INSURANCE FIRMS BUSINESS ON FOREIGN DIRECT INVESTMENT IN NIGERIA

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Keyword:	***Abstract:*** *This study used an ex-post facto research strategy to look at how insurance companies' actions affected foreign direct investment in Nigeria from 1990–2022. Insurance company premiums, claims payments, and total investment in the insurance industry are some of the indicators used to measure foreign direct investment inflows. A number of secondary sources were used for the analysis, including the National Bureau of Statistics (NBS), the CBN statistical bulletin, and the yearly reports and statistics of NAICOM. This study used the Vector Error Correction Model (VECM) to find that foreign direct investment (FDI) flows into the insurance industry, and that insurance company premiums have a positive effect on FDI, which is a reflection of the risk management function of insurance in luring steady investments. On the flip side, foreign direct investment (FDI) flows are negatively affected by increased claims payments, demonstrating how risk perception influences investment choices. An error correction term suggests that the system is adjusting towards equilibrium over time, and the relationship between total insurance investment and FDI seems to be marginally significant. Policy actions that aim to promote economic growth and stability can be informed by these findings, which add to our understanding of how the dynamics of the insurance sector impact flows of foreign investment. Improving risk management services, establishing regulations for claims payments to increase transparency and efficiency, and encouraging investment stability to boost investor confidence and bring in more foreign direct investment are all suggestions.*
premiums, claims payment, foreign direct investment, insurance firms.	

Background to the Study

According to (Adegbie, et el, 2016), insurance firm business plays a key role in the economic progress of any country by helping in risk management and giving financial security to businesses and individuals. With globalization,

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foreign direct investment has become an integral aspect of the economy. FDI refers to the investment made by a foreign corporation in another country's business or assets with the intention of developing a lasting interest in the company or entity.

The effect of insurance businesses business on FDI in Nigeria is enormous as mentioned by Adegbie, Adeniyi, and Fakile (2016). Buttressing further, Anyanwu (2020) highlights the significant impact of insurance firm's activities on FDI in Nigeria, by stating that, insurance provides a safety net for investors, protecting them against various risks that may arise from their investments, thus making foreign investors more willing to invest in Nigeria, as they are assured that their investments are protected.

As noted by the World Bank (2020), insurance firms and FDI are two essential components of any country's economy, with insurance companies providing financial security and risk management services to businesses and individuals, while FDI helps in the transfer of technology, knowledge, and capital from one country to another. For foreign investors to invest in a country, they search for a stable economic and political climate, which is given by insurance businesses through their business operations (Chang & Yang, 2017). Furthermore, insurance businesses help develop a favorable business climate for overseas investors. This sort of business gives the outlet for expatriate to invest and explore chances in an economy, with a certain amount of confidence in the safety of its

investment. But the ambiguity of the conclusion becomes the difficulty, (Adekanye & Adigwe, 2019).

Objectives of the Study

The study is aimed at evaluating the "Insurance firms' business on foreign direct investment in Nigeria". The specific objectives of the study are to:

1. Investigate the influence of Insurance business premium on foreign direct investment inflows in Nigeria.

2. Evaluate the impact claim payment activities have on foreign direct investment inflows in Nigeria. 3. Examine the impact of total insurance industry investment on foreign direct investment inflows in Nigeria.

Conceptual Review Insurance Firms

Insurance firms refer to the activities and services provided by insurance companies to manage risks and provide financial security to businesses and individuals. Insurance firms offer a range of policies, including health insurance, life insurance, property insurance, liability insurance, and many more. The basic purpose of insurance activities is to provide financial protection to individuals and businesses against potential losses, while at the same time creating profits for the insurance organization, (Stevens, 2019).

Shaw, (2016) Insurance activities also incorporate investment activities, insurance firms invest the premiums they collect from policyholders in a range of assets, such as stocks, bonds, and real estate, these investments assist

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to generate additional cash for the insurance firm, which are utilised to pay out claims and generate profits (Mayers & Smith, 2018).

Overall, insurance operations play a significant role in the society by providing individuals and businesses with financial protection against prospective losses. By analysing risks, calculating premiums, processing claims, and putting percentage of premiums into investable portfolios, insurance companies are able to provide valuable services to their clients while creating profits for themselves (Doherty & Garven, 2001).

Measures of Insurance Firms

There are numerous variables used to measure insurance firms. These indicators are significant for measuring the performance of insurance business and understanding its contribution to the economy. In this part, we will cover some of the variables used to measure insurance activity in Nigeria.

Insurance Firms Premium

Insurance companies' premium is a word widely used in the insurance industry to indicate the total amount of premiums received by an insurer before deductions for reinsurance and other expenses. According to the International Association of Insurance Supervisors (IAIS, 2019), gross written premium is defined as "the total premium due to an insurer before any deduction is made for reinsurance or ceding commissions, excluding any premium attributable to policyholders' liability" Gross Written Premium is one of the primary indicators used to estimate the size and growth of the insurance business in Nigeria. GWP refers to the total amount of premiums earned by insurance firms from policies offered to customers. The Nigerian Insurance Market Database (NIID) publishes GWP data annually, providing insights into the performance of the Nigerian insurance market.

GWP is an essential measure of the size of the insurance business since it shows the amount of money that insurance companies make from selling insurance policies. A greater GWP indicates that more policies have been sold, which reflects a larger market for insurance goods. In Nigeria, the GWP for the non-life insurance sector was NGN 490 billion in 2020, showing a 12% increase from the previous year, while the life insurance sector had a GWP of NGN 471 billion in the same year, reflecting a 6% increase from the previous year (NAICOM, 2021).

Payments of Insurance Gross Claim

Insurance gross claim payment pertains to the total amount paid out by an insurance company to policyholders or beneficiaries for a covered loss or damage. This includes both the amount paid for the actual claim as well as any expenses incurred during the claim's procedure, such as investigation charges or legal fees.

According to the National Association of Insurance Commission 2021, gross claim payments is "the total of all benefit payments, without any deductions for reinsurance, policyholder dividends, or other reasons." (NAIC Glossary of Insurance Terms, 2021). Insurance firms employ actuarial analysis to forecast the

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total number of claims they are expected to receive in a particular time and set rates appropriately. Gross claim payments are a substantial expense for insurance firms, and are one of the variables that contribute to the entire cost of insurance.

Total Insurance Investments

Total Insurance Investments is the amount of money invested by an insurance company in various assets to produce income and ensure that the company has sufficient funds to pay out claims to its policyholders. Insurance firms invest in various financial instruments such as stocks, bonds, real estate, and other assets to gain a return on their investments. According to the National Association of Insurance Commissioners, 2017).

Measure of Foreign Direct Investment in Nigeria

There are numerous factors that can be used to measure Foreign Direct Investment (FDI) in Nigeria.
However, the study adopted the Foreign Direct Investment Inflows:

Foreign Direct Investment Inflows

According to the United Nations Conference on Trade and Development, (2020) FDI inflows are "cross border investments made by a resident in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy".

Theoretical Framework

There are numerous ideas that may be employed to explain between insurance company and foreign direct investment. The study was grounded on the Risk management theory:

Risk management theory

This hypothesis has been widely examined in the literature on insurance and risk management, including Cummins and VanDerhei (1979) and Doherty and Garven (1986). This hypothesis implies that insurance operations might help to reduce investment risks, leading to more investment. In the Nigerian environment, international investors face several risks when investing in the country, including political risks, currency risks, and operational risks. The political environment in Nigeria can be chaotic, leading to uncertainty in policy making and regulatory frameworks. Additionally, currency changes might damage the value of foreign assets in Nigeria.

According to Akeju and Oluwatobi (2020), insurance business activities can assist decrease these risks by offering a channel for risk transfer. Insurance businesses can offer insurance coverage and risk assessment services to overseas investors, thereby limiting their exposure to potential losses. This risk transfer mechanism can make investing in Nigeria more attractive to foreign investors, hence increasing investment inflows in the country.

Empirical Review

Ibe and Onyebuchi (2019). Utilising time series data spanning from 1986 to 2016, the investigator employed the ordinary least squares (OLS) regression method to examine the correlation between insurance premiums and foreign direct investment inflows. According to the report, insurance prices significantly and favourably affect foreign direct investment inflows into Nigeria. The study found that FDI inflows rise by 0.13% for every 1% increase in insurance premiums. The study also discovered a significant long-term correlation between

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insurance premiums and FDI inflows. The findings of the study have a big impact on Nigeria's development and economic progress. by encouraging FDI influxes.

Enyi and Onodugo (2018). The autoregressive distributed lag model was utilised by the researcher to examine the short- and long-term relationships between insurance premiums and foreign direct investment (FDI) in Nigeria using time series data spanning from 1986 to 2016. According to the report, insurance prices significantly and favourably affect foreign direct investment inflows into Nigeria. The authors found that FDI inflows rise by 0.19% for every 1% increase in insurance premiums. The study also discovered a significant long-term correlation between insurance premiums and FDI inflows.

Azu and associates (2019) Using time-series data from 1986 to 2016, the study explicitly investigated the causal relationship between insurance and FDI using the Granger causality test. The research discovered proof of a unidirectional causal relationship between FDI in Nigeria and insurance gross claims payments. This suggests that FDI in Nigeria is positively and significantly impacted by insurance gross claims payout. Additionally, the study discovered evidence of a reciprocal relationship between insurance premiums and FDI, or a bi-directional causality between insurance premiums and FDI. This suggests that foreign investors view the amount of insurance premiums as a measure of the total risk involved in making an investment. Ajayi and Salisu (2020). Using time series data from 1986 to 2018, the study employed the autoregressive distributed lag method to examine the connection between insurance and FDI. The study discovered evidence of a long-term association between insurance gross claims payment and FDI, as well as a positive and significant influence on FDI for both life and non-life insurance. Adekoya and Kuti (2019). The researcher estimated the association between FDI and the performance of Nigerian insurance companies using panel data spanning the years 2005 to 2015 using a fixed-effect regression model. Return on equity (ROE) and return on assets (ROA) are the two-performance metrics used in the study. The study's findings show that foreign direct investment (FDI) significantly and favourably affects the performance of Nigerian insurance companies. Specifically, the researcher discovered that FDI improves ROE and ROA, suggesting that FDI inflows are linked to higher levels of profitability and efficiency for Nigerian insurance companies.

Research Design

The ex-post facto design is the research methodology used. The National Bureau of Statistics (NBS), NAICOM yearly reports, and the Central Bank (CBN) Statistical bulletin were the sources of secondary data that were obtained.

Model Specification

The variables utilised in this study were total insurance investments, gross written premium, total gross insurance claim payments, and inflows of foreign direct investment. As a result, the functional specification of the model is:

FDININF = (INBP, INGCP, TININV) ……………………. (1)

This is stated specifically to carry its parameters.

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$FDINF = b_0 + b_1 INBP + b_2 INGCP + b_3 TININV + e \ldots \ldots \ldots \ldots (2)$

Where:

FDININF	=	Foreign Direct Investment Inflows,
INBP	=	Insurance Business Premium
INGCP	=	Insurance Gross Claims payment
TININV	=	Total Insurance Investment
b_0	=	Constant
b_1, b_2 and b_3	=	coefficient
e	=	Random or error term

Method of Data Analysis Technique

The ARDL model was used to analyse the data. One popular econometric model for analysing time series data is the ARDL (Autoregressive Distributed Lag) model, which is especially useful when the series are integrated or non-stationary. For time series data analysis, the ARDL model is a crucial tool, especially in the fields of finance and economics. It offers a flexible framework for forecasting and policy research, takes into account lag effects, and permits the analysis of non-stationary data. The CUSUM of squares test, serial correlation, and histogram normality will be used to further assess the model's stability and suitability for making long-term judgements. The econometric software package Eview 10 was utilised.

Descriptive Statistics

Table 4.1: Descriptive Statistics Result

	FDININF	INBP	INGCP	TININV
Mean	15571837	189.5896	49.63222	470.8948
Median	8318665.	118.4400	13.83000	282.2400
Maximum	40572837	579.2300	232.1200	1655.550
Minimum	2403766.	9.810000	0.370000	13.23000
Std. Dev.	12301838	182.0139	72.50206	500.1687
Skewness	0.711566	0.948533	1.525789	1.008483
Kurtosis	2.000529	2.612164	3.969751	2.756804
Jarque-Bera	3.402279	4.217938	11.53411	4.643204
Probability	0.182475	0.121363	0.003129	0.098116
Sum	4.20E+08	5118.920	1340.070	12714.16
Sum Sq. Dev.	3.93E+15	861355.5	136670.3	6504387.
Observations	**27**	**27**	**27**	**27**

Source: Eview 10 Stationarity Test

The distribution and features of the variables pertaining to foreign direct investment (FDININF), insurance business premiums (INBP), payment of claims ((INGCP), and total insurance investment (TINIV) in Nigeria from 1996 to 2022 are all clearly shown by the descriptive statistics in. vThe averages show the mean levels of these variables over the period: the average foreign direct investment was about

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₦15,571,837; the average insurance business premium was ₦189.59 million; the average claim payment was ₦49.63 million; and the average total insurance investment was ₦470.89 million. More context is provided by the median values, which indicate the midway of the data and indicate that half of the observations lie below them. The diversity within each variable is illustrated by the range of values represented by the minimum and maximum values, with significant differences between the lowest and highest observed values. The findings of the Jarque-Bera test offer a statistical evaluation of normalcy, with significant probability values indicating a deviation from the normal distribution.

Table 4.2 Augmented Dickey-Fuller (ADF) Unit Root Test

Variables	Unit Root Test @Levels			Unit Root Test @1ˢᵗ Difference			Order of Integration
	Trend and Intercept			**Trend and Intercept**			
	t-stat	**Critical Value**	**Prob.**	**t-stat**	**Critical Value**	**Prob.**	
FDININF	-0.6606	-3.595026	0.9658	-3.5968	-3.603202	0.0506	I(1)
INBP	-0.4984	-3.632896	0.9754	-4.6717	-3.632896	0.0293	I(1)
INGCP	-3.0947	-3.612199	0.0525	-4.0331	-3.658446	0.0247	I(1)
TININV	-3.3750	-3.658446	0.0800	-4.0185	-3.673616	0.0169	1(1)

Source: Eview extractions

All variables (FDIINF, INBP, INGCP, and TININV) are integrated of order 1 (I(1)), according to the results of the Augmented Dickey-Fuller (ADF) unit root test. This suggests that the variables are nonstationary at the levels but become stationary after initial differencing. In particular, the crucial values at the 5% significance level suggest that stationarity is implied and that the null hypothesis of a unit root for each variable's initial difference is rejected. These results bolster the appropriateness of using time series analysis methods to look at the interactions between these variables over the course of the study period, such as Autoregressive Distributed Lag (ARDL) modelling.

Johansen Cointegration.

The employment of the Johansen cointegration method is supported by the results of the Augmented Dickey-Fuller (ADF) unit root test, which show that the variables are integrated of order 1 (1). When working with time series data that have non-stationary levels at individual levels but show a stable longterm relationship when taken into account collectively (cointegration), cointegration analysis becomes very pertinent. A useful tool for comprehending the dynamics and interactions within the dataset is the Johansen cointegration test, which determines whether the variables have significant long-term correlations (cointegration vectors). This approach works well for figuring out and simulating any potential equilibrium relationships between the integrated variables.

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Table 4.3.1: Johansen Cointegration Test

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.766162			
		71.84840	47.85613	0.0001
At most 1 *	0.694215	35.52020	29.79707	0.0098
At most 2	0.209278	5.898341	15.49471	0.7075
At most 3	0.001125	0.028135	3.841466	0.8667

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Max-Eigen Statistic	0.05 Critical Value	Prob.**
36.32819		
	27.58434	0.0029
29.62186	21.13162	0.0025
5.870206	14.26460	0.6299
0.028135	3.841466	0.8667

Hypothesized No. of CE(s)	Eigenvalue
None *	0.766162
At most 1 *	0.694215
At most 2	0.209278
At most 3	0.001125

Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level

Source: Eviews 10

Based on the Trace test and the Maximum Eigenvalue test, the Johansen Cointegration Test results show that there are two cointegrating equations at the 0.05 significance level. This shows that the factors under study have significant, long-term relationships with one another. The Johansen Cointegration Test indicates two cointegrating equations, which shows that a Vector Error Correction

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Model (VECM) is a suitable tool for data analysis. When examining time series data with cointegrated variables, the VECM is especially suitable since it facilitates the investigation of both short-term dynamics and long-term equilibrium relationships between the variables. The VECM can represent the process of adjusting back to equilibrium aftershocks or disruptions, as well as short-term deviations from equilibrium, by adding error correction factors. A thorough grasp of the causal linkages and interdependencies between the integrated variables throughout time is made possible by this modelling technique.

Analysis of Multiple Regression

Table 4.4 Vector Error Correction Model (VECM) Result

Dependent Variable: D(FDIINF)

Method: Least Squares

Date: 04/18/24   Time: 03:41

Sample (adjusted): 1997 2022

Included observations: 26 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-398107.0			
		579543.0	-0.686933	0.4996
D(INBP)	105226.7	39402.98	2.670526	0.0143
D(INGCP)	-160634.7	68662.66	-2.339477	0.0293
D(TININV)	15647.23	8227.275	1.901873	0.0710
ECM (-1)	-0.219864	0.124967	-1.759381	0.0431
R-squared	0.735554			
		Mean dependent var		1468041.
Adjusted R-squared	0.728040	S.D. dependent var		1971559.
S.E. of regression	1616149.	Akaike info criterion		31.60003
Sum squared resid	5.49E+13	Schwarz criterion		31.84197
Log likelihood	-405.8004	Hannan-Quinn criter.		31.66970
F-statistic	4.051148	Durbin-Watson stat		1.378932
Prob(F-statistic)	0.013745			

 Source: Eviews 10
Post Analysis Test
Table 4.5 Residual Diagnostics
Breusch-Godfrey Serial Correlation LM Test:

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F-statistic	1.956658	Prob. F (2,19)	0.1688
Obs*R-squared	4.440485	Prob. Chi-Square (2)	0.1086

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.253817	Prob. F (4,21)	0.9041
Obs*R-squared	1.199031	Prob. Chi-Square (4)	0.8783
Scaled explained SS	2.440995	Prob. Chi-Square (4)	0.6552

Source: Eviews 10

The table's result demonstrates the residual diagnostic test post-test. To determine whether serial correlation was present in our result, two tests of heteroskedasticity and serial correlation were run. Both tests show p-values of 0.1688 and 0.9041, respectively, in the results, which are above the 5% significant level. This demonstrated that our model lacked both serial correlation and heteroskedaticity.

Figure 4.6 Model Stability Result (CUSUM and CUSUM of squares)

The post test results for the CUSUM and CUSUM of squares show that our results remained stable throughout the study period, which is why they were judged sufficient to make inferences and provide an interpretation for potential policy implications. Its CUSUM lines, which for both outcomes lie inside the 5% border, demonstrate this.

Test of Hypothesis

H_{01}: Insurance business premium has a significant impact on foreign direct investment inflows in Nigeria.

Insurance business premium has a t-status of 2.670526 and a p-value of 0.0143, which is less than the 5% significant level, according to the VECM result in table 4.5. This suggests that the insurance industry's premium has a considerable beneficial influence on foreign direct investment inflows into Nigeria. As a result, the stated null hypothesis was rejected.

H_{02}: Payment of Claims has a significant impact on foreign direct investment inflows in Nigeria. Payment of Claims has a t-status of -2.339477 and a p-value of 0.0293, which is less than the 5% significant level, according to the VECM result in Table 4.5. This suggests that foreign direct investment inflows into Nigeria are negatively but significantly impacted by the payment of claims. As a result, the stated null hypothesis was rejected.

H_{03}: Total insurance industry investment has a significant impact on foreign direct

Payment of Claims has a t-status of -2.339477 and a p-value of 0.0293, which is less than the 5% significant level, according to the VECM result in Table 4.5. This suggests that foreign direct investment inflows into Nigeria are negatively but significantly impacted by the

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payment of claims. As a result, the stated null hypothesis was rejected.

Summary

In summary, the study concluded that foreign direct investment in Nigeria is significantly impacted by insurance companies. But more precisely, the following is a synopsis of the study's findings: 1. Foreign direct investment inflows into Nigeria are significantly positively impacted by insurance business premiums.

2.   The payment of claims has a negative but notable effect on Nigeria's influx of foreign direct investment.

3.   Foreign direct investment inflows into Nigeria are positively yet significantly impacted by total insurance industry investment.

Conclusion

The results of the Vector Error Correction Model (VECM) research, in conclusion, highlight the important connection between shifts in the dynamics of the insurance industry and foreign direct investment inflows into Nigeria. The study finds that rises in insurance business premiums have a favourable impact on foreign investment, demonstrating how insurance operations play a risk management function in drawing in investors looking for stability. The impact of risk perception on investment decisions is highlighted among lower foreign direct investment inflows and greater claims payments within the insurance sector. Even while total insurance investment and foreign investment inflows seem negligibly little, the error correction period highlights the system's propensity to gradually rebalance. With the goal of promoting economic growth and stability in Nigeria, these findings add to our understanding of how the dynamics of the insurance industry might influence foreign investment flows and guide policy interventions.

Recommendations

Several recommendations were offered in light of the study's findings about the FDI inflows into Nigeria and impact on the insurance sector's dynamics:

1.   Insurance company premiums have impacted positively on foreign direct investment inflows, promoting cutting-edge insurance solutions designed with international investors' needs, insurance company premium needs to be improved.

2.   Regulate Claims Payments: To lessen the detrimental effects of increased claims payments on foreign direct investment inflows, regulatory actions that guarantee the effectiveness and openness of the claims settlement procedure ought to be put in place. Enhancing investor confidence and drawing in more foreign investment in the insurance sector can be achieved by streamlining claims processes and imposing accountability.

3.   Encourage Investment Stability: Given the complex relationship that exists between total insurance investment and foreign direct investment, the insurance industry should work to encourage investment stability and transparency. This entails establishing a

regulatory framework that is favourable to investors' confidence and lowers perceived risks related to changes in insurance investment returns.

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