

CREDIT TO PRIVATE SECTOR AND GROWTH OF INSURANCE OPERATION IN NIGERIA, 1997-2024

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ABSTRACT

The study examined the relationship between credit to private sector and growth of insurance operations in Nigeria from 1997-2024. Specific objectives were to: ascertain linear association between credit to private sector and growth of insurance operations proxied by gross premium income, and also to examine the casual relationship between credit to private sector and growth of insurance operations proxied by gross premium income in Nigeria. The study adopted *ex post facto* research design. Correlation matrix and granger causality techniques were adopted in testing the formulated hypotheses. The findings revealed that there was significant positive linear association between credit to private sector and growth of insurance operation ($r = 0.980942$, $t\text{-stat} = 24.73298$, $p < 0.0000$) and there was unidirectional causality between credit to private sector and growth of insurance operations in Nigeria (GPI vs CPS = 0.0593; $F\text{-Stat} = 3.31821$ while CPS vs GPI = 0.9263; $f\text{-Stat} = 0.07691$). The following recommendations were made, insurance firms should encourage collaboration between commercial banks and government agencies to provide comprehensive support services to insurance business operations by making necessary provisions for credit facilities to be available across the nation at large.

Keywords: *Credit, Private Sector, Growth, Insurance Operations, Nigeria.*

INTRODUCTION

Achieving rapid and sustained insurance growth has always remained the top most macroeconomic objective in the list of economic goals pursued by every developing nation.

Incidentally, one major variable influencing insurance growth is investment. At the domestic level, investment is categorized into public and private sector investments. Private sector investment refers to investment by individual people or firms as opposed to the government as an entity which is referred to as public sector investment. Economic theories have shown that some critical factors influencing private sector investment are those of credit to the private sector, the cost of capital, the rate of return, public sector investment, exchange rate etc (Okorie and Chikwendu, 2019).

Among these critical determinants of growth of insurance investment operations is private sector credit. Private sector credit refers to financial resources provided by deposit taking corporations except central banks to the private sector. These financial resources made available to the private sector are regulated by credit policies. Credit policies involve imposition of quantitative ceiling on the overall and or sectorial distribution of banking system loans and advances, by monetary authorities (Anyanwu, 2023). The broad objectives of credit policies in Nigeria, over the years, have been the enhancement of availability, reduction of cost and access of credit to the private sector as well as the stimulation of growth in the service sectors of the economy like insurance businesses (Okorie and Chikwendu, 2019).

Universally, Insurance is a cardinal and essential branch of Finance and its operations play vital role in providing safety environments for economic activities to take place. Though Insurance appears somewhat unpopular to most households and businesses in the Nigerian society for obvious reasons, it has however been an integral part of overall business operations. In developed and some emerging economies of the world where people express trust for insurance services, it plays great roles in boosting the economy. To effectively start this discussion and for the purpose of clarity, it is necessary to give a concise definition and explanation of the term 'Insurance'. In its most simplified form, Insurance is a strategy of protecting individuals, households and business entities from financial loss. It involves risk management; a technique designed to reduce or possibly eliminate financial risk or hedge against unforeseen or accidental loss. According to Chikeleze and Echekoba (2008) cited in Ogbonna, et al, (2025), Insurance is a contract whereby one party called the insurer, in return for a consideration called the premium, undertakes to pay the other party called the insured a sum of money or its equivalent in kind upon the happening of specified event that is contrary to the interest of the insured.

Accordingly, bank credit is the most important source of investment financing among private and insurance enterprises in developing countries, Nigeria inclusive. The volume of and access to bank credit available for private sector borrowers have direct influence on insurance investment

operations. The portion of total credit in the economy allocated to private sector was 66.7% in 1980, 59.7% in 1981 and 52.1% in 1982. Afterward credit to private sector of the Nigerian economy shrunk. It reduced to 28.9% in 1986 and 34.0% in 1993. The availability of bank credit for private investment and access to available bank credit by growth of insurance operators in Nigeria had been greatly constrained by credit to the government and high interest rate prevalence during market-based monetary policy regime (Ekpo, 2023).

In Nigeria and elsewhere, the aggregate credit to private sector is always allocated to both private sector and public sector whether in insurance firms or not. However, studies have shown that credit to the private sector has more significant effect on growth of insurance operations than credit to the public sector. It is in the light of this background that the study ascertains whether credit to private sector affects growth of insurance operations in Nigeria.

Statement of the Problem

The insurance industry, when effectively integrated with private sector, can help mitigate risks associated with production, logistics, and trade, ensuring that businesses remain operational even in times of economic downturns or unexpected disruptions. Growth of Insurance is a fundamental component of financial stability and industrial growth in Nigeria. Enhancing insurance adoption within the private sector can reduce financial vulnerability, promote investment, and support long-term economic development (UNIDO, 2022).

Despite the potential benefits in insurance business, several barriers hinder the effectiveness of insurance growth in Nigeria's private sector. These include low trust in insurance companies due to past cases of delayed or denied claims, high insurance premiums that scare investors from subscribing to insurance services, and regulatory challenges that limit the introduction of innovative insurance products (KPMG, 2023).

Meanwhile, in addressing these barriers, it requires concerted efforts from stakeholders, including government agencies, insurance firms, and the private sector industry. Policies aimed at increasing insurance awareness, enforcing mandatory insurance coverage for businesses, and providing incentives for manufacturers to adopt insurance policies could significantly enhance insurance growth in Nigeria (World Bank, 2023). Based on this, the study seeks to investigate the link between credit to private sector and growth of insurance operation in Nigeria, 1997-2024. Objective of the study was to investigate the link between credit to private sector and growth of insurance operation in Nigeria, 1997-2024. Specific objectives were to;

- i. ascertain linear association between credit to private sector and growth of insurance operations proxied by gross premium income in Nigeria.
- ii. examine the casual relationship between credit to private sector and growth of insurance operations proxied by gross premium income in Nigeria.

REVIEW OF RELATED LITERATURE

Credit to Private Sector

Credit to private sector refers to financial resources provided to the private sector by financial corporations, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. The financial corporations include monetary authorities and deposit money banks, as well as other financial corporations. Private sector initiative and investment are critical for poverty reduction (Okezie and Enyeribe, 2025).

Insurance

Insurance is the business of providing cover against uncertainties and managing such risk for the insured and third parties. It is a means of indemnity against a future occurrence of an uncertain event. It can also be seen as protection to organizations from potential financial losses due to unforeseen events or risks. Nigeria (Ogbonna, *et al*, 2025).

Growth of Insurance Operation

Gross Domestic Product (GDP) and the growth of firms: GDP is the total volume of goods and services produced in a country over a given period of time, the higher the goods and services produced in a country, the higher the GDP. High GDP means that there are jobs available for the citizens of a country (vice versa) and availability of jobs empower the citizens to purchase or pay for various insurance covers thereby an increase in the assest of the various insurance companies in Nigeria (Dewi, *et al*, 2019).

Theoretical Framework

Risk management theory is centered on identifying, assessing, and managing risks to minimize their negative impacts on organizations. It involves key steps such as risk identification, assessment, control, financing, and monitoring. In a business context, risk management allows firms to understand potential threats whether financial, operational, or environmental and implement strategies to reduce their impact. One of the primary tools used in risk management is

insurance, which helps businesses transfer the financial burden of various risks to insurance companies, enabling them to continue operating smoothly. This theory is highly relevant for studying the influence of insurance penetration on manufacturing sector growth in Nigeria. By integrating insurance into their risk management strategies, manufacturers can mitigate the effects of disruptions, such as property damage, supply chain interruptions, and product liability issues. The financial stability gained from insurance coverage allows businesses to focus on expansion and innovation, driving sector growth. Moreover, increased insurance penetration enhances investor confidence and improves access to finance, which is crucial for the development of the manufacturing sector. Therefore, Risk Management Theory provides an effective framework to understand how insurance helps safeguard manufacturing businesses, enabling them to contribute to Nigeria's economic growth.

Empirical Review

In the same view of Okorie and Chikwendu (2019) who examined private sector credit impact on private sector investment in Nigeria. This study therefore examines the extent to which private sector credit impacts on private sector investments in Nigeria. The ARDL model was engaged in data analysis. From the analysis, the following results were established, that private sector credit has positive and significant impact on private sector investment in the short run, but in the long run, private sector credit has positive and non-significant impact on private sector investment in Nigeria.

In similar way Duru and Olufemi (2022) who studied the effects of insurance on the growth of Nigeria's manufacturing sector concluded that insurance penetration supports the sector by providing financial security and mitigating risks such as property damage, business interruptions, and supply chain disruptions. The research emphasizes that increased insurance coverage enables manufacturers to focus on expansion and innovation, ultimately contributing to the sector's growth in Nigeria's challenging economic environment.

Obi and Okafor (2023) investigated the role of insurance penetration in promoting economic stability in Sub-Saharan Africa, focusing on Nigeria. They found that insurance penetration significantly contributes to economic stability by providing risk coverage and enabling businesses to navigate uncertainties. The study highlighted that improved governance and regulatory quality further enhance the effectiveness of insurance in supporting economic growth, especially in the manufacturing sector. The findings indicate that insurance acts as a key enabler of investment and industrial growth.

Charles (2023) in the same way maintained common relationship between insurance sector development and Nigeria's economic growth from 1990 to 2022 using time series data and the

ARDL model. The study found that insurance investments, premiums, and transactions have a significant positive impact on the Nigerian economy, promoting overall growth and stability. Regular collaboration between policymakers, stakeholders, and researchers is also encouraged to foster continuous improvements in the sector.

Tasdemir and Alsu (2024) examined the impact of insurance sector activities on economic growth in G-20 economies. They found that the overall activities of the insurance sector, including non-life insurance positively affects economic development by enhancing financial stability and reducing risks. This, in turn, fosters a conducive environment for investment and business continuity, driving long-term growth. The study underscores the importance of the insurance sector in mitigating risks and supporting broader economic expansion.

Insurance penetration and manufacturing sector growth: a time series evidence from Nigeria was carried out by Ibebi (2025). This study examined insurance penetration and manufacturing sector growth in Nigeria. The ECM equation showed that insurance penetration has a negative and non-significant relationship with manufacturing sector growth. A unit increase in insurance penetration consequently means that manufacturing sector falls by 0.09. The findings suggest that insurance density have not been beneficial to growth of manufacturing sector.

In view of Oji (2025) carried out a study on financial deepening and economic growth: a disaggregated effect from Nigeria. The study adopted multiple regressions using E-view statistical package. It was found from the regression result that Broad Money Supply, credit to private sector have position effect on the growth of Nigerian real gross domestic product while national savings, capitalization and interest rate on Nigeria Real gross domestic product.

Ogbonna, Oladipo, Yalouli, Okafor and Lawal (2025) studied insurance penetration and financial development in Nigeria. The main purpose of the paper was to find out the responsiveness of the insurance penetration to the development of the financial system in Nigeria. Findings arising from the study indicates that financial development enhances insurance penetration, while the regulatory environment controlled by monetary policy rate also favourably affects insurance penetration.

Gap in Empirical Review

In extant literature, it revealed that most of the studies on credit to private sector were carried out mainly in Nigeria, while few of them was done outside Nigeria, and was not reported in the present study. Thus were not purely on credit to private sector and growth of insurance operations. The studies conducted on credit to private sector in Nigeria did not use gross premium income against credit to private sector. This study therefore, used credit to private

sector as independent variable to measure the growth of insurance operations proxied by gross premium income in Nigeria for the period of 1997 to 2024. The study seeks to fill this gap.

METHODOLOGY

Research Design

Ex-post facto research design was adopted. The design was ideal for analyzing existing data to explore cause-and-effect relationships, particularly when the variables of interest have already occurred.

Sources of Data

Secondary data were gathered from Central Bank of Nigeria (CBN) Statistical Bulletin and the Nigerian National Bureau of Statistics, covering the period 1997 to 2024. This approach aligns with previous research on the economic impact of insurance penetration, such as studies by Charles (2023) and Akinlo (2013), which used similar secondary data to investigate the effects of insurance sector development on economic growth.

Model Specification

The purpose of this study was to examine the link between credit to private sector and growth of insurance operation in Nigeria, 1997-2024. To achieve this, three key variables were identified: independent and dependent variables. The independent variables include factors representing insurance penetration, such as insurance density, insurance premium to total assets ratio, and the overall impact of insurance penetration on financial stability. The dependent variable is the manufacturing sector's growth, measured by output sectorial GDP contribution.

The models for testing the hypotheses are as follows:

$$1\beta 0 + \alpha$$

$$GIO = \beta_1 GPI + \epsilon_i$$

a-priori, $b_0 > 0$, $b_1 > 0$

Where:

GIO = Credit to Private Sector (Independent Variable)

GPI = Growth of Insurance Operation (Dependent Variable Proxied by Gross Premium Income)

β_0 = Intercept

$\beta_1 - \beta_2$ = Parameters to be estimated

e = Error Term

Method of Data Analyses

Time series data covering a period of 28 years estimated using descriptive statistics, correlation test, unit root test and Ordinary Least Square Model for hypothesis testing.

DATA PRESENTATION AND ANALYSES

Table 4.1 Basic Descriptive Statistics

	GPI	CPS
Mean	226113.5	14757.49
Median	182835.4	10203.88
Maximum	726200.0	52884.78
Minimum	18675.20	316.2100
Std. Dev.	201743.1	15472.86
Skewness	1.922522	1.102400
Kurtosis	2.940998	3.435273
Jarque-Bera	6.691639	5.892371
Probability	0.157896	0.052540
Observations	26	28

Source: Extracted from E-View 10 Statistical Package

The table provides descriptive statistics for both dependent and independent variables. The skewness statistic indicates that all variables are positively skewed since their values are greater than zero. The Jarque-Bera statistic is greater than the 5% level of significance, leading us to accept the null hypothesis, indicating that the series are normally distributed. Additionally, the table shows the sum of all variables and the sum of the squared deviations.

Table 4.2 Correlation Analysis

Correlation			
t-Statistic			
Probability	GPI	CPS	
GPI	1.000000		
CPS	0.980942	1.000000	
	24.73298	-----	
	0.0000	-----	

Source: Extracted from Statistical Package E-view 10

The correlation approach was adopted. The result of the test shows that the variables within themselves exhibit perfect correlation of 1.00 which is however expected. The correlation coefficients did not signify any problem of multi collinearity. This is however not a cause for concern. The variables show a positive significant correlation between one another.

Table 4.3 Unit Root Test

Variables	ADFSTAT	CRD5%	P.V	Order of Integration	Remark
CPS	-3.70	-2.98	0.01	1(1)	Stationary
GPI	-5.19	-3.62	0.0019	1(1)	Stationary

Source: *Compilation of Researcher, 2025*

Table 4.4 indicates that all the variables are integrated at order one which happens to be stationary at difference. This condition warrants the application of OLS methods which accommodates series that are either I(1) or I(1) process or the mixture of both. The stationarity tests are necessary to guard against spurious regression and to ensure no variable is integrated of order two. The test was based on Akaike Information Criterion (AIC) which was selected automatically. But it wasn't determinant of hypothesis testing rather it was based on stipulated objectives of the study.

Test of Hypotheses

H₀₁: There is no significant linear association between credit to private sector and growth of insurance operation in Nigeria.

H_{a1}: There is significant linear association between credit to private sector and growth of insurance operation in Nigeria.

Table 4.4 Correlation Analysis

Correlation			
t-Statistic			
Probability	GPI	CPS	
GPI	1.000000		
CPS	0.980942	1.000000	
	24.73298	-----	
	0.0000	-----	

Source: *Extracted from Statistical Package E-view 10*

From the correlation matrix presented in Table 4.5, the results showed that $r=0.980942$, $t\text{-stat} = 24.73298$, $p\text{-value} = 0.000$. It was revealed that there was significant positive linear association between credit to private sector and growth of insurance operation in Nigeria. We reject the null hypothesis and conclude that there was significant positive linear association between credit to private sector and growth of insurance operation in Nigeria.

Test of Hypothesis Two

H₀₂: There is no significant causal relationship between credit to private sector and growth of insurance operation in Nigeria.

H_{a2}: There is significant causal relationship between credit to private sector and growth of insurance operation in Nigeria.

Table 4.6: Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
GPI does not Granger Cause CPS	23	3.31821	0.0593
CPS does not Granger Cause GPI		0.07691	0.9263

Source: Extracted from Statistical Package E-view 10

The result above in table 4.6 show unidirectional causality due to If GPI Granger-causes CPS, but CPS does not Granger-cause GPI, it suggests a one-way relationship where past values of GPI are useful for predicting future values of CPC, but not vice versa. Therefore, GPI vs CPS = 0.0593 (F-Sat =3.31821) while CPS vs GPI = 0.9263 (f-Sat = 0.07691).We reject the null hypothesis and conclude that there was unidirectional causality between credit to private sector and growth of insurance operation in Nigeria.

Discussion of Findings

Hypothesis One: There is no significant linear association between credit to private sector and growth of insurance operation in Nigeria.

From the correlation matrix presented in Table 4.5, the results showed that r=0.980942, t-sat = 24.73298, pv= 0.000. It was revealed that there was significant positive linear association between credit to private sector and growth of insurance operation in Nigeria. This is in agreement with the study by Okorie and Chikwendu (2019), does private sector credit impact on private sector investments in Nigeria. From the analysis, the following results were established, that private sector credit has positive and significant impact on private sector investments in the short run, but in the long run, private sector credit has positive and insignificant impact on private sector investments in Nigeria.

Hypothesis Two: There is no significant causal relationship between credit to private sector and growth of insurance operation in Nigeria.

Therefore, GPI vs CPS = 0.0593 (F-Sat =3.31821) while CPS vs GPI = 0.9263 (f-Sat = 0.07691).We reject the null hypothesis and conclude that there was unidirectional causality between credit to private sector and growth of insurance operations in Nigeria. This study

contradicts with the evidence of Ogbonna, Oladipo, Yalouli, Okafor and Lawal (2025), which studied insurance penetration and financial development in Nigeria. Findings indicate that financial development enhances insurance penetration while the regulatory environment controlled by monetary policy rate also favourably affects insurance penetration.

Summary of Findings

- i. There was significant positive linear association between credit to private sector and growth of insurance operations in Nigeria ($r = 0.980942$, $t\text{-stat} = 24.73298$, $p < 0.0000$). This implies that credit to private sector most times determine what insurance operations does in Nigeria.
- ii. There was unidirectional causality between credit to private sector and growth of insurance operations in Nigeria (GPI vs CPS = 0.0593; F-Sat = 3.31821 while CPS vs GPI = 0.9263; f-Sat = 0.07691). This implies that gross premium income significantly determine and give room to credit to private sector because without functioning of insurance operations loan will not take place.

Conclusion

In respect of findings under the study, it was concluded that credit to private sector significantly and positively relates with growth of insurance operations in Nigeria. It also indicated that there was significant positive linear association between credit to private sector and growth of insurance operations in Nigeria and there was unidirectional causality between credit to private sector and growth of insurance operations in Nigeria.

Recommendations

The following recommendations were proffered.

- i. Encourage collaboration between commercial banks and government agencies to provide comprehensive support services to insurance business operations by making necessary provisions for credit facilities across the nation.
- ii. Insurance firms should continue to increase allocation to investments with proper diversification in order to enhance their investment positions and contribution to growth of the real sector in Nigeria.

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