

## **Empirical Appraisal of Nigerian Insurance Sector and the Performance of Nigerian Stock Exchange**

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**Abstract:** *The work empirically appraised the Nigerian insurance sector and the performance of Nigerian stock exchange. The inadequacy of capital, inability to mobilize adequate financial resources for trading and investment on the floor of the Nigerian stock exchange, inadequate technical and managerial skill and poor insurance regulatory framework brought confidence crisis and strong apathy to insurance purchase in Nigeria. The specific objectives were to examine the relationship between insurance companies' investments and the all share index of the Nigerian Stock Exchange and to assess the effect of stock/securities prices of insurance companies on market capitalization of the stock market and also to evaluate the relationship between the number of deals of insurance companies in the market. Using an ex-post facto research design and a historical data, the study covered the period 1981 to 2014 and covered all the quoted insurance firms on the Nigerian Stock Exchange operating in Nigeria. The findings reveal there is a significant relationship between insurance companies' investments and the all share index of the Nigerian Stock Exchange, also there is no positive effect of stock/securities prices of insurance companies on market capitalization of the stock market and that Insurance sector growth has significant influence on the performance of Nigerian Stock Exchange. It was recommended that stakeholders in the Nigerian insurance industry in collaboration with their regulatory bodies should consider further consolidation in the Nigerian insurance industry in order to create opportunities for further listing of more insurance companies on the floor of the Nigerian Stock Exchange. The stock/securities prices of insurance companies listed on the floor of Nigerian Stock Exchange should be made attractive to investors for increased volume of stock/securities traded and more insurance investments should be channeled to the stock market for more returns on investments.*

**Keywords:** *Insurance, Premium, Stock, Market.*

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### **I. Introduction**

Insurance is a form of risk management tool in which the insured transfers the cost of potential loss to insurance company, known as premium, for monetary compensation. The insurance firm protects the financial well-being of individuals, organizations and government establishment against unexpected losses. This protection is accomplished through pooling mechanism whereby many individuals and organizations that are vulnerable to risks come together into a risk pool. Each member pays a small amount of money into the pool. The premium paid is used to compensate the unfortunate members who may suffer a loss.

According to Adekunle (2019) history of insurance industry in Nigeria could be traced to the British colonial trading companies that established agency offices in Nigeria on behalf of insurance companies in United Kingdom. At that time, Nigeria was colonized by Britain and many insurance agencies came to stay in Nigeria to play insurance role in support of the trading activities of the British merchants in Nigeria. Prior to 1961, many of the agencies metamorphosed into insurance companies licensed by their foreign authorities, and also many indigenous insurance firms sprang up but could not stand competition with the foreign firms. In 1961, Obadan Commission was set up to review the situation in Nigeria. In a bid to reduce the foreign domination of the insurance sector in Nigeria, a Parliamentary Committee was set up in 1964 under the Chairmanship of Honourable Obadan. The Parliamentary Committee only sensitized Government over the danger inherent in the foreign domination of insurance industry (Akinbola, 2010). In 1972, the policy of Indigenization was introduced in Nigeria. The policy compelled all foreign firms in Nigeria to become Nigerian firms including insurance companies.

Between 1921 when Royal Exchange Assurance Company was first established and 2016, the insurance sector witnessed an upsurge and phenomenal increase in the number of insurance companies operating in Nigeria. The number of insurance firms rose from 1 in 1921 to 4, 28 and 80 in 1949, 1960 and 1975, respectively. The industry increased on daily basis as the number of insurance firm rose from 80 in 1975 to 187 in 1996. The number however declined from this figure in 1996 to 104 in 1999 and rose again to 118 in

2000 (Ubom, 2014). Even after a major recapitalization exercise that was introduced by the Insurance Act of 2003, there were still left over of 107 insurance companies as well as reinsurance operators in the market (Isimoya, 2014). With the recapitalization exercise in the industry in 2007 in which the capital base of insurance firms was increased, the number of insurance companies declined drastically in the country. As at 2010, 73 insurance companies were operational in Nigeria. However, the number has declined to 58 licensed insurance companies between 2012 and 31<sup>st</sup> December, 2015 (NAICOM, 2016). Most of these insurance companies trade in the Nigerian Stock Exchange as evidence with the number of licensed insurance brokers in Nigeria. Specifically, there are over 500 licensed Insurance brokers in Nigeria (Ahmed, 2012). Many times, some of these companies stand out as top players on the floor of the Nigerian Stock Exchange. Insurance institutions seem crucial for economic growth and a complementary stimulus to stock exchange development as claimed by Irving(2001).

### **Statement of the Problem**

With Nigerian political independence in 1960, indigenously owned insurance companies sprang up, which as a result of inadequacy of capital, were unable to mobilize adequate financial resources for trading and investment on the floor of the Nigerian stock exchange. This inadequate capital coupled with inadequate technical and managerial skill, poor insurance regulatory framework, brought confidence crisis and strong apathy to insurance purchase in Nigeria. Yet, insurance sector is recognized globally as a source of long term investment particularly on the floor of stock exchanges. The contribution of insurance industry in Nigeria to the GDP is very negligible, less than 1% for many years. This condition raises a doubt on the impact and contribution of insurance sector to the performance of Nigerian Stock Exchange. In Nigeria, unlike the case in banking sector, the patronage of insurance is poor. This is particularly attributed to poor enlightenment of the public on the role of insurance in economic development and sustainability. The experiences of distress in the sub-financial sector where insurance belongs, is also due to poor performance in claims payment, weak capital base and the number of listed insurance companies in the Nigerian Stock Exchange. These raise doubt about the performance of the industry in terms of market capitalization, share index, prices of stock, number of deals and the value of stocks traded on the floor of the market. There is a growing demand to ascertain the impact of this sector to the growth of the Nigerian Stock Exchange and other sectors of the Nigerian economy. On that premise, this work is carried out.

## **II. Objectives of the Study**

The main objective of this study is to empirically examine the relationship between insurance sector and the performance of the Nigerian stock exchange. Other specific objectives of the study are:

To examine the relationship between insurance companies' investments and the all share index of the Nigerian Stock Exchange

To assess the effect of stock/securities prices of insurance companies on market capitalization of the stock market.

To evaluate the relationship between the number of deals of insurance companies in the market and market capitalization of the Nigerian Stock Exchange

### **Research Hypotheses**

The following research hypotheses have been formulated in null forms:

Ho<sub>1</sub>: There is no significant relationship between insurance companies' investments and the all share index of the Nigerian Stock Exchange.

Ho<sub>2</sub>: There is no positive effect of stock/securities prices of insurance companies on market capitalization of the stock market.

Ho<sub>3</sub>: There is no significant relationship between the numbers of deals of insurance companies in the market and market capitalization of the Nigerian Stock Exchange.

## **III. Review Of Related Literature**

Scholars all over the world have attempted to define insurance based on their opinion. Dickson (1960) in Oke (2012) opined that insurance is designed to protect the financial wellbeing of an individual, company or other entity in case of unexpected loss. According to him, some forms of insurance are required by law, while others are optional. Agreeing to the terms of an insurance policy and paying the premium create a contract between the insurer and the insured. Adebisi (2006), states that insurance is a complicated issue which involves economic and social devices for the handling of risks to life and property. It is social in nature because it represents the cooperation of various individuals for mutual benefits by working together to reduce the consequence of similar risks. As the scope of risk increases and are presented for insurance cover the insurance industry flourishes from the premiums paid.

Furthermore, Kunreuther, (2010) opined that insurance is an economic institution that allows the transfer of financial risk from an individual to a pooled group of risks by means of a two-party contract. The insured party obtains a specified amount of coverage against an uncertain event for a smaller but certain payment. Similarly, Igbojekwe (2006) defined insurance as the identification of a purchaser of an insurance contract against losses which may arise from the occurrence of specified type of events after the payment of a consideration called premium.

According to the Nigerian Insurance Act 2003, there are two broad categories of insurance businesses in Nigeria: Life insurance business and Non-Life (General) insurance business.

The general insurance business can be sub-divided into: fire, accident, oil and gas, contractors' all risks and engineering risks; marine and aviation, Credit insurance, bond and surety ship among others. The second category is life insurance which comprises of individual life business, group life insurance and pension business, health insurance business and annuities (Eze& Victor, 2013). According to Black and Skipper, (2000), there are three main types of life insurance policies in actuarial term namely; whole life insurance - which provides cover for lifetime, term life insurance - that provide cover for a limited number of years and endowment life insurance - which is a term life insurance with a saving component.

### **The Concept of Stock Market**

The stock market has been identified as an institution that contributes to the economic growth of emerging economies, they are also considered as a variable in explaining the economic growth in the most-developed ones. Stock exchanges play an increasingly important role, not only for channeling resources, but also for promoting reforms to modernize the financial sector legislation as is experienced in Nigeria and other emerging economies. According to Levine (1991) there are two key arguments on how stock exchanges speed up the economic growth. The first is by making property changes possible in the companies, whilst not affecting their productive process and the second is by offering higher possibilities of portfolio diversification to the agents.

Atje and Jovanovic (1993) present a cross country study of stock market and economic growth over the period 1980 – 1988. They found a significant correlation between average economic growth and stock market capitalization for 40 countries. In a similar study by Levine and Zervos (1998), they employed data on 47 countries from 1976 through 1993 and found that measures of stock market liquidity are strongly related to growth, capital accumulation and productivity while stock market size does not seem to be robustly correlated to economic growth. Conversely, bank lending to the foreign direct investment has a strong effect on economic growth. Harris (1997) re-examined the empirical relationship between stock market and economic growth using appropriate instruments for investment. In contrast to Atje and Jovanovic (1993), he found no hard evidence that the level of stock market activity helps to explain growth in per capita output. Slitting the sample leads to the similar results for the sub-samples of less developed countries.

On this subject, the study of Levine and Zervos (1996) suggests that the level of stock exchange development is positively associated to economic development. In later research, the same authors (1998a) pointed out that the capacity of transmitting property in advanced economies eases the efficient allocation of resources, the capital formation and the economic growth. Also Demirgüç-Kunt and Maksimovic (1998) in Henry (2000), found a relationship between economic growth and the stock market activity in the field of transmission of securities (secondary market) more than in funds channeling (new issues or primary market). Demirgüç-Kunt and Maksimovic (1996), with a sample of 30 countries from 1980-1991, drew the following conclusions: stock market advances in emerging countries do not imply a decrease of banking business in the financing of business, but, on the contrary, lead to higher activity in banking systems. Banks and stock markets do not appear, as alternative or rival institutions, but are complementary to each other, reinforcing the whole activity of the financial system.

This idea of complementarity is reinforced in the research carried out by Demirgüç-Kunt and Levine (1996) using data from 44 countries, either emerging or industrial, for the years 1986-1993. The different measures of stock exchange size are strongly correlated to other indicators of activity levels of financial, banking and non-banking institutions, as well as to insurance companies and pension funds. They concluded that "countries with well-developed stock markets tend to also have well-developed financial intermediaries". Bartov (1992) highlighted the relationship that exists between stock prices and expected earnings using the earnings expectation models to predict expected earnings. Okodua and Ewetan (2013) also demonstrated that the current price of a stock equals expected value of the sum of next periods price and dividend discounted to the present at the rate 'r' with an expected value of random variable, which has significant effect on the wealth of the Nation.

Barlett (2000), states that rising stock prices have two main effects on the economy; first, it raises wealth in the economy. This increase in wealth raises the amount of consumer spending and thereby increases the wealth of the nation. Secondly, rising stock prices can increase investment spending. We see that one way a

firm can finance investment spending is to issue stock. If stock prices rise, it can raise more money per share of the stock issued.

### **The Nigerian Stock Exchange (NSE)**

The NSE provides facilities for raising long term capital for Government and industrialists to finance development projects and for expansion and modernization of industries respectively. This means that the NSE is a place where long term securities of varying forms are traded. The NSE provides all necessary facilities, rules and conducts for healthy competition and growth of the market. Therefore, the NSE is an intermediary between suppliers of funds and the investors of long term funds. This allocative function of the NSE is critical in determining the overall growth of the economy (Alile,1996). The stock market therefore, plays a central and indispensable role for which it is described as the hallmark of the Nigerian capital market.

### **Insurance Companies and the Nigerian Economy**

The channels through which insurance can positively impact on the economic growth have been identified in many literatures by different contributors. These include mobilization of domestic savings, more efficient management of different risks, mitigation of losses, more efficient allocation of domestic capital and promotion of financial stability (Black & Skipper, 2000). Several studies have attempted to identify the various ways through which insurance could affect economic growth. In the literature, there are three schools of thought on the nature of the relationship between insurance and economic growth.

The first school of thought postulates that insurance leads to economic growth while in contrast, the second school of thought argues that economic growth leads to the development of insurance sector (Patrick, 1966). The third school of thought suggests directional relationship between insurance development and economic performance (Haiss&Sumegi, 2008).

The available empirical evidence on the insurance-growth relationship has produced mixed results. Therefore, a study on the causal relationship between insurance and economic growth in Nigeria (1986-2010) by Akinlo (2013), uses Vector Error Correction model (VECM). In his study the co-integration test shows that GDP, premium, inflation and interest rates are co-integrated when GDP is the endogenous variable. The Granger causality test reveals that there is no causality between economic growth and premium in short- run while premium, inflation and interest rate Granger cause GDP in the long run which means there is unidirectional causality running from premium, inflation and interest rate to GDP. This means the insurance industry contributes to the economic growth in Nigeria as they provide the necessary long-term funds for investment and while also absolving risks. Analysis of insurance practice and economic growth in Nigeria was conducted using co-integration test and error correction model by Richard and Victor (2013). The study examines the impact of insurance practice on the growth of Nigerian economy. Insurance premium income, total insurance investment and income of insurance development was used as determinants of insurance practice. The study employed unit root tests, Johansen co-integration test and error correction model in data analysis and to determine the short and long run effect of the model. The study also observed that the insurance premium capital has significantly impacted on economic growth in Nigeria; that the level of total insurance investment has significantly impacted on the economic growth in Nigeria; and that there is causal relationship between insurance sector development and economic growth in Nigeria

### **Insurance companies and Nigerian Stock Exchange**

According to Nigerian Fact Book 2014, there were thirty insurance companies listed on the floor of Nigerian Stock Exchange as at 31<sup>st</sup> December, 2014. These companies float their shares and other securities thereby boosting capital formation of NSE and the economy at large. Recent studies suggest that, stock market liquidity has been a catalyst for long-run growth in developing countries. Without a liquid stock market, many profitable long-term investments would not be undertaken because savers would be reluctant to tie up their investments for long periods of time. In contrast, a liquid equity market allows savers to sell their shares easily, thereby permitting firms to raise equity capital on favorable terms. By facilitating longer-term, more profitable investments, a liquid market improves the allocation of capital and enhances prospects for long-term economic growth. The capital market is an organized market which provides facilities to the government and private investors to raise long term loans to finance its expenditures and for expansion and modernization of industries. It also exists to offer platform where suppliers of capital can quickly and easily restore their liquidity.

The capital market serves the purpose of capital mobilization and allocation of the nation's capital resources among various competing alternative uses. These vital functions for rapid economic growth and development as performance by the capital market are in consonance with the aims and objectives for establishing the Nigeria Stock Exchange (NSE) in March 1960 (as the Lagos stock Exchange). NSE organizes

the market for the buying and selling of stocks, shares, debentures and Government bonds, collectively known as securities. There are two markets within the NSE like other stock exchanges in the world. These are:

- I. The primary market; and
- II. The secondary market.

### **Developments in the Nigerian Stock Market**

Market capitalisation of the Nigerian stock exchange continued to improve gradually from a total of N5 billion in 1981 to N8.2 billion in 1987 with Government securities taking the lead with N3.1 billion as compared to N1.9 billion and N4.2 billion compared with N4 billion in 1981 and 1987 respectively. Thereafter the total market capitalisation not only began to show remarkable improvement, but equities began to take the lead with market capitalisation of N175.1 billion in equities in 1995 compared with Government stocks of N3.2 billion in the same year. By 2007, total market capitalisation had hit N13,181.7 billion, this limp was attributable to the privatization of some public concerns by the Federal Government. However 2008 the effects of the global financial crunch which started in July 2007 had begun to take its toll in the Nigerian capital market. Foreign portfolio investors had begun to divest from Nigeria perhaps in order to meet up with obligations in their home countries (Okonkwo, Ogwuru and Ajudua, 2014).

This scenario saw the general price level crashing down by 80 percent by 2009. Growth in total market capitalisation had continued to oscillate downward from -27.8 percent, -26.3 percent, 41 percent and 4 percent in 2008, 2009, 2010 and 2011 respectively, while annual turnover value oscillated between 14.3 percent, -71.4 percent, 16.3 percent and -21.9 percent in 2008, 2009, 2010 and 2011 respectively. Also the number of listed securities had oscillated between -2.6 percent, -11 percent, -0.8 percent and -5.3 percent in 2008, 2009, 2010 and 2011 respectively (Okonkwo et al, 2014).

### **Theoretical Framework**

There are a number of theories explaining the stock market activities, its role in capital formation, restoring liquidity, financial deepening, price stabilization, and economic growth. This study is guided by two of the theories; the Bernoulli Theory and Rational Expectations Theory.

#### **The Bernoulli Theory**

This theory was propounded by Bernoulli (1954). Daniel Bernoulli was concerned with finding solution to why the Russians of his time were very much averse to risk and were not willing to make bets at a better than 50 – 50 odds knowing that the expected monetary value (EMV) of such bets are infinite, a situation known as the St. Petersburg paradox. In resolving this paradox, he came to the conclusion that though the monetary gain or loss is equal, the loss in utility was greater than the gain in utility. Thus, in Bernoulli's view, rational decisions in the case of risky choices would be made on the basis of expectations of total utility rather than the mathematical expectations of monetary value. Therefore, the primary reason influencing peoples' choices in cases of uncertainty (risks) is that the fact that marginal utility of money diminishes as income rises. There is a greater loss in utility than a gain in utility in an equal amount of money lost or gained. This suggests why majority of Nigerian are seldom interested in the activities of the stock market, and makes it even more difficult restoring confidence in the market.

#### **Rational Expectations Theory**

This theory was propounded by Okonkwo et al (2014). Rational expectations theory states that the players in an economy will act in a way that conforms to what can logically be expected in the future. That is, a person will invest and spend according to what he or she rationally believes will happen in the future. Although this theory has become quite important to economics, its utility is doubtful. For example, an investor thinks a stock is going to go up, and by buying it, this act actually causes the stock to go up. This same transaction can be framed outside of rational expectations theory. An investor notices that a stock is undervalued, buys it, and watches as other investors notice the same thing, thus pushing the price up to its proper market value. This is the problem with Nigerian stock market trying to restore market confidence since after the global financial crunch. The general expectation of Nigerian investors is pessimistic and hence the market is dragging irrespective of the innovations introduced by the regulatory agency and the Nigerian stock exchange.

### **Empirical Literature**

A large body of empirical studies clearly shows that the development of stock markets is strongly and positively correlated with the level of economic development and capital accumulation. This is a solid and uncontroversial result, and it appears to be true across time and for many countries. Indeed, data confirm that as economies develop equity markets tend to expand both in terms of the number of listed

companies and in terms of market capitalization (Atje and Jovanovich 1993; Demirgüç-Kunt and Levine 1996a, 1996b; Demirguc-Kunt and Maksimovic 1996; Korajczyk 1996; Levine and Zervos 1996, 1998).

This result, however, does not suggest a direct and monotonic expansion of the share of equity markets in the financial system. In reality, the expansion of equity markets always appears to be preceded and accompanied by the general expansion of the overall financial system. And to a careful observer, far from being a simple and straightforward fact, the co-evolution of real and financial variables is a complex and multifaceted phenomenon. Indeed, the expansion of stock markets generally follows the development of commercial banks and other financial intermediaries which, in many cases, continues as equity markets expand. This process produces an apparently puzzling situation: an expanding equity market together with a financial system persistently dominated by banks and their financial products (Levine 1997; King and Levine 1993a, 1993b; Levine and Renelt 1992; Olalekan and Taiwo 2013).

#### **IV. Research Methodology**

An ex-post facto research design is adopted for this study since it relied on historical data obtained in the CBN Statistical Bulletin, as such the event under investigation had already taken place and the researcher does not intend to control or manipulate the independent variables. Thus the study area is Nigeria. The study is conducted to cover the period from 1981 to 2014 (thirty four years). The population of the study is the total number of quoted insurance firms on the Nigerian Stock Exchange operating in Nigeria. According to Nigerian Stock Exchange Fact Book (2014), there are thirty (30) insurance companies quoted on NSE as at December, 2014. Therefore, the population of this study is the 30 quoted insurance firms in Nigeria.

#### **Model Specification**

In this study multiple regression analysis was conducted via the use of SPSS Software and examines the relationship between each of the dependent variables and independent variables. The decision rule for regression is that if the p value is less than the alpha ( $\alpha$ ) value at 5% (0.05) level of significance we reject the null hypothesis ( $H_0$ ) and if otherwise we do not.

Therefore, the regression model involves the following variables:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n + U_t$$

Where;

Y = the dependent variable

$\beta_0$  = constant term

$x_1, x_2, \dots, x_n$  = the coefficient of the independent variable

$\beta_1, \beta_2, \beta_n$  = the independent variables

$U_t$  = stochastic error term for company at time t

The research hypotheses formulated earlier in null form will be tested here. For the purpose of this study, the multiple regression equations are formulated thus:

$$\text{ALSIND} = f(\text{INSINV}, \text{TOINCM}, \text{PINCM}) \dots \dots \dots (1)$$

$$\text{TAMCAP} = f(\text{STSINS}, \text{INSGDP}, \text{INSINV}) \dots \dots \dots (2)$$

$$\text{TAMCAP} = f(\text{NINCSL}, \text{NDEALS}, \text{VDEALS}) \dots \dots \dots (3)$$

The equations are linearized in the hypotheses as:

$$\text{ALSIND} = \beta_0 + \beta_1 \text{INSINV} + \beta_2 \text{TOINCM} + \beta_3 \text{PINCM} + U_1 \dots \dots \dots (4)$$

$$\text{TAMCAP} = \beta_0 + \beta_1 \text{STSINS} + \beta_2 \text{INSGDP} + \beta_3 \text{INSINV} + U_2 \dots \dots \dots (5)$$

$$\text{TAMCAP} = \beta_0 + \beta_1 \text{NINCSL} + \beta_2 \text{NDEALS} + \beta_3 \text{VDEALS} + U_3 \dots \dots \dots (6)$$

Where;

ALSIND = All Share Index on the Nigerian Stock Exchange.

INSINV = Total Investments of insurance companies

TOINCM = Total Income of insurance companies

PINCM = Premium income of insurance companies

TAMCAP = Total Annual Market Capitalization on the Nigerian Stock Exchange

STSINS = Stocks/securities of quoted insurance companies on the Nigerian Stock Exchange.

INSGDP = Insurance sector growth

NINCSL = Numbers of insurance companies listed on the Nigerian Stock Exchange

NDEALS = Total number of deals on the Nigerian Stock Exchange

VDEALS = Total value of deals on the Nigerian Stock Exchange.

#### **Estimation Techniques**

In this study, we empirically examine the relationship between variables of insurance sector contribution to the growth of Nigerian Stock Exchange using multiple linear regression technique. To test the

significance of the individual explanatory variables and coefficients to determine whether there is a linear relationship between the independent and dependent variables, we use the t-test to perform the test. If the calculated t-value ( $t^c$ ) is greater than the critical value benchmark of 2.0 at a scaled 5 percent level of significance, the independent variable is considered to have a linear and positive relationship with the dependent variable, and hence the null hypothesis is rejected. The R-squared ( $R^2$ ) and F-value statistics are used to evaluate the statistical reliability of the result estimated. The  $R^2$  is used to judge the explanatory power of the regression equations. It measures the goodness of fit of the regression line. The F-statistic is used in testing the significance of the overall model.

Decision Rule

Reject  $H_0$  if the calculated t-value is less than 2.0. Alternatively, accept  $H_0$ , if calculated p-value > 0.05 or reject  $H_0$ , if calculated p-value < 0.05.

## V. Data Presentation And Analysis

### Data Presentation

**Table 1:** Trend of All Share Index on the Nigerian Stock Exchange (ALSIND), Total Investments of insurance companies (INSINV), Total Income of insurance companies (TOINCM) and Premium income of insurance companies (PINCM) in Nigeria from 1981 to 2014.

YEAR	ALSIND (₦Billion)	INSINV (₦Million)	TOINCM (₦Million)	PINCM (₦Million)
1981	n/a	1,014.0	240.7	234.1
1982	n/a	1,138.0	259.5	248.8
1983	n/a	1,106.0	228.6	191.8
1984	n/a	1,333.9	237.6	205.7
1985	127.3	1,934.5	205.1	195.3
1986	163.8	2,488.0	263.7	254.2
1987	190.9	2,651.5	420.0	406.5
1988	233.6	4,255.9	506.7	486.6
1989	325.3	5,291.0	701.8	673.1
1990	513.8	6,334.0	1,048.4	1,013.7
1991	783.0	6,628.4	1,334.2	1,296.2
1992	1,107.6	10,166.7	2,517.9	2,445.7
1993	1,543.8	20,329.9	5,901.3	4,931.9
1994	2,205.0	23,220.9	14,671.7	14,519.1
1995	5,092.2	7,155.9	14,587.6	13,525.1
1996	6,992.1	12,379.5	13,150.6	11,091.3
1997	6,440.5	13,613.1	16,519.0	10,941.6
1998	5,672.7	15,656.9	17,846.5	11,688.3
1999	5,266.4	21,583.5	14,643.9	14,597.3
2000	8,111.0	25,192.6	22,531.5	22,531.5
2001	10,963.1	32,157.3	28,981.3	28,981.3
2002	12,137.7	36,940.9	37,765.9	37,765.9
2003	20,128.9	54,642.8	43,944.7	43,441.8
2004	23,844.5	74,590.8	50,495.9	50,100.8
2005	24,085.8	121,844.2	67,746.3	67,465.6
2006	33,189.3	216,359.9	82,361.9	81,583.8
2007	57,990.2	329,247.9	105,379.3	89,104.9
2008	31,450.8	336,491.4	157,206.0	126,470.3
2009	20,827.2	343,894.2	189,960.5	153,127.1
2010	24,770.5	351,459.9	200,376.0	157,336.8
2011	20,730.6	359,192.0	233,752.9	175,756.8
2012	28,078.8	399,373.2	182,172.9	252,138.1
2013	41,329.2	506,241.5	506,241.5	195,864.5
2014	34,657.2	550,000.0	n/a	126,053.4

Sources: Central Bank of Nigeria (CBN) Statistical Bulletin (2009; 2014), NAICOM Annual Reports, Nigerian Insurers Digest (2012) and Ngereboa (2014).

$$ALSIND = \beta_0 + \beta_1 INSINV + \beta_2 TOINCM + \beta_3 PINCM + U_1$$

**Table 2:** Trend of Total Annual Market Capitalization on the Nigerian Stock Exchange (TAMCAP), Stocks/securities of quoted insurance companies on the Nigerian Stock Exchange (STSINS), Insurance sector growth (INSGDP) and Total Investments of insurance companies (INSINV) in Nigeria from 1981 to 2014.

YEAR	TAMCAP (₦Billion)	STSINS (₦Million)	INSGDP (₦Billion)	INSINV (₦Million)
1981	5.0	103.0	2.9	1,014.0
1982	5.0	99.4	4.5	1,138.0
1983	5.7	104.4	2.9	1,106.0
1984	5.5	100.9	3.5	1,333.9

1985	6.6	152.5	3.5	1,934.5
1986	6.8	190.4	3.9	2,488.0
1987	8.2	194.7	4.7	2,651.5
1988	10.0	216.8	5.6	4,255.9
1989	12.8	228.1	6.5	5,291.0
1990	16.3	157.6	6.5	6,334.0
1991	23.1	163.2	7.3	6,628.4
1992	31.2	152.8	8.4	10,166.7
1993	47.5	119.3	8.9	20,329.9
1994	66.3	110.6	6.9	23,220.9
1995	180.4	75.6	11.0	7,155.9
1996	285.8	101.8	20.3	12,379.5
1997	281.9	75.0	16.4	13,613.1
1998	262.6	74.2	18.7	15,656.9
1999	300.0	109.6	20.6	21,583.5
2000	472.3	1,460.0	23.3	25,192.6
2001	662.5	1,460.0	28.9	32,157.3
2002	764.9	1,473.0	42.2	36,940.9
2003	1,359.3	-	38.4	54,642.8
2004	2,112.5	-	52.6	74,590.8
2005	2,900.1	20.7	72.1	121,844.2
2006	5,120.9	16.8	142.2	216,359.9
2007	13,181.7	16.2	172.3	329,247.9
2008	9,563.0	16.0	198.1	336,491.4
2009	7,030.8	16.0	226.2	343,894.2
2010	9,918.2	2.8	260.1	351,459.9
2011	10,275.3	N/A	284.0	359,192.0
2012	14,800.9	N/A	271.9	399,373.2
2013	19,077.4	N/A	315.0	506,241.5
2014	16,875.1	N/A	362.7	550,000.0

Sources: Central Bank of Nigeria (CBN) Statistical Bulletin (2009; 2014), NAICOM Annual Reports, Nigerian Insurers Digest (2012; 2013) and Ngereboa (2014).

$$TAMCAP = \beta_0 + \beta_1STSINS + \beta_2INSGDP + \beta_3INSINV + U_2$$

**Table 3:** Trend of Total Annual Market Capitalization on the Nigerian Stock Exchange (TAMCAP), Numbers of insurance companies listed on the Nigerian Stock Exchange (NINCSL), Total number of deals on the Nigerian Stock Exchange (NDEALS) and Total value of deals on the Nigerian Stock Exchange (VDEALS) in Nigeria from 1981 to 2014.

YEAR	TAMCAP (₦' Billion)	NINCSL	NDEALS	VDEALS (₦' Billion)
1981	5.0	4	10,199	304.8
1982	5.0	4	10,014	215.0
1983	5.7	5	11,925	397.9
1984	5.5	6	17,444	256.5
1985	6.6	6	23,571	316.6
1986	6.8	6	27,718	497.9
1987	8.2	6	20,525	382.4
1988	10.0	7	21,560	850.3
1989	12.8	7	33,444	610.3
1990	16.3	7	39,270	225.4
1991	23.1	8	41,770	242.1
1992	31.2	8	49,029	491.7
1993	47.5	9	40,398	804.4
1994	66.3	9	42,074	985.9
1995	180.4	9	49,564	1,838.8
1996	285.8	9	49,515	6,979.6
1997	281.9	9	78,089	10,330.5
1998	262.6	9	84,935	13,571.1
1999	300.0	10	123,509	14,072.0
2000	472.3	10	256,523	28,153.1
2001	662.5	10	426,163	57,683.8
2002	764.9	11	451,850	59,406.7
2003	1,359.3	13	621,717	120,402.6
2004	2,112.5	14	973,526	225,820.0
2005	2,900.1	27	1,021,967	262,935.8
2006	5,120.9	27	1,367,954	470,253.4
2007	13,181.7	27	2,615,020	1,076,020.4
2008	9,563.0	27	3,535,631	1,679,143.7



2009	7,030.8	27	1,739,365	685,717.3
2010	9,918.2	27	1,925,314	799,911.0
2011	10,275.3	27	1,235,467	638,925.7
2012	14,800.9	27	1,147,174	808,991.4
2013	19,077.4	30	3,224,639	2,350,875.7
2014	16,875.1	30	1,211,269	1,334,783.1

**Sources:** Central Bank of Nigeria (CBN) Statistical Bulletin (2009; 2014), NAICOM Annual Reports, Nigerian Insurers Digest (2012) and Ngereboa (2014).

$$TAMCAP = \beta_0 + \beta_1NINCSL + \beta_2NDEALS + \beta_3VDEALS + U_3$$

**Data Analysis**

Table 1 revealed that All Share Index on the Nigerian Stock Exchange (ALSIND) rose from ₦127.3 billion in 1985 to ₦34,657.2 billion in 2014 representing 27,125% increase. Total Investments of insurance companies (INSINV) stood at ₦1,014.0 million in 1981 and rose to ₦550,000.0 representing 54,141%. Also, Total Income of insurance companies (TOINCM) and Premium income of insurance companies (PINCM) were also increasing at faster rates not more than investments. The implication of this trend is that the activities of insurance sector caused All Share Index on the Nigerian Stock Exchange to increase with fluctuation movement.

Table 2 depicts the trend movement of Total Annual Market Capitalization on the Nigerian Stock Exchange (TAMCAP), Stocks/securities of quoted insurance companies on the Nigerian Stock Exchange (STSINS), Insurance sector growth (INSGDP) and Total Investments of insurance companies (INSINV) in Nigeria from 1981 to 2014. It was observed that TAMCAP rose from ₦5 billion in 1981 to ₦16,875.1 billion in 2014 representing 337,402% increase. Stocks/securities of quoted insurance companies on the Nigerian Stock Exchange (STSINS) also increased steadily while insurance sector growth rose from ₦2.9 billion in 1981 to ₦362.7 billion in 2014 representing 12,407% increase.

The numbers of insurance companies listed on the Nigerian Stock Exchange (NINCSL) rose from 4 in 1981 to 30 in 2014 as depicted in Table 3, which represents 650% increase. The total number of deals on the Nigerian Stock Exchange (NDEALS) and total value of deals on the Nigerian Stock Exchange (VDEALS) in Nigeria also increased significantly causing total market capitalization to increase at a steady rate.

**Testing of Hypothesis One**

**H<sub>01</sub>:** There is no significant relationship between insurance companies’ investments and the all share index of the Nigerian Stock Exchange.

Using the model:

$$ALSIND = \beta_0 + \beta_1INSINV + \beta_2TOINCM + \beta_3PINCM + U_1$$

Where:

ALSIND = All Share Index on the Nigerian Stock Exchange.

INSINV = Total Investments of insurance companies

TOINCM = Total Income of insurance companies

PINCM = Premium income of insurance companies

The results from Table 4 in appendix 1 are summarized below:

$$ALSIND = \beta_0 + \beta_1INSINV + \beta_2TOINCM + \beta_3PINCM + U_1$$

$$ALSIND = 4298.6 + 0.081INSINV + 0.010TOINCM - 0.032PINCM$$

$$t\text{-statistic} = [2.396] \quad [3.543] \quad [0.415] \quad [-0.497]$$

$$p\text{-value} = [0.023] \quad [0.001] \quad [0.681] \quad [0.623]$$

$$\text{Std. Error} = [1794.431] \quad [0.023] \quad [0.025] \quad [0.065]$$

$$R^2 = 0.709 \quad \text{Adjusted R-squared} = 0.680$$

$$F\text{-statistic} = 24.355$$

**Decision:**

Reject H<sub>0</sub> if the calculated t-value is less than 2.0. Alternatively, accept H<sub>0</sub>, if calculated p-value > 0.05 or reject H<sub>0</sub>, if calculated p-value < 0.05. Therefore, since the calculated t-value (t<sub>c</sub>) of 2.396 is greater than the critical table t-value (t<sub>i</sub>) benchmark of 2.0 and (calculated p-value of 0.023 < p-value of 0.05), we reject the null hypothesis that there is a significant relationship between insurance companies’ investments and the all share index of the Nigerian Stock Exchange.

**Testing of Hypothesis Two**

**H<sub>0</sub>:** There is no positive effect of stock/securities prices of insurance companies on market capitalization of the stock market.

Using the model:

$$TAMCAP = \beta_0 + \beta_1STSINS + \beta_2INSGDP + \beta_3INSINV + U_2$$

Where:

TAMCAP = Total Annual Market Capitalization on the Nigerian Stock Exchange

STSINS = Stocks/securities of quoted insurance companies on the Nigerian Stock Exchange.

INSGDP = Insurance sector growth

INSINV = Total Investments of insurance companies

The results from Table 5 in Appendix 2 are summarized below:

$$TAMCAP = \beta_0 + \beta_1 STSINS + \beta_2 INSGDP + \beta_3 INSINV + U_2$$

$$TAMCAP = -250.755 + 0.168 STSINS - 30.369 INSGDP + 0.052 INSINV + U_2$$

$$t\text{-statistic} = [-0.909] \quad [0.328] \quad [-2.188] \quad [5.729]$$

$$p\text{-value} = [0.371] \quad [0.745] \quad [0.037] \quad [0.000]$$

$$\text{Std. Error} = [275.820] \quad [0.511] \quad [13.878] \quad [0.009]$$

$$R^2 = 0.963 \quad \text{Adjusted R-squared} = 0.960$$

$$F\text{-statistic} = 263.066$$

**Decision:**

Reject  $H_0$  if the calculated t-value is less than 2.0. Alternatively, accept  $H_0$ , if calculated p-value  $> 0.05$  or reject  $H_0$ , if calculated p-value  $< 0.05$ . Therefore, since the calculated t-value ( $t_c$ ) of -0.909 is less than the critical table t-value ( $t_t$ ) benchmark of 2.0 and (calculated p-value of 0.371  $>$  p-value of 0.05), we accept the null hypothesis that there is no positive effect of stock/securities prices of insurance companies on market capitalization of the stock market.

**Testing of Hypothesis Three**

**H<sub>0</sub>:** There is no significant relationship between the numbers of deals of insurance companies in the market and market capitalization of the Nigerian Stock Exchange.

Using the model:

$$TAMCAP = \beta_0 + \beta_1 NINCSL + \beta_2 NDEALS + \beta_3 VDEALS + U_3$$

Where:

TAMCAP = Total Annual Market Capitalization on the Nigerian Stock Exchange

NINCSL = Numbers of insurance companies listed on the Nigerian Stock Exchange

NDEALS = Total number of deals on the Nigerian Stock Exchange

VDEALS = Total value of deals on the Nigerian Stock Exchange.

The results from Table 6 in Appendix 3 are summarized below:

$$TAMCAP = \beta_0 + \beta_1 NINCSL + \beta_2 NDEALS + \beta_3 VDEALS + U_3$$

$$TAMCAP = 2151.811 + 333.922 NINCSL + 0.003 NDEALS + 0.010 VDEALS + U_3$$

$$t\text{-statistic} = [3.868] \quad [6.136] \quad [4.182] \quad [8.181]$$

$$p\text{-value} = [0.001] \quad [0.000] \quad [0.000] \quad [0.000]$$

$$\text{Std. Error} = [556.356] \quad [54.417] \quad [0.001] \quad [0.001]$$

$$R^2 = 0.940 \quad \text{Adjusted R-squared} = 0.934$$

$$F\text{-statistic} = 156.223$$

**Decision:**

Reject  $H_0$  if the calculated t-value is less than 2.0. Alternatively, accept  $H_0$ , if calculated p-value  $> 0.05$  or reject  $H_0$ , if calculated p-value  $< 0.05$ . Therefore, since the calculated t-value ( $t_c$ ) of 3.868 is greater than the critical table t-value ( $t_t$ ) benchmark of 2.0 and (calculated p-value of 0.001  $<$  p-value of 0.05), we reject the null hypothesis that there is a significant relationship between the numbers of deals of insurance companies in the market and market capitalization of the Nigerian Stock Exchange.

**VI. Discussion of Major Findings**

The three hypotheses tested revealed mix results. In the first hypothesis, a regression coefficient of 4298.610 implies that there is a positive relationship between All Share Index on the Nigerian Stock Exchange (ALSIND), Total Investments of insurance companies (INSINV), Total Income of insurance companies (TOINCM) and Premium income of insurance companies (PINCM). The coefficient of determination ( $R^2$ ) was 0.709 which implies that about 70.9% variations in ALSIND were caused by INSINV, TOINCM and PINCM while the remaining 29.1% were due to other variables outside the regression model which also affects ALSIND. Since the calculated t-value ( $t_c$ ) of 2.396 is greater than the critical t-value ( $t_t$ ) benchmark of 2.0 and (calculated p-value of 0.023  $<$  p-value of 0.05), the finding was that there is a significant relationship between insurance companies' investments and the all share index of the Nigerian Stock Exchange. To determine the significance of the independent variables, a t-test was conducted for the parameter. Thus, since INSINV has a t-statistic ( $t_c$ ) of 3.543 greater than the critical t-value ( $t_t$ ) benchmark of 2.00 and p-value of 0.001  $<$  p-value of 0.05, it indicated that INSINV has contributed positively and statistically significant to ALSIND. The analysis

further revealed that TOINCM has contributed positively and statistically insignificantly to ALSIND as evidenced in a t-statistic of 0.415 and a p-value of 0.681 > p-value of 0.05. PINCM had a t-statistic of -0.497 and a p-value of 0.623 indicating a negative and insignificant statistical contribution to All Share Index on the Nigerian Stock Exchange (ALSIND). The F- statistic of 24.355 and prob(F-statistic) of 0.000 confirmed that there is a linear relationship between ALSIND and at least one of the independent variables and also indicated that the model has a good fit.

In the second hypothesis, a regression intercept coefficient of -250.755 implies that there is a negative relationship between Total Annual Market Capitalization on the Nigerian Stock Exchange (TAMCAP), Stocks/securities of quoted insurance companies on the Nigerian Stock Exchange (STSINS), Insurance sector growth (INSGDP) and Total Investments of insurance companies (INSINV). The coefficient of determination ( $R^2$ ) was 0.963 indicating that about 96.3% variations in TAMCAP were caused by STSINS, INSGDP and INSINV while the remaining 3.7% were due to other variables outside the regression model which also affect TAMCAP. Since the calculated t-value ( $t_c$ ) of -0.909 was less than the critical t-value ( $t_c$ ) of 2.00 and (calculated p-value of 0.371 > p-value of 0.05), the finding was that there is no positive effect of stock/securities prices of insurance companies on market capitalization of the stock market. STSINS has a t-statistic ( $t_c$ ) of 0.328 less than the critical t-value ( $t_c$ ) of 2.00 indicating that STSINS has contributed positively but statistically insignificant to TAMCAP. It was further revealed that INSGDP has contributed negatively and insignificantly to TAMCAP as evidenced in a t-statistic of -2.188. INSINV has a t-statistic ( $t_c$ ) of 5.729 greater than the critical t-value ( $t_c$ ) of 2.00 indicating that INSINV has contributed positively and statistically significant in explaining the changes in TAMCAP. The F- statistic of 263.066 and prob(F-statistic) of 0.000 confirmed that there is a linear relationship between Total Annual Market Capitalization on the Nigerian Stock Exchange (TAMCAP) and at least one of the independent variables and also indicated that the model has a good fit.

Furthermore, in the third hypothesis, a regression coefficient of 2151.811 implies that there is a positive relationship between Total Annual Market Capitalization on the Nigerian Stock Exchange (TAMCAP), Numbers of insurance companies listed on the Nigerian Stock Exchange (NINCSL), Total number of deals on the Nigerian Stock Exchange (NDEALS) and Total value of deals on the Nigerian Stock Exchange (VDEALS). The coefficient of determination ( $R^2$ ) was 0.940 which implies that about 94% variations in TAMCAP were caused by NINCSL, NINCSL and VDEALS while the remaining 6% were due to other variables outside the regression model which also affects TAMCAP growth rate in Nigeria. Since the calculated t-value ( $t_c$ ) of 3.868 was greater than the critical table t-value ( $t_c$ ) of 2.00 and (calculated p-value of 0.001 < p-value of 0.05), the finding was that there is a significant relationship between the numbers of deals of insurance companies in the market and market capitalization of the Nigerian Stock Exchange. NINCS, NDEALS and VDEALS have positive and statistical significant relationship with TAMCAP. The F- statistic of 156.223 and prob(F-statistic) of 0.000 confirmed that there is a linear relationship between the dependent variable and the independent variables and also indicated that the model has a good fit.

## **VII. Summary of Findings**

Insurance sector in Nigeria remain one of the important components of financial Services subsector in Nigeria. Insurance companies are among the listed firms on the floor of Nigerian Stock Exchange. Their role in enhancing stock market performance and stimulating growth cannot be over emphasized. Since insurance sector has links to sectors such as industrial, transportation, agriculture, mining, petroleum and trade both locally and internationally, its relevance to general human activities has continued to grow for all ages as all categories of risks increase. This main objective of this study was to empirically examine the relationship between insurance sector and the performance of the Nigerian stock exchange. The summary of the major findings reveal:

- i) There is a significant relationship between insurance companies' investments and the all share index of the Nigerian Stock Exchange.
- ii) There is no positive effect of stock/securities prices of insurance companies on market capitalization of the stock market.
- iii) Insurance sector growth has significant influence on the performance of Nigerian Stock Exchange as proxied by total market capitalization. This is evidenced in the p-value of 0.03.
- iv) Insurance companies' investments have the most statistical significant and positive effect on market capitalization of the stock market.
- v) There is a significant relationship between the numbers of deals of insurance companies in the market and market capitalization of the Nigerian Stock Exchange.
- vi) Number of insurance companies listed on the Nigerian Stock Exchange (NINCSL), Total number of deals on the Nigerian Stock Exchange (NDEALS) and Total value of deals on the Nigerian Stock Exchange (VDEALS) have positive and significant impact on the total market capitalization of the Nigerian Stock Exchange.

vii) Securities and Exchange Commission (SEC) has played vital regulatory role to encourage the participation of insurance industry in the Nigerian Stock Exchange. This is evidenced in the 30 (thirty) insurance companies listed on the floor of Nigerian Stock Exchange as at 31<sup>st</sup> December, 2014.

### **VIII. Conclusion**

Currently most insurance firms have raised long term funds through the stock market for investment purposes facilitated by the Nigerian Stock Exchange (NSE). This means that the NSE is a place where long term securities of varying forms are traded. The NSE provides all necessary facilities, rules and conducts for healthy competition and growth of the market. Therefore, the NSE is an intermediary between suppliers of funds and the investors of long term funds. Based on the findings from this study, we conclude that there is a significant relationship between insurance sector and the performance of Nigerian Stock Exchange.

### **Recommendations**

In order to ensure that the insurance sector in Nigeria will continue to perform significantly in the stock market, the following recommendations are proffered based on the findings of the study.

- i) Since insurance sector has significant contribution to the performance of Nigerian Stock Market, It is therefore recommended that stakeholders in the Nigerian insurance industry in collaboration with their regulatory bodies; National Insurance Commission (NAICOM) and Securities and Exchange Commission, should consider further consolidation in the Nigerian insurance industry in order to create opportunities for further listing of more insurance companies on the floor of the Nigerian Stock Exchange.
- ii) The stock/securities prices of insurance companies listed on the floor of Nigerian Stock Exchange should be made attractive to investors for increased volume of stock/securities traded.
- iii) More insurance investments should be channeled to the stock market for more returns on investments.
- iv) Stringent conditions during the listing process should be checked by the stock market regulator for more insurance firms to get listed on the floor of the Nigerian Stock Exchange.
- v) Insurance firms should forecast their liquidity requirements and maintain emergency standby in order to meet their customer's needs and minimize the risk associated with their investments on the floor of the Nigerian Stock Exchange. By doing this, their liquidity will be safe and the net assets value of the companies can be improved.
- vi) Insurance companies should obtain more favorable terms and conditions in their relationship with investors, creditors, insured's, reinsurers and other counter parties which should lead to a wider market for the industry. In collecting relative small premiums from many individuals, insurers would be able to pull together and have a large pool of funds for investment, generating more income for the companies.

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