International Journal of Women in Technical Education and Employment
ISSN: 2811-1567. Volume 3 – Issue 2. December 2022
https://fpiwitedjournal.federalpolyilaro.edu.ng

Foreign Direct Investment and the Performance of the Insurance Sector in Nigeria

Oladeinde Akeem Raji & Adisa Taiwo Abel

Department of Insurance, The Federal Polytechnic Ilaro, Ogun State.
akeem.raji@federapolyilaro.edu.ng; Abel.adisa@federalpolyilaro.edu.ng

ARTICLE HISTORY

Received: June 15, 2022
Revised: June 20, 2022
Accepted: July 20,2022

Abstract

The study looked at how, over 30 years, from 1991 to 2020, foreign direct investment (FDI) impacted the growth of Nigeria's insurance market. OLS regression, the Augmented Dickey-Fuller unit root test, the Normality Test, regression, co-integration, and the Granger test were analysed after obtaining the data from the Central Bank of Nigeria (CBN) statistical bulletin. The results demonstrated that the GDP contribution of insurance is not considerably impacted by either foreign direct investment or exchange rate. Furthermore, the output of the insurance industry as a percentage of GDP decreases in the same way when the explanatory variable—foreign direct investment inflows—changes. This demonstrates that the inflows of FDI into the country have not significantly affected the performance of the insurance sector. To increase domestic investment in the nation, it was advised that the government modernize its infrastructure, offer life and property insurance protection, and maintain consistency in policy. To be more exact, increasing insurance investment and requiring insurance for all businesses.

Keywords: Exchange Rate, FDI, GDP, Insurance Company

Citation
Oladeinde, A. R. & Adisa, T. A. (2022). Foreign Direct Investment and the Performance of the Insurance Sector in Nigeria. *International Journal of Women in Technical Education and Employment.* 3(2), 92 – 99.

Introduction

Beneficiary nations have relied extensively on foreign direct investment (FDI) to acquire access to cutting-edge technology, and FDI is crucial to the technical development of an advanced nation. The industrial capacities of the host countries, many of which are geared toward export-oriented operations, have been greatly boosted by multinational corporations (MNCs). FDI has a substantial influence on the industrial structure and commodity mix of the host economy. FDI also directly stimulates economic growth in developing countries via different routes, comprising externalities in a favourable manner of productivity spillover to domestic enterprises (Ezeanyeji & Ifebi, 2016). According to Dauda (2007), foreign direct investment boosts the GDP and produces a steady stream of real earnings in the country where it is invested. As a result, there are more jobs available, higher incomes and salaries are earned, commodity prices decline, and the government receives more tax revenue than it is legally owed.

The Nigeria Enterprise Promotion Decree (NEPD), based on government policy (indigenization policy), regulates foreign direct investment (FDI) and allows for a maximum of 40% foreign participation. Over time, many Nigerian governments have recognized FDI as a dependable link in the country's political and economic dominance chain. As a result, both domestic and international investments have declined, slowing growth across the board, including in the insurance sector. Foreign direct investment is a type of cross-border investment that happens when an investor from one economy gains a substantial level of control and a long-term stake in a company from another economy.

A company with its headquarters in another nation may have a controlling interest in a company operating in another country. over the years. Particularly in developing countries in Africa, Asia, and Latin America, the importance of foreign direct investment (FDI) has been emphasized as a catalyst for sustainability (Fadun and Shoyemi, 2018).

Because it stimulates domestic investment, enhances capital formation, and helps the technological revolution in the host country, foreign direct investment (FDI) is generally viewed as the main driver of economic progress in developing countries (Nistor, 2015). Before the "oil boom," Nigeria's economy was based on mining and agriculture, with banks, stock exchanges, currency exchanges, venture capitalists, mortgage firms, and insurance companies acting as supplementary sources of income.

One cannot exaggerate how important the insurance sector is to the growth of the economy (Raji, 2018). The sector has developed into one of Nigeria's financial powerhouses over the past few decades and, more crucially, has played a crucial part in creating long-term strategies for fostering the economy of the nation. According to Olayungbo (2015), a strong insurance sector is not only a byproduct of a strong financial services sector; it is also an essential part of a robust modern economy. The business model of the insurance industry protects a service against frequent uncertainties that are likely to occur in daily life, resulting in unforeseen emergencies and uncertainties that cause a financial loss (Yinusa & Akinlo, 2013). Underwriters or insurance companies frequently offer these services to policyholders in exchange for a fixed small sum of money called a premium, which is paid by the insured to get protection on the policyholder's life and property. However, the primary source of funding for the insurance industry is the premium. It can also boost industrial returns if invested wisely. Additionally, the total of these premiums is applied to the settlement of claims for the insured, and the earnings on the investments support the business (Omoke, 2012). Raji (2018) defines insurance as a contract between two people, called policyholders, who regularly pay an insurer a certain sum of money, called a premium, who then indemnify the latter in the event of a loss to acquire assurance against risk to their lives and property.

Foreign direct investment accounts for a sizable portion of global investment (FDI). FDI is frequently an investment that intends to provide the investor with long-term ownership in a company that functions in a different market than their own, with the eventual goal of having a significant influence on the firm's management or control. Foreign direct investment (FDI), which varies from portfolio investment in that the former has jurisdiction over the borrowing enterprise whereas the latter may not, is the most common activity of multinational firms. Foreign direct investment (FDI) has recently regained popularity as a means of transferring resources and technology across international borders.

Nigeria has the potential to be a major recipient of FDI in Africa due to its abundant natural resources and large market. In reality, it has regularly attracted FDI over the last ten years, ranking among the top three African countries. However, compared to its resource base and projected needs, Nigeria receives just average levels of international direct investment (FDI) (Asiedu, 2003). Even though certain FDI promotion initiatives are likely motivated by transient macroeconomic issues such as low growth rates and rising unemployment, there are more fundamental causes for the current increase in emphasis on investment promotion. Particularly, it appears that as the world economy has become more globalized and regionalized, FDI incentives have become more appealing and relevant to national governments. According to one study, foreign direct investment is a significant economic stimulant in and of itself. Some argue that FDI accelerates domestic capital formation. This also implies mass production, which provides benefits such as economies of scale and specialization, as well as an increase in export and job opportunities (Gbalam & Ekokeme, 2020).

According to Keynesian theory, investment refers to an actual investment that raises capital goods. It increases revenue and productivity by increasing capital goods output and purchases. Thus, the investment includes both the construction of new machinery and equipment and public facilities like bridges, dams, and buildings. The investment could be induced or autonomous.

Theoretical Framework

The idea of global production was first suggested by Dunning and Fayerweather in 1980. (1982). The

theory states that a company's propensity to begin producing outside of its home country will depend on the distinctive charms of its home country in comparison to the resource implications and advantages of doing business elsewhere. This hypothesis shows that, in addition to resource disparities and firm advantages, foreign government actions may significantly affect the fragmented attractiveness and entrance conditions for enterprises when impacting foreign investment activity.
The real sector of an economy can benefits from foreign direct investment in three ways, according to mainstream economists who accept Adam Smith's claims and prescriptions (Parthapratim, 2006).

First of all, FDI inflows can provide developing countries with a source of non-debt capital formation. Capital is scarce in developing countries. Local savings combined with foreign investment can boost the rate of investment. FDI (foreign direct investment) provides developing countries with foreign currency, which is helpful. Eliminating the foreign exchange deficit also releases pressure on LDCs and makes it easier for them to buy the things they require for their investments.

The efficiency of the nation's capital allocation is said to be enhanced by an increase in foreign capital intake, according to traditional economists. According to this viewpoint, foreign direct investment may result in a movement of financial resources from capital-rich to capital-poor countries with varying expectations of return on investment. Resources injected into nations with low capital costs lower the overall cost of equity, promote investment, and boost output. A further perspective asserts that foreign investment does not affect capital allocation since remittances have minimal impact on actual economic activity.

The local capital market is the final big sector where foreign direct investment has a considerable effect on the market, where it has a number of resonance effects. The growth theory underlines the value of improved technology, efficiency, and productivity in stimulating growth and favourably views the relationship between foreign direct investment and economic expansion. The conditions in receiving countries have the greatest impact on the potential impact of FDI on growth. The host nation's conditions must be exact to allow for spillover effects.

The augmented production function, which explains how labour, capital stock, and other endogenous factors all work together to influence the level of productivity, serves as the foundation for this study's investigation of the effects of foreign direct investment on the performance of the insurance industry. Foreign direct investment is one of these endogenous elements. Since it is attracted to developing countries because of their liberalization policies and high rates of return on investment, foreign direct investment is considered to be an endogenous force according to Ghose (2004).

Empirical Framework

Gbalam & Ekokeme conducted a study on the impact of the expansion of the insurance business on foreign direct investment in Nigeria in 2020. The ex-post facto method was used to examine the research variables. Secondary data were culled from the World Development Indicators, the Central Bank of Nigeria statistical bulletin, and the National Insurance Commission's monthly balance statements for the period 1996-2017. The findings revealed that while the entire quantity of the insurance industry's assets has a negative and statistically insignificant impact on such inflows, the total investment in insurance firms and the total insurance premium have a positive and statistically insignificant impact. The results of the study show that Nigeria's growing insurance industry is not attractive to international investment. To use the insurance market as a tool for risk reduction, risk absorption, and risk transfer, the study proposes modifying it.

Evidence from Other Country

Wang and Li (2019) looked into the connections between the FDI market, foreign capital insurance, and China's economic growth. Multiple regression was used to acquire and estimate time series data from 1984 to 2015. Even while FDI and China's

overall economic growth both helped the country's economy, the expansion of the foreign capital insurance market in China did not help the nation's economy. Foreign money finds it difficult to flow through the channels of economic growth of the Chinese insurance company, and its ways of operation may be primarily applicable to the nation's local insurance market.

Nistor (2015) assessed how foreign direct investment affected the host nation. This topic was widely investigated, and some cases showed good benefits while others showed negative ones. The quantity of foreign direct investment and the sector in which it is made largely affect the impact. Various specialized papers claim that there is a high correlation between the expansion of the insurance business and the expansion of the economy, or that the opposite is true. If we consider that insurance businesses are essential for the growth of the insurance market and that the expansion of the insurance market helps the expansion of the economy, we may assume that insurance companies have an impact on growth. In this case, it's important to know who the insurance companies are. Romania's insurance market is quite new, having just been formed in 1990. Numerous international companies, or more particularly companies that receive foreign direct investment, make up a sizable portion of the insurance companies active on the Romanian market.

Methodology

Model Specification

The numerical estimates of the coefficient in the equation, the changes that take place between these variables, and the significance of those changes were all determined using the OLS technique. Because the OLS approach has some beneficial qualities, including an easy computation procedure and essential components of order estimation strategies, it is used (Fadun & Shoyemi, 2018). The projection covers 31 years (1991 - 2020). To demonstrate the viability of the OLS technique, the data were examined using the statistical tool known as "Econometric Views" (E-views).

The major objective of this study is to investigate how foreign direct investment affects an insurance company's performance in Nigeria. As a result, the model specification is as follows:

$$\text{INSGDP} = f(\text{FDI}, \text{EXCHR})$$

Presentation of the Model Mathematically

$$\text{LOGINSGDP} = \beta 0 + \beta 1\text{LOGFDI} + \beta 2\text{LOGEXCHR} + \mu$$

Where:
LOGINSGDP= ratio of the Nigerian insurance sector's output to the country's GDP.
LOGFDI= Log of Foreign Direct Investment
LOGEXCHR= Log of Exchange Rate

B0 = The function's intercept
B1 = Coefficient of Regression
μ = Unstable Variable

To evaluate if a variable's time series properties are stationary or non-stationary, the study runs unit root tests on the model's variables. Unit root testing is necessary to prevent obtaining erroneous regression data (Gujarati, 2004). The appendix contains a description of the results of the unit root test. The outcome is displayed in the following table, which demonstrates that all the variables are stationary. Foreign direct investment and the exchange rate were constant I(0), while the proportion of insurance output to GDP was stationary at the second difference after all the variables had been logged. The data were not normally distributed, according to the Jaque-Bera normality test, with a probability of 0.0000.

Results

Table 1: Regression

DV: DLINSGDP

Method: Least Squares

Date: 06/04/22 Time: 09:13

Sample (adjusted): 1992 2020

Included observations: 29 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.360855	0.973915	-1.397304	0.1741
LFDI	0.042123	0.081873	0.514489	0.6113
LEXCHR	0.286685	0.167950	1.706967	0.0997

R^2	0.107170	Mean dependent var	0.274554
Adjusted R^2	0.038491	S.D. dependent var	0.666427
S.E. of regression	0.653476	Akaike info criterion	2.084674
Sum squared res.	11.10279	Schwarz criterion	2.226118
Log likelihood	-27.22777	Hannan-Quinn criter.	2.128973
F-statistic	1.560440	Durbin-Watson stat	1.234834
Prob(F-statistic)	0.229084		

Source: E-View Output, (2022)

The model summary in the previous table has an R2 value of 0.107. The robustness of the model is shown by R2, and the closer it is to one, the better the result. Tabachnick and Fidell (2007). This analysis implies that approximately 10.7% of the variation in insurance production to GDP is explained by foreign direct investment. This shows that neither foreign direct investment nor exchange rates significantly account for the GDP contribution of insurance output. Additionally, independent observation is assumed to have occurred when the Durbin Watson statistic value is larger than 0.5, or 50%, according to Durbin (1970). In other words, there is no evidence of autocorrelation in the study's residuals. the Durbin-Watson statistic before 1.5 (1.2348). This demonstrates that the variables included for the study's error terms exhibit a positive serial auto-correlation.

Co integration Result

The probability eigenvalue test and the trace test are the two statistical tests used in the Johansen co-integration test. In contrast to the possibility of the complete rank of co-integration, each table tests the hypothesis that there is no co-integration in the first row, one in the second row, one in the third, and so on. However, given the result, the null hypothesis of no cointegration is rejected at the 5% level. The trace and Max-Eigen statistic are higher than the 0.05 threshold, and the cointegration test results demonstrate that the null hypothesis is rejected. As

a result, it is possible to assert that the three variables have a long-term relationship.

Table 2: Unrestricted Cointegration Rank Test (Trace)

Date: 06/04/22 Time: 09:19
Sample (adjusted): 1994 2020
Included observations: 27 after adjustments
Trend assumption: Linear deterministic trend
Series: DLINSGDP LFDI LEXCHR
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.835682	56.15618	29.79707	0.0000
At most 1	0.228751	7.395440	15.49471	0.5321
At most 2	0.014062	0.382369	3.841466	0.5363

Trace test indicates 1 cointegrating eqn(s) at 0.05 level
* Denotes rejection of the hypothesis at 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.835682	48.76074	21.13162	0.0000
At most 1	0.228751	7.013071	14.26460	0.4876
At most 2	0.014062	0.382369	3.841466	0.5363

Source: E-View Output, (2022)

When the p-value is more than 5%, the Granger Casualty Test reveals that no variable can be said to be the cause of another. This supports the null hypothesis, according to which no variable can be thought of as the cause of any other.

Table 3: Result of Granger Causality Test

Pairwise Granger Causality Tests
Date: 06/04/22 Time: 09:21
Sample: 1991 2020
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
LFDI does not Granger Cause DLINSGDP	27	0.49025	0.6190
DLINSGDP does not Granger Cause LFDI		0.17512	0.8405
LEXCHR does not Granger Cause DLINSGDP	27	0.87992	0.4289

DLINSGDP does not Granger Cause LEXCHR		3.35115	0.0536
LEXCHR does not Granger Cause LFDI	28	2.36807	0.1161
LFDI does not Granger Cause LEXCHR		31.3846	3.E-07

Source: E-View Output, (2022)

Discussion of Findings

The results of the regression demonstrate that there is little correlation between foreign direct investment and the GDP contribution of insurance. According to the regression analysis's findings, Nigeria's gross domestic product during the studied period is positively correlated with the production of insurance, foreign direct investment, and currency rates (1991-2020). More crucially, the data in table 1 above demonstrates that the GDP contribution of the insurance sector is not greatly impacted by either foreign direct investment or exchange rate. Additionally, the production of the insurance industry as a percentage of GDP drops in the same way when the explanatory variable—foreign direct investment inflows—changes. This demonstrates that Nigeria's foreign direct investment inflows have not significantly affected the insurance industry's performance in terms of its contribution to the country's economic growth. We accept the null hypothesis that foreign direct investment has no meaningful impact on the industry's contribution to the country's GDP because the f statistics result of 0.2290 indicates that it is not a significant factor of insurance performance in Nigeria.

Conclusion and Recommendations

The study evaluated the impact of foreign direct investment on the health of Nigeria's insurance sector. According to the findings of the regression analysis, foreign direct investment does not significantly and favorably affect the performance of the insurance sector. As a result, the insurance business should put into place a policy that makes it easier for specialists and insurance providers to communicate, as this will promote the long-term growth of the industry and the economy. The quantity of long-term money that is attracted and made available for advantageous applications will rise dramatically as a result. In view of the study's conclusions, the following recommendations are made put forward:

i. It was found that attracting foreign investment into an economy requires a stable political environment. Therefore, before developing advantageous policies that will attract foreign investment in the long term, the government should exert more effort into guaranteeing political stability and concentrating on security.

ii. To boost domestic investment in the nation, the government must modernize its infrastructure facilities, guarantee the safety of people and property, and uphold consistent policies. Specifically, encouraging insurance investment and requiring insurance for all businesses.

iii. The government should make insurance policies that are more crucial to people's lives, such as health and personal accident, mandatory for all citizens to promote the insurance sector's beneficial contribution to economic growth.

iv. Investors typically expect the insurance sector to provide adequate information, particularly regarding their claims history, to make doing business with insurance companies easier.

v. To improve the prevalence of insurance awareness and ensure that the average Nigerian can read and write, the government should raise educational standards.

vi. The government should increase the minimum wage to increase the number of insurance clients, particularly those with lower earnings.

References

Dauda R. O. S. (2007). The impact of FDI on Nigeria's Economic Growth: Trade Policy Matters. *Journal of Business and Policy Research*. 3(2), 11-26.

Ezeanyeji, C. I. & Ifeji, O. L. (2016). Impact of Foreign Direct Investment on Sectoral Performance in the Nigerian Economy: A Study of Telecommunications Sector. *International Journal of Humanities Social Sciences and Education.* 3(2), 57-75

Fadun, O. S. & Shoyemi, O. S. (2018). Insurance Investment Funds and Economic Growth in Nigeria. *International Journal of Development and Management Review* (INJODEMAR). 13(1), 1-17.

Gbalam, P. E. & Ekokeme, T. T. (2020). Insurance Sector Development and Foreign Direct Investment in Nigeria. *Asian Journal of Economics, Business and Accounting.* 14(1), 17-27

Ghose, A. K. (2004). Capital inflows and investment in developing countries. *Employment Strategy Papers*, No. 2004/11.

Hamza, F. M. (2017). Impact of Foreign Direct Investment (Fd) on the Growth of the Nigerian Economy. *Pyrex Journal of Business and Finance Management Research. 3(2), 86-97*

Nistor, P. (2015). Foreign Direct Investment and the Insurance Market in Romania. *International Journal of Academic Research in Business and Social Sciences. 5(9), 226-233*

Olayungbo, D. O. (2015). Insurance and Economic Growth Nexus in Nigeria: Asymmetric Non-Linear Relationship under Heterogeneous Agents. *AfricanDevelopment Review*, 27(3), 248-261.

Omoke, P.C., (2012). 'Insurance Market Activity and Economic Growth:' Evidence from Nigeria. *Asian Economic and Financial Review*,1 (4), 245-253.

Parthapratim, P. (2006). Foreign Portfolio Investment, Stock Market and Economic Development: A Case Study of India. A paper submitted for the Annual Conference on Development and Change Mission: Promoting Development in a Globalized World, Sao Paulo, Brazil, November 18 – 20.

Wang, D. & Li, Y. (2019). The development of foreign capital insurance market, FDI and economic growth in China. *Journal of Modern Economy*.10(2), 872-885

Yinusa, D. O. & Akinlo, T. (2013). Insurance Development and Economic Growth in Nigeria, *Journal of Economics and International Finance*.5(5). 218-224, DOI: 0.5897/JBF2013.0498