Table 1 presents the percentage changes in Insurance industry investments in financial assets as scaled by GDP for years 2004 – 2015. This comparism seeks to establish the relationship between the changes in the industry investments in financial assets and their contributions to the country's gross domestic product.

Table 2: PER CAPITA INCOME

Year	GDP	POPULATION	PC1
2004	11411.07	134307403	3354
2005	14610.88	137822312	3606
2006	18564.59	141464657	3860
2007	20657.32	145235257	4139
2008	24296.33	148134093	4403
2009	24974.24	153161414	4678
2010	54612.26	157315944	5128
2011	62980.40	161597706	5522
2012	71713.94	166005536	5522
2013	80092.56	170528460	5755
2014	89043.62	175146252	6061
2015	94144.96	179838974	6121

Source: CBN STATISTICAL BULLETINS AND Annual Accounts

Table 2 shows the per capita income for the country for the years 2004 – 2015.

Table 3: Descriptive Statistics

	PCI	INSINV
Mean	0.028850	7.832666
Median	0.025558	6.486127
Maximum	0.052350	15.93856
Minimum	0.008496	2.583280
Std. Dev.	0.017130	4.858060
Skewness	0.157226	0.444870
Kurtosis	1.311789	1.720746
Jarque-Bera	1.474469	1.214064
Probability	0.478435	0.544966
Sum	0.346196	9399.199
Sum Sq. Dev.	0.003228	2583002.
Observations	12	12

Source; Author's Eviews 7.2 Output.
where:
PCI = Per Capita Income
INSINV = Insurance Industry Investment in Financial Asset

Table 3 shows that the maximum per capita income, insurance industry investment in financial asset, as percentage of GDP are 0.052 and 15.93respectively between 2004 and

2015 with mean values of 0.028 and 7.83% respectively. These resulted in the standard deviations of 0.017 and 4.84%, for per capita income and insurance industry investment in financial asset. The positive skewness for per capita income and insurance industry investment in financial asset shows the leanness of the dataset to one side of the distribution. This suggests that the larger probability distribution of the variables means have fatter tails to the right of the distribution and lies closer to zero.

The Jarque-Bera statistics is concerned with the normality of the probability distribution and accepts the null hypothesis that the variables are not normally distributed. This is because the probability of the Jarque-Bera statistics of 0.478 and 0.544 > 0.05 for per capita income and insurance industry investment in financial asset, respectively.

Following the report of the descriptive statistics, the study examined the nature of the relationships existing between the variables and the result is as presented in table 4.7 below.

Table 4 : Regression result for Insurance Sector Investment in Financial Asset

Dependent Variable: PCI
Method: Least Squares
Date: 04/29/17 Time: 11:13
Sample: 2004 2015
Included observations: 12

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INSINV	-2.79E-05	6.84E-06	-4.083807	0.0022
C	0.050742	0.006231	8.144046	0.0000

R-squared	0.625152	Mean dependent var	0.028850
Adjusted R-squared	0.587667	S.D. dependent var	0.017130
S.E. of regression	0.011000	Akaike info criterion	-6.030918
Sum squared resid	0.001210	Schwarz criterion	-5.950101
Log likelihood	38.18551	Hannan-Quinn criter.	-6.060840
F-statistic	16.67748	Durbin-Watson stat	0.370555
Prob(F-statistic)	0.002201		

Source: Author's Eviews 7.2

The probability of the t-Statistic of the insurance industry investment in financial asset stood at 0.0022 < 0.05. Thus, the result shows that insurance industry investment in financial asset representing reforms in the Nigerian insurance industry has a significant effect on poverty reduction in Nigeria.

Test of Hypotheses

The test of hypotheses was carried out in the following steps:
One: Statement of the hypothesis in both null and alternate forms
Two: Statement of the decision criteria
Three: Presentation of the regression results
Four: Decision.

Hypotheses examine the effect of insurance fund investment in financial assets used to capture the reforms in the insurance industry on poverty reduction in Nigeria. Data from the appendix was used in the test hypothesis.

Step one: Statement of the hypothesis in both null and alternate forms
H_0: Investments of insurance fund in financial assets does not have a positive effect on per capita income in Nigeria
H_1: Investments of insurance fund in financial assets has a positive effect on per capita income in Nigeria

Step Two: Statement of the decision rule
The decision rule is "do not reject" the null hypothesis if the sign of the coefficient is negative and the probability of the t-statistics is > 0.05 ie 5%. Otherwise, reject the null hypothesis and accept the alternate hypothesis accordingly.

Step Three: Presentation of the regression results for the test of hypothesis
Table 5: Multiple Regression Analyses
Dependent Variable: PCI
Method: Least Squares
Date: 04/29/17 Time: 11:19
Sample (adjusted): 2007 2015
Included observations: 9 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CPS	-0.000767	0.000258	-2.976887	0.0409
INSINV	-2.21E-05	2.01E-06	-11.00923	0.0004
M2	1.87E-05	0.000145	0.129328	0.9033
PENINV	0.005163	0.001438	3.590203	0.0230
C	0.043512	0.005440	7.998841	0.0013

R-squared	0.990520	Mean dependent var	0.034886
Adjusted R-squared	0.981040	S.D. dependent var	0.015432
S.E. of regression	0.002125	Akaike info criterion	-9.170015
Sum squared resid	1.81E-05	Schwarz criterion	-9.060446
Log likelihood	46.26507	Hannan-Quinn criter.	-9.406465
F-statistic	104.4865	Durbin-Watson stat	2.174154
Prob(F-statistic)	0.000268		

Source: Author's Eviews 7.2 Output
where:
PCI = Per Capita Income
CPS = Credit to Private Sector
INSINV = Insurance Industry Investment in Financial Asset
M2 = Money Supply
PENINV = Pension Fund Investment in Financial Asset
Step Four: Decision

The decision criteria are to accept the null hypothesis if the sign of the coefficient is negative and the probability of the t-statistics is > 0.05 ie 5%. Otherwise, reject the null hypothesis and accept the alternate hypothesis accordingly. Table 5 shows the coefficient of -2.2105 for insurance industry investment in financial asset to be negative and the probability of the t-Statistic of -11.00923 being 0.0004 < 0.05. Therefore, we accept the null hypothesis and conclude that insurance industry investment in financial asset has a negative and significant effect on poverty reduction in Nigeria.

Findings, Conclusion and Recommendations

Findings from the study revealed that insurance industry investment in financial assets has negative and significant effect on poverty reduction in Nigeria.

Financial sector plays a very important role in determining the poverty level a country. It is against this backdrop that the federal government of Nigeria embarked on the reform of the sector which has ensured the mobilization of savings for investments, facilitated inflows of foreign capital, and optimized the allocation of capital between competing uses. However, it was observed that the effects of insurance industry investment in financial assets were negative and significant.

Based on the findings of the study, the researchers recommend that: The compulsory insurance stipulated by the insurance Act should be properly marketed and publicized in the economy. This will lead to generation of funds for economic development which in turn will ensure poverty reduction within the system.

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