

Insurance Sector Investments and Vision 20:2020 Objective in Nigeria

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ABSTRACT

This study examines the insurance industry's investments and how they have affected Nigeria's development from 1992 to 2022 in achieving its Vision 20:2020 target. The secondary data comes from the National Insurance Commission. In order to evaluate the insurance industry's return on investment, the research substitutes GDP for the 2020 Vision Agenda target of total insurance premiums collected as the dependent variable and total insurance claims paid and total insurance claims settled as the independent variables. We formulate and evaluate hypotheses using time-series econometric models. The variables do not have a unit root, according to the results. Investments in the insurance sector often align with the Vision 20:2020 agenda over the long run. This analysis shows that around 69% of the short-run adjustment speed may be attributed to long-run disequilibrium. The coefficient of determination shows that the investment factors of the insurance industry (TIP, TICS) explain over 61% of the variation in Nigeria's Vision 20:2020 agenda. Studies indicate that the expenditures made by the insurance business have a direct impact on Nigeria's efforts to realise Vision 20:2020. Consequently, the research recommends that the sixteen necessary lines of insurance under the MDRI be implemented by the National Insurance Commission. Nigerian insurance companies must take the lead in making sure their customers are happy and safe. In order to foster more public trust in performers and the services they provide, NAICOM and other authorities need to ensure that performers consistently deliver their best work. Law enforcement and regulatory organisations such as the Federal Road Safety Corporation need to be required by law to take aggressive legal action against drivers who are operating without a licence or insurance. Before 2020, there should be more recapitalization and industrial consolidation to allow the sector's entry into the petroleum, aviation, and other underdeveloped economic sectors.

Keywords: Insurance Sector, Investments, Realization, Vision 20:2020, Nigeria.

1. Introduction

Obioma (2018) found that the insurance sector's indigenization in the 1970s and the Insurance Decree of 1976's enactment had streamlined the sector's operations, leading to happier customers due to improved service. Since then, the sector has been instrumental in achieving the Vision 2020 aim, particularly in the area of enabling a larger influx of capital into the economy via the provision of a broad variety of insurance products and services. Umoren and Joseph's (2018) analysis indicate that one of the most significant institutional investors in the capital market is the insurance sector. As such, it acts as a means for the collection of moneys from the private and public domains. Consequently, the development of a structured insurance market and the initiatives of its participants have greatly increased the general public, businesses', and individuals' understanding of insurance. Because of this, companies are more willing to take risks, which promotes economic growth. The sector plays a significant role as a driver for the growth of capital-intensive, big industrial projects.

The industry's operations, particularly in the life assurance sector, have stimulated savings mobilisation, which may subsequently be used for a variety of beneficial purposes. However, these savings could represent a significant source of long-term, investable capital for the economy (Ogunkanmi, 2016).

Harold (2018) discovered that a significant portion of brokerage organisations have difficulties in business due to the overabundance of unskilled persons possessing broker licences. This is because of their habit of defrauding underwriters of premiums and using dubious business tactics to outperform competitors. According to Sotunde's (2018) study, there has been a significant and positive impact from the legislative framework developed to support the insurance industry's national development. Data from NAICOM (2017) shows that there are 5000 sales agents, 60 underwriters, 598 brokers, 48 loss adjusters, and a large number of reinsurers in the insurance business. Nonetheless, there are two ways to conceptualise the goals of insurance: as main or secondary reasons. The principal purpose of insurance is to indemnify those who experience unforeseen losses, and this serves the interests of several parties.

2. Literature Review

2.1. Conceptual Review

2.1.1. Insurance Premium

An insurance premium can be defined as the monetary remuneration that an individual or business entity disburses to an insurance company in exchange for the provision of coverage as stipulated within an insurance policy (Folger, 2022). The aforementioned statement elucidates the fact that it serves as the principal means by which insurance companies generate income, thereby facilitating the disbursement of claims, administrative costs, and ultimately, the attainment of profits. Kagan's scholarly work in 2022 defines an insurance premium as the monetary sum that an individual or business must remit in exchange for an insurance policy. Policies that provide coverage for various domains such as healthcare, automobiles, domicile, and life assurance remunerate insurance premiums. Once acquired, the premium serves as a source of revenue for the insurance company. The insurer must acknowledge a certain level of liability by extending coverage for any claims that may be asserted against the policy. Noncompliance with the obligation to remunerate the premium, whether pertaining to an individual or a commercial entity, may engender the annulment of the insurance policy.

Through the precise computation of insurance premiums, insurance companies can ascertain that they are levying an equitable and viable cost for the comprehensive protection they extend. Through the precise computation of insurance premiums, insurance companies can guarantee an equitable and enduring valuation of the indemnity they offer. Moreover, the significance of precise insurance premiums in influencing the involvement of farmers in insurance programmes is underscored by the research conducted by Goodwin, which examines the premium rates at the county level for farmers in Iowa (Mishra et al., 2005). The study has effectively showcased the substantial impact of insurance premiums on the decision-making process of farmers when it comes to their participation in insurance programmes. Therefore, it is important for insurers to think about many things when deciding how much the premium should be. These include the chance of bad things happening, possible lawsuits, and the responsibility of the insured or reinsured to pay.

The insured party shifts the burden of risk to the insurer through insurance premiums. Through the consolidation of premiums from a multitude of policyholders, the insurer undertakes the onus of bearing the fiscal weight associated with prospective losses (Kagan, 2022). Premiums serve as the principal revenue stream for insurance companies.

Insurance companies allocate these funds to facilitate policy management, fulfil claim obligations, and generate returns for shareholders. Based on a comprehensive evaluation of the insured party's level of risk, the insurer determines the monetary amount levied for an insurance policy. Policies with elevated risk profiles tend to exhibit commensurately augmented premiums, serving as a means for insurers to offset the heightened probability of claims. Premiums can serve as a catalyst for policyholders to adopt proactive measures aimed at mitigating their exposure to risk. For example, residences equipped with sophisticated security systems or vehicles equipped with advanced safety features could potentially receive reduced insurance premiums.

2.1.2 Insurance Claims Settlement

The process of insurance claim settlement entails the meticulous evaluation and subsequent resolution of an insured individual's claim for financial reparation by an insurance company, as expounded upon by Tirschler (2023). The process entails evaluating the veracity of the assertion, ascertaining the quantum of pecuniary recompense, and disbursing a remittance to the policyholder. The process of claims settlement serves as the principal modality through which insurance companies discharge their contractual responsibilities to policyholders, as posited by Wright and Kingston (2012). It exemplifies the insurer's dedication to providing fiscal safeguards in the event of an adverse outcome. Furthermore, the expeditious and equitable resolution of claims serves as a crucial source of fiscal support for individuals who have incurred damages as a result of covered occurrences. It serves to reinstate their fiscal equilibrium and assuage the onus of unforeseen expenditures.

The optimisation of both efficiency and equity in the process of claim settlement serves as a significant catalyst for fostering policyholder contentment and unwavering loyalty. It cultivates a sense of confidence in the insurance provider and promotes ongoing patronage (Wright & Kingston, 2012; Basaula, 2018). The analysis of claims settlement data yields invaluable insights pertaining to the trends of losses and patterns of risk. This data possesses the potential to refine underwriting practices, augment risk prevention measures, and foster the creation of more efficacious insurance products. Insurance claim settlement is of immense significance within the insurance sector because it ensures that policyholders receive appropriate financial restitution after experiencing a loss. The optimisation and equitable resolution of claims settlement procedures serve as integral factors in fostering policyholder contentment, upholding confidence within the insurance sector, and fostering the cultivation of risk management methodologies.

Claim settlement holds immense significance within the insurance sector as it guarantees policyholders receive the rightful monetary recompense in the event of a detrimental incident. The process of claim settlement warrants considerable attention from insurance companies, as it has a direct influence on both customer satisfaction and loyalty. The implementation of appropriate procedures for the settlement of claims necessitates a meticulous assessment of the claim's veracity, the discernment of the suitable quantum of recompense, and the expeditious disbursement of funds to the policyholder (Basaula, 2017; Yadav et al., 2022).

2.2. Theoretical Review

The study is based on Romer's (1986) endogenous growth theory. Theoretical frameworks elucidate the protracted developmental trajectory of an economy by emphasising the influence of endogenous factors, in contrast to the exogenous factors highlighted in the neoclassical growth theory. The endogenous growth models place significant emphasis on the role of technical progress, which is influenced by the rate of

investment, the size of the capital stock, and the stock of human capital. According to the findings of Andabai (2018), it has been observed that the insurance sector plays a pivotal part in fostering economic progress by providing businessmen and industrialists with a sense of financial security. Insurance services effectively mitigate adverse psychological elements such as fear, apprehension, and pessimism regarding potential losses, thereby enhancing the overall well-being and satisfaction of individuals (Ezirigbo, 2018). Therefore, it is imperative that both society and business enterprises are incentivized to optimise the utilisation of their current capital and labour resources. The insurance sector holds significant prominence as a substantial employer of labour, thereby making a notable contribution towards addressing the prevailing issue of unemployment. The work in question, "Isimoya," was created in the year 2018.

By means of the money and capital markets, funds were rendered accessible to the realms of commerce and industry, thus fostering the advancement of the country. Moreover, these entities proffered expert counsel to individuals, organisations, and governmental bodies alike, pertaining to the optimal strategies for safeguarding their lives and assets. Umoren and Joseph (2018) posited that, in the absence of insurance, numerous entrepreneurial endeavours would fail to come to fruition. Furthermore, it is imperative to acknowledge that during the mercantile era, a noteworthy triumph materialised in the form of transforming numerous tangible hazards into entities that could be anticipated and safeguarded against. It is an understatement to assert that the absence of insurance would render all sectors within the economy utterly incapacitated. According to Omoh (2016), it is imperative to acknowledge the profound significance of insurance in instilling a sense of tranquilly and fostering unwavering assurance.

2.3. Empirical Review

Elendu (2016) did a thorough study to find out how important the insurance industry was to increasing Nigeria's gross domestic product (GDP). The data utilised for this research were primarily obtained through a secondary methodology involving the extraction of information from various reputable sources such as journals, newspapers, internet articles, magazines, textbooks, the CBN bulletin, and the Statement of Account, among others. The utilisation of the Ordinary Least Squares methodology was employed to assess the veracity of the hypotheses posited within the research. The findings of the study have unveiled that the insurance sector, by means of its customary operations, has made a substantial contribution to the economic advancement of Nigeria.

Umoren and Joseph (2018) sought to empirically examine the comparative influences of the insurance sector to Nigeria's overall economic growth. The study encompasses the temporal span commencing in 1990 and concluding in 2016. The study's supplementary data, which was acquired, was effectively conveyed through the utilisation of both tabular and graphical representations. The research hypothesis was tested using a multiple linear regression. The ex-post facto research design was used in the research. The findings have revealed that the expansion of the insurance sector has made a substantial contribution to economic growth in Nigeria during the timeframe under examination.

The goal of Ozuomba's (2017) study was to evaluate the outcome of insurance on Nigeria's economic development. In order to accomplish this objective, various models were devised and relevant data spanning from 1998 to 2016 was gathered. The analysis was conducted utilising the co-integration and error correction model methodologies. The results indicated a correlation in line with the alternate hypotheses, positing a substantial association among insurance premium claim outlays and economic progress. In light of the empirical analysis, it is strongly advised that governmental policy initiatives be strategically

focused on fostering the expansion of the insurance sector within the nation. By doing so, not only can investment be bolstered, but also production and employment opportunities can be effectively stimulated.

Akinbola and Isaac (2018) conducted a comprehensive examination and critical analysis of the phenomenon known as claims management, which pertains to the ethical considerations within insurance companies operating in Nigeria. The primary objective of their research was to ascertain the degree to which these insurance companies acknowledge the ethical implications associated with claims management, as well as to ascertain the strategies employed in addressing the concerns related to the handling of insured individuals' claims. The study employed a qualitative research methodology, wherein data was acquired through interviews and supplemented by secondary sources such as scholarly books, journals, articles, and online resources. The researchers employed purposive sampling methodology to carefully select a cohort of esteemed insurance companies in Nigeria. Within these chosen establishments, the focus of the study primarily revolved around engaging with personnel operating within the claims department. Additionally, interviews were conducted with sales representatives hailing from two of these aforementioned insurance firms.

In a scholarly investigation, Oluoma (2018) explored the effects of life insurance penetration, non-life insurance penetration, total insurance penetration, and insurance density on Nigeria's economic growth. The study employed ex-post-facto, wherein data from the years 1998 to 2017 were collected in an annualised cross-sectional manner. The sources of this data included the CBN bulletin, the National Insurance Commission, and the Nigerian Insurers Association. A total of four hypotheses were posited and subsequently subjected to rigorous examination through the use of the OLS regression model.

3. Methodology

The investigation employed an ex-post-facto research design. The utilisation and acquisition of secondary data were undertaken, with the esteemed source being the National Insurance Commission. The utilisation of annual data was necessitated by the potential unavailability of quarterly data for certain variables within the study. The examination of the proxy vision 20:2020 agenda in Nigeria for gross domestic product was conducted with the intention of utilising it as the dependent variable. In order to gauge the insurance sector, the independent variables employed were Total Insurance Premium and Total Insurance Claims Settlement, as outlined in Appendix I.

3.1 Model Specification

Multivariate linear regression models serve as a means to evaluate the null hypotheses. There is no discernible causal relationship between the investments made by the insurance sector and the Vision 20:2020 agenda in Nigeria. The study in question has taken inspiration from the research conducted by Akhirigbu in 2017 and has subsequently adapted their work. The functional model is articulated in the following manner:

$$GDP = f(TICS) \dots \dots \dots \text{equation i}$$

Where: GDP = Gross Domestic Product as proxy for Economic Performance

TCS = Total Insurance Claims Settlement

The aforementioned model has been subject to modification in this study, wherein the inclusion of total insurance claim settlement has been introduced as an explanatory variable. Therefore, the aforementioned functional model was subsequently modified as stated as:

$$GDP = f(TIP, TICS) \dots \dots \dots \text{equation ii}$$

Thus, the econometric model is written as:

$$GDP = \delta_0 + \delta_1 TIP + \delta_2 TCS + u \dots \dots \dots \text{equation iii}$$

Where: GDP = Gross Domestic Product as proxy by vision20:2020 agenda in Nigeria

TIP = Total Insurance Premium

TICS = Total Insurance Claims Settlement

$\delta_0, \delta_1, \delta_2$ = Regression parameters,

δ_0 = intercept

δ_1 and δ_2 are the coefficients of the regression equation.

μ is the stochastic or error term.

4. Data Analysis and Discussion of Findings

4.1 Unit Root Test

The examination of the variables' stationarity was conducted through the utilisation of the ADF Unit Root Test. The findings presented in Table 1 indicate that all the variables exhibit integration at levels, specifically 1(1), with statistical significance at either the 5% or 1% level.

Table 1: Unit Root Test Analysis

Variables	ADF test Statistics	Mackinnon critical vale @ 5%	No of the time difference	Remark
GDP	4.8566897	-6.867546	1(1)	Stationary
TIP	-6.6578687	-2.786978	1(1)	Stationary
TICS	-5.3658346	-4.659743	1(1)	Stationary

Source: Author's Computation (2022)

4.2 Test for Co-Integration

Once it is known that all the variables are stationary at the first difference, the next step is to use the Johansen co-integration test to find out if GDP, total insurance claim settlement (TICS), and Total Insurance Premium (TIP) are likely to be co-integrated in a similar way. Therefore, the outcome of the examination is displayed in Table 2.

Table 2: Multivariate Johansen's Co-Integration Test Result.

Null Hypotheses	Alternative hypotheses	Eigen value	Likelihood ratio	Critical vales 5%	Critical value 1%	Hypothesized No. of CE(s)
r=0	r=1	0.65879	82.76984	64.31	48.23	None **
rd \leq 1	r=2	0.54738	76.86979	54.22	34.04	At most 1
rd \leq 2	r=3	0.48967	64.76895	44.36	27.54	At most 2

Source: Author's Computation (2022)

4.3 Vector Error Correction Model

The presence of a long-term co-integrating equilibrium allows for the occurrence of short-term fluctuations. In an effort to mitigate or resolve these fluctuations, an endeavour was undertaken to employ the Error Correction Model (Ibenta, 2012).

Table 3: Regression Result

	Coefficient	Std. Error	t-Statistic	Prob.
(ECM(-1)	-0.692576	1.037844	12.03082	0.000001
D(GDP ₋₁)	5.867354	0.076887	0.342223	0.000035
D(GDP ₋₂)	4.869709	0.038935	1.756956	0.000027
C	5.632565	0.002709	0.347699	0.000076
TICS	7.862189	0.043568	2.488678	0.000011
TIP	9.154384	0.003752	3.354769	0.000036
R-squared	0.610867	Mean dependent var		212.8327
Adjusted R-squared	0.589163	S.D. dependent var		45.17545
S.E. of regression	115.6879	Akaike info criterion		123.7865
Sum squared resid	22.57680	Schwarz criterion		12.76957
Log likelihood	134.4326	F-statistic		6.957683
Durbin-Watson stat	1.896596	Prob(F-statistic)		0.000000

Source: Author's Computation (2022)

The results in Table 3 implies that the error-correction coefficient (-0.674580) exhibits statistical significance and possesses a negative polarity. This observation helps to authenticate a prerequisite condition for the variables to exhibit co-integration. The results support a short-run adjustment to the rate around 69% arising from long-run disequilibrium. Henceforth, it can be deduced that the coefficient of determination clarifies that around 61% of the variations in the vision 20:2020 objective in Nigeria can be rationalised by alterations in the investment variables of the insurance sectors, namely TIP and TICS. This suggests that a significant portion of the achievement of the Vision 20:2020 agenda in Nigeria can be attributed to the fluctuations in investment variables within the insurance sector. The F-stat. of 6.957683, demonstrates statistical significance at the 5% level, thereby affirming the substantial impact of investments made by the insurance sector on Nigeria's Vision 20:2020 agenda. Moreover, it is worth noting that the impact of the explanatory factors on the dependent variable demonstrates statistical significance, as indicated by the F-probability, which is insignificant.

4.4 Causality Test

According to Ibenta (2012), the Granger causality analysis looked at the predictive power of a certain variable that goes beyond the predictive power of the explanatory variables themselves.

Table 4: Result of Pairwise Granger-Causality Test (1990-2019), 2-period Lag length

Null Hypothesis:	Obs	F-Statistic	Probability	Decision
TIP does not Granger Cause GDP	22	6.87691	0.00024	Causality
GDP does not Granger Cause TIP		6.25375	0.00163	Causality
TICS does not Granger Cause GDP	22	4.55432	0.00166	Causality
GDP does not Granger Cause TCS		4.24365	0.00086	Causality
TIP does not Granger Cause TCS	22	6.76545	0.00143	Causality
TICS does not Granger Cause TIP		5.34526	0.00088	Causality

Source: Author's Computation (2022)

The findings derived from the Engle and Granger causality test presented in Table 4 demonstrate a significant association between Nigeria's Vision 20:2020 agenda and both Total Insurance Premium (TIP) and Total Insurance Claim Settlement (TICS). This suggests a correlation between the investments made by the insurance sector and the Vision 20:2020 agenda in Nigeria, thereby implying a potential causality. The investigation effectively executed alterations to the framework, thereby augmenting the preexisting corpus of

scholarly works. Furthermore, it undertook an empirical examination, encompassing a vast geographical expanse and integrating recently updated data. These advancements will serve as valuable resources for future researchers and scholars, facilitating further investigations in the field. Therefore, the aforementioned study has reached the conclusion that there exists a causal association among the insurance sector and the Vision 20:2020 agenda in the nation of Nigeria. The causative element behind this phenomenon can be attributed to the heightened provision of insurance services by the insurance sector within the country.

5. Conclusion and Recommendations

The study proposes that the National Insurance Commission should prioritise the enforcement of the sixteen obligatory lines of insurance delineated in the Market Development and Restructuring Initiatives (MDRI). It is vital that Nigerian insurance corporations adopt a proactive approach to the innovation of insurance products. The implementation of a well-crafted advertising campaign is imperative in order to enhance the overall perception and reputation of the respective industry. It is imperative that NAICOM and other regulatory agencies and authorities diligently uphold the highest standards of service provision, thereby fostering an enhanced sense of confidence and trust among stakeholders. It is imperative for the government to prioritise the enforcement of legal measures, such as engaging the police and the Federal Road Safety Corporation, in order to effectively prosecute individuals who operate motor vehicles without the necessary licences and insurance coverage. It is imperative that additional recapitalization and industry consolidation take place prior to the commencement of the year 2020. This strategic move will facilitate the industry's foray into the lucrative domains of the oil and gas sector, aviation sector, and other unexplored sectors of the economy, including the implementation of the Local Content Policy. The suggested recapitalization entails an allocation of ₦25 billion for life insurance, ₦30 billion for non-life insurance, ₦35 billion for composite insurance, and N40 billion for reinsurance.

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Appendix 1:
The Insurance Sector's Investments and the Achievement of
Vision20:2020 Agenda in Nigeria (1992-2022)

YEAR	Gross Domestic Product at Basic Market Price (₦ Billion)	Total Insurance Premiums (₦-Billion)	Total Insurance Claims Settlement (₦-Billion)
1992	3,923.45	1,238.1	377.96
1993	3,643.21	1,432.6	456.17
1994	3,923.45	1,238.1	377.96
1995	3,643.21	1,432.6	456.17
1996	4,432.57	1,564.8	566.37
1997	4,822.20	1,531.5	787.96
1998	4,989.45	1,478.1	377.96
1999	4,679.21	1,612.6	456.17
2000	6,713.57	1,344.8	566.37
2001	6,895.20	1,761.5	787.96
2002	7,795.76	2,670.1	943.49
2003	9,913.52	2,847.1	1,346.54
2004	11,411.07	3,651.4	1,467.66
2005	14,610.88	3,903.8	1,888.39
2006	18,564.59	4,753.0	2,354.62
2007	20,657.32	5,350.2	3,474.66
2008	24,296.33	6,267.9	6,954.50
2009	24,794.24	7,761.4	9,110.86
2010	54,204.80	9,186.3	10,357.02
2011	63,258.58	10,362.7	10,760.07
2012	71,186.53	11,576.4	14,649.28
2013	80,222.13	13,413.8	15,648.31
2014	83,193.463	14,736.1	17,328.98
2015	87,576.474	12,376.7	17,982.77
2016	94,144.960	11,363.9	16,365.89
2017	101,144.49	10,354.7	16,673.43
2018	162,374.36	16,367.5	17,465.95
2019	173,645.45	16,986.34	17,978.65
2020	174,644.64	17,846.9	18,645.76
2021	178,546.34	17,957.56	18,665.97
2022	178,875.87	17,895.76	19,345.76

Source: National Insurance Commission, 2022.