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Impact of Insurance Companies Investment on Bank Liquidity and Economic Growth of Nigeria

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Abstract: The study examined the impact of insurance companies' investment on bank liquidity and economic growth of Nigeria. This is basically to determine the extent of insurance companies contribution to liquidity formation in the banking sector which has being the major cause of bank failures as a financial intermediary and a dealer in short-term securities thereby mobilizing resources for real economic sector. The population of the study is made up of the fifty-nine Nigeria (59) insurance companies in Nigeria. Time series data from the central bank statistical bulletin on total insurance business investment was the source for secondary data. The study employed both inferential and Descriptive Statistics. The E-view statistical package was used for data analysis and test for three (3) hypotheses. The study reveals that there is no significant relationship between short-term investments of insurance companies and banks liquidity, that there exist no significant relationship between short term investment of insurance companies and liquidity formation of the Nigerian money market. The study also reveals that there exist a positive but not significant relation between insurance premium and Gross Domestic product in Nigeria. The study concludes that insurance companies in Nigeria do not impact significantly on the liquidity of banks, money market and economic growth in Nigeria. The study recommends that insurance companies be recapitalized to afford them more resources to expand their investment portfolios to stimulate liquidity formation. That the insurance companies should be more innovative and provide more services to courte public attention and participation to close the insurance gap. The National Insurance Commission (NAICOM) should also ensure compliance and adherence to regulations in the industry.

Keywords: Liquidity Formation, Short-term Investments, Money Market Value, Insurance Premium

1. Introduction

Insurance business is as old as the colonial rule and the financial system in Nigeria. Like the banking financial institutions, they also got indigenized after independence. The emerging financial market in Nigeria today has seen the insurance companies as part of the liquidity management institutions as a result of the insolvency experienced in the banking sector prior to the introduction of the 1952 banking ordinance specifically the insolvency of indigenous banks between 1929 and 1952. The liquidity management responsibility was thrust on the Discount Houses by the central Bank of Nigeria through the open market operation (OMO). Treasury bills, Treasury certificates, federal government development bonds and stock were traded and of course the discount houses were a cynosure for the control and supply of short-term funds in the Banking system.

The Banks solely can't undertake the function liquidity provision in the entire financial system thus the inclusion of Non-bank financial institutions (NBFI's) in the intermediation process and the insurance industry is key in this function like no other as a result of their participation in the dealings of money market instruments that are for short term liquidity as well as economic stabilization in the control of macroeconomic variables during inflationary and deflationary pressures. Liquidity which translates into finances and boosting financing capacity of productive firms through the banking system as loans and advances to the real economic units has an impact on working capital of real economic sectors (private sector) and a cumulative effect on the Gross domestic product of the economy. The study is therefore imperative for clear revelations of how the insurance industry, as part of the consortium of institutions in the liquidity management responsibility delegated by the CBN have fared in the money market capitalization (liquidity formation) and its place in the economic growth of Nigeria.

The challenge of liquidity management has been as a result of the failure of the banking system particularly the commercial bank given the universal banking operational in Nigeria since 2001, when the merchant and commercial banks shared operations yet the liquidity crisis and insolvency never seized. The cruise of the matter is that the responsibility of providing liquidity is not solely on the banking industry but reliant also on other consortium of institutions in the financial intermediation process dealing on money market instruments and it is important to examine how much have they fared in the discharge of these responsibility. The economy of Nigeria is also a function of the availability of debt funding not only as working capital requirements but also for the acquisition of several infrastructure and fixed asset and this relies also on the long-term fund sources particularly arising from the capital market and the insurance industry is also a player and a key investor in capital market instrument amongst other non-bank financial institution for the attainment of economic growth and its sustenance. To what extent have there also contributed to the growth of the economy through financing public and private cooperation to boost the growth of the Nigerian economy.

2. Conceptual Framework

2.1. The Concept of Modern Insurance Industry

Insurance is a multi-faceted phenomenon. It is a social institution and an economic device with an intricate Socio-economic mechanism for risk management in an economy. It replaces insecurity with security and stability to individuals, households, firms, institutions, government, etc. insurance is a complex, legal, economic and social concept that has continued to attract great public interest in all sectors of the economy due to its massive contributions to the general wellbeing of the individual, businesses and the society at large. The security provided by insurance to the individuals, business organization and the investments made by the insurance companies in the economy contributes to bank liquidity and economic growth of the nation [16, 13].

Insurance companies are non-bank financial institutions that help individuals, government, households and firms transfer risk of loss and indemnify them against financial loss due to death, disability, accident, burglary, property damage and other misfortunes as a result of an insured peril. The insurance company underwrites this risk and indemnifies the clients on such perils as a result of the insured loss for a cost called the premium.

By its social character, insurance has been defined as "a cooperative device to separate the loss caused by a particular risk over a large number of persons who are exposed to it and who agree to insure themselves against that risk [10]. Still in the same vein, insurance is viewed as an economic device whereby the individual substitutes a small certain cost (the premium) for a large uncertain loss (the contingency insured against) which could exist if it were not for the insurance [16]. Insurance as "the pooling of fortuitous losses by transfer of such risk to insurers who agree to indemnify the insured for such losses to provide their pecuniary benefits on their occurrence or to render such services connected with the risk [15]. It is evident from these definitions that as a social scheme, insurance places great emphasis on the payment of financial compensation for the consequences of loss and this compensation is generated from a pool of accumulated premium income contributions of all members participating in the scheme. It is obvious therefore, that as a business, insurance seeks to eliminate or reduce risks through the process of aggregating a large number of homogeneous risk exposures into a group with a view to making losses more manageable for all members of the group [10, 16]. In this way, insurance industry contributes immensely to bank liquidity through premium income formation in the economy.

By the very nature of the insurance business, insurance companies pool all risk-conscious insuring public into a class of homogeneous (similar) risk, so that losses which occur within that particular risk class are paid for, out of a common accumulated fund (called contingency fund), which is created by the insurer for the purpose of meeting claims payment for that class of risk. The insured premium to the insurer is paid into this fund to be used for the payment of claims of the few unfortunate policyholders who suffered losses. It is maintained that insurance companies indirectly play the role of risk pooling managers on behalf of their customers because they cannot afford the high costs involved directly as individuals, but collectively they use insurance contacts to beat down the costs of operating pooling arrangements carried out through the statistical principle of inertia of large numbers. The practice of insurance business serves and sustains the industry under this principle [9].

As non-bank financial institutions, insurance companies help individuals, households, firms, business enterprises, and government agencies, to transfer risk of loss and payment of indemnity against financial loss arising from death, injury, disability, accident, property damage, theft, burglary and any other loss suffered as a consequence of an insured peril. The Nigeria Banks and Other Financial Institutions Act. (BOFIA) 1990, defined Non-bank Financial Institutions (NBFIs) as any individual body, association or group of persons, whether corporate or unincorporated, other than banks licensed under the Act which carries on the business of a discount house, finance company and money brokerage and whose principal objects include; factoring, project financing, equipment leasing, debt administration, funds management, private ledger services, investments management, LPO financing, export financing, project consulting, pension funds management and such other services as the bank may from time to time designate. By BOFIA 1990, definition above, non-bank financial institutions (NBFIs) are institutions that are not licensed to provide full money deposit banking services to the general public, but could render alternative services like the pooling of risks arrangements, management of individual and collective investments and money transmission [10].

It is important to note that insurance companies are among the NBFIs that perform some key roles in financial intermediation within the financial system in the Nigerian economy. The insurance industry performs the dual role of risk management and capital formation by providing cover against various classes of risks that manifest within the economy and trade on short-term financial securities that make liquid the banking system. Since risk is inseparable from the social and economic activities of an individual life, insurance companies are on a rescue mission to bring back the policy holder to the original position. By so doing, insurance companies rekindle hope, confidence and give peace of mind to the investors to invest without fear of suffering a ghastly business waste or loss [12].

Analysts in the insurance industry have identified primary functions of insurance business to include: risk transfer, risk management, financial intermediation, invisible earnings, research and other related social activities in the industry. It is necessary to add that insurance company's carryout a wide range of secondary functions as well. Amongst which are:

1. Promoting the general well-being of the insuring public through national health insurance programmes and agricultural insurance schemes.
2. Injecting capital formation into the economy for the promotion of foreign and local investments through channels like the money and capital markets, treasury bills and bonds, real estate's development, etc.
3. Facilitating the spirit of savings and thrift through periodic premium payments on endowment policies.
4. Promoting pension schemes, protecting businesses from failure thereby providing stability to the national economy.
5. Some insurance policies are very useful in tax planning and serve as tax exempts, e.g. life assurance policies; and others can be used as collateral security for obtaining bank loans and other forms of business financing facilities in the economy [5, 3].

2.2. The Nigerian Insurance Industry

The modern insurance industry came into the country through British traders who acted as agents to their British insurance companies for over a century before they started opening up their branch offices in Nigeria. This started in 1921 with the incorporation of the first British insurance company – the Royal Exchange Assurance Company in Lagos. Insurance at its inception was centred in Lagos, then the nerve centre of both business and colonial Administration. Throughout most of British colonial rule in Nigeria, the insurance industry remained under the dominance of foreigners. The Royal Exchange Assurance company maintained a monopoly on practically all insurance operations in the country for about thirty years before another set of three British owned insurance firms were introduced into the insurance market in Nigeria in 1949. The new companies were: The Norwich Union Fine Insurance Society, Tobacco insurance society limited and Legal and General Assurance Society Limited. These foreign firms came into being as branch offices of British companies or as products of foreign entrepreneurs based in Nigeria whose objectives were to boost their own business interest in the country. This left the Nigeria insurance market under the colonial era grossly underdeveloped, since there were no legislations to regulate supervise and control the industry in the country [7, 11].

In the 1950s, a good number of indigenous insurance companies were incorporated into the industry and at independence in 1960, the number of registered insurance companies was reasonably raised to about eighty (80). The huge influx of indigenous insurance companies into the industry between 1960s – 1980s was influenced by the government intervention in regulating, supervising and controlling of the insurance market in the country. In 1969, the federal government established the National Insurance Corporation of Nigeria and acquired 49 percent controlling shares in 14 foreign owned insurance firms with a view to reducing foreign dominance of the insurance market and other key industrial enterprises in aggregate in the economy, but this measure still could not succeed to subdue or reduce the dominance and control of the insurance industry and indeed, the entire economy by the expatriate firms. In the 1970s, out of the 74 insurance companies in the industry, 59 were indigenous, while the remaining 15 were foreign-owned, but despite their small number, the expatriate firms still took charge of the bulk of the insurance operations in the economy by controlling over eighty (80) percent of the market share in the industry. This did not in any way discourage the indigenous investors from entering the industry even amidst shoddy performance in the economy [21]. The insurance market experienced the highest number of membership enrolment in 1995 with a total number of 145 companies from where it dropped to 134 in 1996 when 11 companies were liquidated for inadequate funding. From that period onward, the number had continued to reduce and by 2004, Nigeria Insurers Association (NIA, 2003) recorded 93 companies as the number of insurers operating in the country. However, analysts contend that the growth in insurance market in Nigeria right from the colonial era is attributed to the increased involvement of the indigenous entrepreneurs and investors in the industry and by extension the entire economy following Federal government intervention through the indigenization policy of 1972 and the Nigeria Enterprises promotion programme of 1977 and the subsequent regulation of the industry that followed in the country [2].

2.3. Insurance Sector as a Subsector of the Financial Services System

The insurance industry is a subsector of the Nigerian Financial services system (FSS) whose global vision was "to be the safest and fastest growing financial system among emerging market countries" with the objective "to make Nigeria Africa's Financial Hub and one of the 20 largest economies in the world by the year 2020" [24]. By this dream, the Nigerian insurance industry is older than that of China, India and Malaysia as former colonies and appendages of the British financial system. The industry as a sub-sector of the Nigerian financial system is divided into five (5) sectors namely:

i. The Traditional Insurance Market Sector
ii. The Pensions Sector
iii. The Health Insurance Sectors
iv. The Distribution Channels
v. The Support Service Providers

2.4. Market Analysis, Size and Performance

The traditional insurance market is the largest sector in the insurance industry comprising 103 insurance companies, 5 re-insurance companies, 5 Actuary firms, 509 insurance brokers and 37 loss adjusting firms. Following recapitalization of insurance companies in 2007, the number of insurance companies reduced to 57 and reinsurance to 2. In 2005, the traditional insurance sector generated a premium income of N76.32bn ($587.Om) as compared to N99.3bn for Discount Houses (DHs) in the same year irrespective of the insurances numerical advantage over the Discount Houses. The Nigerian insurance industry ranked 65^{th} position in the world, 6^{th} out of 8^{th} in Africa with a 0.32% contribution to real Gross Domestic Product (GDP).

This insurance sector serves the market with over 60 different insurance products with six (6) areas of compulsory insurance, namely: Road Traffic insurance cover – third party, death, bodily injury and property damage, Building insurance cover – Building-in-course of Erection, public building, employees safety and welfare – death and bodily injury for the class of employees tagged workmen, trade and commerce insurance cover – compulsory insurance of all marine cargo imports, Consumer protection insurance cover – professional negligence errors and omission by the insurance brokers.

2.5. Problems of the Insurance Industry in Nigeria

The Nigerian insurance industry has been facing a wide range of problems right from its inception under the colonial administration right down to date and most of these problems have been caused by the key players in the industry, namely: the government, the regulatory agencies, saddled with the responsibility to regulate, supervise and control the insurance market in the country and the negative attitudes of the insurance perditions [20].

2.5.1. Absence of Risk-based Vision

The major problem that led to the stunted growth of the insurance industry was the absence of a sound risk based vision for the insurance business in the Nigerian economy. The lack of this vision did not challenge the industry practitioners to be creative and innovative to change and adjust with the different changing environmental circumstances. This accounts for the stagnation in the industry.

2.5.2. Weak Regulatory, Supervisory and Control Mechanism

The legal framework design to monitor the behaviour of key players in the insurance industry had been too porous to instil the desired discipline in an all important industry like insurance sector. First, the idea of regulation came very late, by which time insurance market has been polluted with all manner of corrupt practices. Secondly, early practitioner had little or no professional skills and knowledge of insurance business; little wonder that the bulk of the industry operations were managed by expatriate companies. The service delivery package of most insurance company are substandard and as such can hardly communicate to the insurance customers risk-contents of their products. Unlike the marketing of commodity or tangible products, the marketing of insurance services cannot be executed by relying on customers' sensory appeal alone because insurance activities are financial services that cannot be felt, smelt, tasted, seen or heard before they are bought. All the insured has to show for his/her relationship with the insurer in the contract of insurance is a copy of a policy document which, of course, is a mere physical evidence of the contract entered into with him. The insured has confidence in the insurance only on trust that the insurer will indemnify him in the event of a loss and pay compensation to him or his beneficiary [20].

2.5.3. Low Capital Formation in the Industry

The low capital structure of insurance practitioners leaves much to be desired because of the negative effect it has on the performance of insurance business in the country. Low Capital base deprives the practitioners the capacity to develop and introduce new product in the insurance market and limits their ability to expand the market potential of the industry. Worried by his problem, the federal government was influenced to raise the capital structure for insurance operators through legislation (insurance Act 1997 and insurance Act, 2003) with a view to compel them build capacity and strengthen their financial basis for efficient and effective competition in the industry [1, 3].

2.5.4. The State of the Nigeria Economy

The state of the economy dictates the level of business activities undertaken in it, including the involvement of the general human efforts and technology invested in the production and distribution of wealth among the population which leads to better living standards of the people.

The level of economic development in Nigeria is still quite undeveloped due to low level of infrastructural facilities, technological applications and inadequate skilled and professional manpower in most sectors of our national economy which lead to low productivity. This weak state of the economy has a limiting effect on the growth and performance of the insurance industry in the country and has caused the market potential of the industry to remain all time low [22, 3].

2.5.5. Unstable Political Atmosphere in the Country

The many years of political instability also accounts for the stagnation in our national economy especially during the military misrule. As a nation, Nigeria has experienced many years of both political and economic waste which has contributed immensely to reducing level of new domestic and foreign investments need to boost our economic growth and development [20].

2.5.6. Low-income Earning Capacity of Citizens

The high rate of poverty with its attendant low-income earning capacity amongst a greater population of the residents reduces the size of the insurance target market with low per capital income. A large population of the people especially the rural dwellers of this country live in penury and abject poverty that they cannot afford to save some money to manage an insurance policy [20].

2.5.7. Poor Image of the Insurance Industry, Gross Incompetence and Corruption

The insurance industry is perceived to have one of the poorest reputations than other operators in the financial system of the Nigerian economy. The industry is perceived by the public as one that is freighted with corrupt practices. It is considered to be smart at receiving premiums from their insured but very lukewarm at providing efficient services particularly in the area of paying promptly genuine claims to deserving insured. This public view of the industry has not only tarnished the image of the industry, but has left a strong negative impression on the level of patronage given to the business by the people. The failure of the insurance to fulfil mandate in the Nigeria economy can be summarized in the above phrase "Gross corruption and incompetence in the industry in particular and the national economy as a whole. This can further be explained by the government failure to enforce all compulsory insurance with great zeal and determination so as to create awareness for the market penetration of other insurance products in the industry. The weak positioning of insurance in the mind of the people as a risk-mitigating factor in business and in life as a whole is responsible for negative attitude toward insurance considering the fact that people are used to suffering following many years of neglect by government with the attendant underdevelopment of the land [20].

2.5.8. Division and Disunity Arising from Too Many Associations in the Industry

The industry has been highly fragmented by a very large number of self-regulatory bodies and associations and each seeking supremacy and relevance over others in the industry. This attitude has not only added to the poor wage of the industry but has equally rendered it grossly inefficient. This weakness has also created room for the infiltration of the industry by quacks touting as insurance agents, brokers, underwriters, etc leaving no one in doubt why the industry has been infused with widespread unprofessional and unethical conducts among the players.

2.5.9. High Expense Ratio in Business Management

Experts maintain that business management expense ratio in Nigeria, is one of the highest in the world [1]. The insurance industry in Nigeria operates in an economic environment where the basic infrastructural facilities needed for the smooth management of business operation are lacking and since it is held that the general economic conditions under which a business operate has the greatest impact on it performance at any given time; it is not surprising why insurance business is not witnessing a boom in the economy. The operator in the industry provide their own power supply, source of water supply, road and other facilities needed to function in their business, notwithstanding the fact that they pay different forms of taxes to the federal state and local government without enjoying commensurate benefit of good governance from the governments.

2.5.10. Low Entry Barrier, Rate Cutting and Unhealthy Competition in the Industry

The small size of the insurance market in the country with it low entry barrier has brought some destructive competition between companies in the industry. As the market potential does not expand at the same rate. The rate of entry of new companies into the industry, unhealthy competition ultimately ensued among the practitioners in a bid to sustain, survive and grow their business in the industry and struggle for survival in a small market with many sellers leads to the use of rate cutting and other malpractices as weapon for market entry, market retention and market expansion instead of introducing innovative marketing initiative to expand the industry frontiers [20].

2.6. Money Market, Banks Liquidity and Economic Growth

The process of financial intermediation which is anchored on the mobilization of funds from economic surplus units (Individual, Household, firms and foreign investment) creates capital otherwise enhances capital formation in the money market which is the liquidity market for the banking industry to meet their short term liabilities and avoid liquidity crisis. The liquidity crisis experienced by banks today is as old as the establishment of indigenous banks in 1929. This crisis refers to the inability of banks to meet the obligation of their customers either in terms of deposit liabilities or in providing other financial services such as loans and advances or overdraft to finance their productive activities and personal needs because of the short supply of funds available to the bank at that material time. This condition where the bank is unable to meet its obligation to its customers is said to be a shortfall in liquidity supply and the persistence of this condition from one bank to the other is termed liquidity crisis. The liquidity crisis experienced by banks in Nigeria today is as a result of volume and the value of default risk (risk as a result of borrower not paying capital and interest as at when due) and or market risk (risk as a result of changes in the speculation on securities or financial instruments) in consonance with commercial or operational errors in some cases lead to bad debts with prolonged periods of recovery and the loan review system keeps commercial banks in perpetual struggle between liquidity, profitability and safety. This struggle has adverse effect on the financing capacity in terms of loan portfolio and loan composition of banks as well as the average cost of funds for private corporations with analysis on their returns on investments is mitigated against by liquidity crisis as an equilibrium point cannot be attained with respect to supply for funds and demand for loanable funds thus the reason for higher lending rate in Nigeria [17].

The money market in Nigeria is a very critical formation and its role on the operation of public and private sectors in the economy are intrinsic in the capital structure policy and composition of all private corporations particularly the bank who rely on them for funds as well as the firms in the manufacturing, agricultural, construction, mining, social services, transport and utility sectors of the economy are also reliant on the Banks for debt funding which according to Modigliani and miller (MM) given that there is no perfect market and corporate taxes exist, debt funding is preferred to equity funds and supported by the net income approach given that the weighted average cost of capital (WACC) for a firm is optional when a firm in levered (geared) and its gearing ratio has higher as possible debt funds to equity and the resultant effect of these approach is on the earnings per share of such cooperation [18]. The higher the member of optimally geared (levered) firms the more productive processes and activities the firms get engaged in and thus a higher gross domestic product which represents economic growth in such a season and the measure of percentage growth can be measured in the economy to the preceding period.

Table 1. *Insurance companies investment and liquidity formation in the money market.*

Year	Short-term investment of insurance companies (N'M)	Money Market Value (N'B)
2012	106,384.5	6,247.89
2013	133,915.2	6,853.88
2014	245,002.6	7,677.34
2015	266,172.0	8,691.42
2016	39,4819.6	10,870.51
2017	547,982.9	12,382.05
2018	73,486.9	12,152.44
2019	0.00	13,245.86

SOURCE: Central Bank of Nigeria 2019 and NAICOM 2011.

Economic growth is thus an impossible attainment without the availability of optimally levered (geared) firms which are reliant on the Banks who in turn are dependent on the money market to meet their short-term obligations sequel to the fund available to the firms on the discount of financial instruments as well as the money market liquidity level.

Thus, whatever affects the bank or financial system affects the economy hence the correlation and further determination of these type of relationship between the money market, Banking systems and the economic growth of Nigeria with the availability of financial intermediaries militating against default risk and market risk of investors in the financial system is a necessitated requirement with the significant and positive relationship between liquidity and gross domestic product. This is obvious as NBS (2016), that since 1960 to 2016, the gross domestic product of Nigeria (GDP) represents the economic growth of the nation was in 2015 and this is when the bank where stated to have had over ₦2.2 trillion Naira of public funds in its possession for no cost of such funds (High Liquidity period) and since the introduction of the Treasury single Account (TSA) and the float eliminated the level of economic growth is less than the period of bank float as shown in the sectoral contribution to GDP [15]. The contribution of the insurance companies to the money market in Nigeria as shown in table 2 reveals the level of their contribution to the money market value. The insurance companies as financial intermediaries are partners to banking and other non-banking institutions in the liquidity provision.

Table 2. *Insurance business and economic growth of Nigeria.*

Year	Insurance Premium (N'M)	Gross Domestic Product 2010 Constant Prices (N'B)
1996	13,150.56	21,177.92
1997	16,519.02	21,789.10
1998	17,846.47	22,33.87
1999	14,643.86	22,449.41
2000	22,531.46	23,688.28
2001	28,981.29	25,267.54
2002	37,765.89	28,957.71
2003	43,944.68	31,709.45
2004	50,495.91	35,020.55
2005	67,746.31	37,474.95
2006	82,361.89	39,995.50
2007	105,379.28	42,922.41
2008	157,206.02	46,012.52
2009	189,960.45	49,856.10
2010	200,375.98	54,612.26
2011	233,752.88	57,511.04

Source: Central Bank of Nigeria 2019.

Table 3. *Sectoral contributions to GDP during Banks liquidity period and the eliminated liquidity period.*

Economic sector	**GDP during banks liquidity (2011-2015)**	**GDP During Eliminated liquidity (2016) ₦ million**	**All time High size (1960-date)**	**All time low size (1960-date)**
Agriculture	4,816519.15	3,274,725.01	Second quarter 2015	Second quarter 2016
Construction	740,204.22	693,744.65	Second quarter of 2015	Second quarter 2016
Manufacturing	1829,246.46	1,519,448.03	Second quarter of 2015	Second quarter 2016
Public administration	614,330.87	394,453.72	First quarter of 2011	Second quarter 2016
Mining	3,083,257.13	896,051.02	Third quarter of 2012	Second quarter 2016
Services	7,087,965.27	6,085,747.17	Second quarter of 2015	Second quarter 2016
Transport	229,523.13	189,398.69	Third quarter 2015	Second quarter 2016
Utilities	114,401.69	82,806.37	Fourth quarter 2015	Second quarter 2016
Total	18,515,448.10	13,136,374.37		

Source: National bureau of statistics, 2016.

Rossi (2016), Global Head of liquidity and investment product development of Deutsche Bank said banks were able to large end-of-day liquidity to maximize returns for cooperation with extra cash but regulations around operational risk and liquidity are altering the way in which banks classify, report and balance liquidity and deposits. That tightening rules around non-operational deposits, leverage ratios and other balance sheet factors ultimately mean that overnight deposit are no valuable as operational balance. At same time the cost of credit is also rising with both trends compound by negative interest rates in Europe and other regions of the world. The financial system strategy for 2020 expects insurance companies' contribution to GDP to move from 0.32% in 2005 to 4.8% in 2010, 8.9% in 2015 and End wages 15.91% in 2020. The Nigerian insurance industry's gross present income sustained growth trajectory in 2018 with gross premium income (GPI) rising by12% to an estimated N 448.3billion on account of favorable macroeconomic indices and the commencement of major projects across the country such as Dangote refinery and fertilizer products plants. Other major contribution use the industry's growth and GDP were the increased regulatory support and implementation of banc-assurance and micro insurance initiatives, favorable net perils and higher than expected reserve releases contribute to these results.

CBN (2007), stated that the benefits derivable from an insurance market development are closely related to how the supply of insurance can meet the demands created for its services by other financial institutions and the economy. When the supply of insurance doesn't meet the market demands as a result of capacity constraints and infrastructural weaknesses it therefore results in an "Insurance Gap". Therefore, an important criterion for determining the relative expected benefits from the Nigerian Industry sector to the monetary management function as a stakeholder in the liquidity management instrument dealings, it is pertinent to estimate or measure the correlation of total insurance investments in Nigeria on Money market instruments to the liquidity service provision in the money market, the banking sector and its contribution to the economic growth of Nigeria. The insurance gap in the sector is also a relative measure of the benefits from new investments in the insurance market development. Malaysia has the highest contribution to GDP amongst China, India and Nigeria but it's not the most capitalized insurance industry but second in above stated countries but the variation or dispersion lies between the number of insurance services it supplies (65%) in is' economy bad debt ratio in relation to China with 60%, India with 36%and Nigeria with only 6% service provision and 94% insurance service gap [24].

Recently, the National insurance commission has in line with its statutory duty of effective administration, supervision, regulation and control of insurance business increased the minimum paid up capital for various categories from the 20th May, 2019 to 20th June, 2020 meeting the thirteen month stipulated deadline for 10% minimum paid up capital of the minimum paid up capital to be deposited with the CBN for existing firm and 50% for new entrants into the industry.

3. Theoretical Framework

This Research is anchored on the following theories but has the Shiftability theory and liquidity management theory as the anchor theories.

3.1. Liquidity Management Theory

The theory was developed in the 1960's by M. L. Jilghan and states that, there's no need for banks to grant self-liquidating loans and keep liquid assets because they can borrow reserve money in the money market in case of need. A bank can acquire reserves by creating additional liability against itself from different sources. This sources include the issuing shares and by ploughing back profits. The Theory clearly defines the role we seek that the Insurance Companies as Financial Intermediaries play in terms of their short-term investments in money market instruments as this enhances the liquidity of banks as they trade on their short-term securities [14].

3.2. The Shiftability Theory

The shiftability theory of banks liquidity was propounded by H. G. Moulton in 1960, who asserted that if the commercial banks maintain a substantial amount of assets that can be shifted to other banks for cash without loss in case of necessity, then there is no need to rely on maturities. In his view, an asset to be perfectly shiftable must be immediately transferable without capital loss when the need for liquidity arises. Thus, this theory yet enables us evaluate the roles of the Insurance Companies in their investment of short term securities that enhance the liquidity of banks as financial intermediaries [14].

3.3. The New Growth Theory

The New Growth Theory is propounded by Paul Romer in 1982, states that as an economic concept, human desires and unlimited wants foster ever-increasing productivity and economic growth. It argues that real Gross Domestic Product (GDP) per person will perpetually increase because of people's pursuits of profits. It further states that competition reduces profit, thus forcing people to constantly seek better ways to do things or invent new products to maximize profit. The theory emphasizes the importance of entrepreneurship, knowledge, innovation and technology thus rejecting the popular view that economic growth is determined by external, uncontrollable forces. Thus with insurance companies as entrepreneurs we seek to determine their contributions in view of their profitability and the services they render which are paid for as premiums thus representing their innovations an technological expertise to the growth (GDP) of the Nigerian Economy.

4. Empirical Review

Empirical Literature on the impact of insurance companies on banks liquidity is scarce, but there had been more research focus on the impact of insurance companies on economic growth and development. This may be informed by the limited intermediation activities and relationship between the bank and the insurance companies in the Nigerian economy. This study examined available literature and did a review on the role played by insurance companies on banks liquidity and economic growth and development.

Ozuomba (2013), investigated the impact of insurance on economic growth in Nigeria. This study used ex-post-facto design to evaluate historical facts about insurance companies' effect on economic growth. Secondary date in time series was used to highlight published annual report of the national Insurance Commission (NAICOM) and the Central Bank of Nigeria (CBN) statistical Bulletin from 1998-2007. A multiple regression statistical tool was used to access the Real Gross Domestic Product (RGDP) and investment in insurance and insurance premium to GDP in Nigeria. Findings of their study showed that there was a significant relationship between RGDP and investment in insurance and insurance premium to GDP in Nigeria. Findings of this study showed that there was a significant relationship between RGDP and premium to GDP. This means there is a positive relationship between RGDP representing economic growth and investment in insurance at a very high correlation of 0.99 which means as investments in insurance increase, economic growth increases as well.

Akpan and Joseph (2017), conducted an empirical and comparative evaluation of insurance companies and commercial banks' investment portfolios and their effects on economic growth in Nigeria from 1996-2011. An ex-post-facto- design was adopted and a multiple linear regression was applied to analyze the hypotheses. Findings revealed that there was a positive, but insignificant relationship between Government securities, stock of bond, real estate and mortgage policy and other loans, cash deposits, bills of exchange of insurance companies and economic growth in Nigeria. It was observed that the investment portfolios of insurance companies did not contribute significantly to economic growth in Nigeria in the years under study, but the investment portfolios of commercial banks did in the same period. This was revealed by the observation that showed that the total investment growth rate of commercial banks was greater than that of insurance companies in Nigeria in same period under review.

Fashagba (2018), investigated the impact of insurance on economic growth in Nigeria. This work focused on filling the gap created by the divergent results of previous studies on the relationship between life and non-life premium and economic growth. The study applied ex-post-facto design and the ordinary least square regression was used for data analysis. Findings in the study revealed that there was a positive relationship though insignificant between non-life insurance and economic growth and negative relationship but significant between life insurance and economic growth in Nigeria. The study concluded that the changes in non-life insurance positively affect economic growth, while life insurance has negative effect on economic growth [8].

Iyodo, Samuel and Inyada (2018), examined the effect of insurance industry on economic growth in Nigeria. The study assessed the impact of non-life insurance penetration on economic growth, using an ex-post-facto design. Regression statistical technique was used to analyze data for the study. Findings revealed that non-life insurance penetration has a strong positive effect on economic growth in Nigeria in the period under review (1988-2014).

Etale and Edoumiekumo (2020), assessed the Financial sector policies and economic growth; Evidence from insurance sector in Nigeria. The study used gross capital formation (GCF), total insurance premium and insurance investment as financial sector policies, whereas gross Domestic Product served as proxy for economic growth. The study, was an ex-post-facto design that applied descriptive statistics and multiple regression technique supported by E-views 10 software for analysis. Findings showed that gross capital information (GCF) and total insurance investment showed significant relationship to GDP. Furthermore, GCF and total insurance premium presented insignificant negative effect on GDP, while the total insurance investment had positive relationship to GDP. The study concluded that financial sector policies demonstrated statistically significant contribution to economic growth with a coefficient of determination and probability of F-statistics values of 0.99246 and 0.00001 0.05 levels of significance respectively [6].

5. Research Methodology

The research design employed the expo-factor design as a result of the use of panel data. The research employed both descriptive and inferential statistics. The study employed the E-view statistical package for the analysis of data in the study.

5.1. Model Specification

The model specification formulated for the purpose of analyzing data is as shown;

$$BLQD = f(STIIC\text{'s} + MMV + e_1)$$

Where: BLQD-Bank Liquidity
MMV-Money Market Value (Value of Liquidity)
STIIC's-Short term investment of insurance companies
X_1-Stochastic error term
GDP=f (Iprem +e_1)
GDP=Gross Domestic Product (Economic Growth)
Irem=Insurance Premium of Insurance Companies
X_1=Stochastic error term

5.2. Population and Sample of the Study

The population of the study is made of fifty-nine (59) insurance companies subsisting of fifty-seven (57) traditional insurance companies and two (2) re-insurance companies. The sample of the study is made up of the summary of insurance companies' total investment in the central bank of Nigeria statistical bulletin for 2019.

Table 4. *Descriptive Statistics.*

	STIIC	LQD	MMV	IPREM	GDP
Mean	221020.4	46.32250	9765.174	80166.37	264602.5
Median	189433.6	41.45000	9780.965	47220.30	30333.58
Maximum	547982.9	141.3900	13245.86	233752.9	3747495.
Minimum	0.000000	14.16000	6247.890	13150.56	20353.20
Std. Dev.	181649.3	40.85129	2731.900	74598.79	928838.9
Skewness	0.615351	1.753301	-0.026082	0.928342	3.613885
Kurtosis	2.314286	4.922718	1.386015	2.387907	14.06263
Jarque-Bera	0.661610	5.331034	0.869223	2.547957	116.4150
Probability	0.718345	0.069563	0.647516	0.279717	0.000000
Observations	8	8	8	16	16

Abbrev: STIIC=Short term investment of insurance companies, LQD=Bank liquidity, MMV=Money market value, IPREM=Insurance premium, GDP=Gross domestic product.

The descriptive statistics result show that the average short-term investment of insurance companies in Nigeria is about 221020 million naira, with maximum STI of about 547983 million naira and in 8 years. The average bank liquidity in the sample is about 46.3 billion naira, with maximum and minimum liquidity of about 141.4 billion naira and 14.1 billion naira respectively. The mean value of money market is about 9765.2 billion naira, with maximum and minimum values of 13245.9 billion naira and 6247.9 billion naira respectively. The mean insurance premium reveals an average value of 80166.4 million naira, with maximum and minimum values of 233752.9 million naira and 13150.6million naira respectively. Average value of GDP is 264602.5 billion naira, with maximum and minimum values of 3747495.1billion naira and 20353.2 million naira respectively.

The kurtosis indicates that the data for the analysis is leptokurtic with positively skewed values.

Table 5. *Relationship between Short term investment of insurance companies and Bank Liquidity (H1) and Money market value (H2).*

Panel A:	LQD (H1)		
Pearson Moment Correlations	R	t-stats	p-value
STIIC	-0.32	-0.83	0.44
Panel B:	MMV (H2)		
Pearson Moment Correlations	R	t-stats	p-value
STIIC	0.13	0.34	0.74
Granger Causality Test		F-stats	P-value
STIIC does not Granger Cause LQD (Lag 1)		4.31	0.04
STIIC does not Granger Cause MMV (Lag 1)		24.59	0.00

Abbrev: STIIC=Short term investment of Insurance companies, LQD=bank liquidity, MMV=Money market value.

Table 6. *Relationship between insurance premium and economic growth of Nigeria (H3).*

Variable	GDP		
Pearson Moment Correlations	R	t-stats	p-value
IPREM	0.02	0.07	*0.94*
Granger Causality Test		F-stats	P-value
IPREM does not Granger Cause GDP (Lag 1)		0.00	0.98
IPREM does not Granger Cause GDP (Lag 2)		0.11	0.90

Abbrev: IPREM=Insurance premium, GDP=Gross domestic product.

6. Discussion of Results

The Panel A of table 1 represents the correlation matrix between STIIC and LQD. The results indicate that there is a negative relationship between short term investment of insurance companies in Nigeria and bank liquidity. The negative correlation (r=-0.32) suggests that there is a 32 percent negative relationship between both variables. The reason for the negative relationship could be because insurance companies take out their monies from the bank for such investments, which is negatively associated with bank liquidity or as a result of other lurking variables.

An examination of the t-statistics (t=-0.83) and p-value (p=*0.44*) revealed that the association between STIIC and LQD of banks do not seem to be statistically significant. Though they are negatively related, this negative relationship does not raise any significant research concern.

The reported lag 1 and unreported lag 2 granger causality tests of the causality flowing between STIIC and LQD further indicate that the relationship between both variables does not flow from either of them, with an F-stat of 0.65, p=*0.47* (for reported lag 1).

Thus, H1 null is accepted that there is no significant relationship between short term investment of insurance companies and banks liquidity in Nigeria.

The Panel B of table 1 represents the correlation matrix between STIIC and MMV. The results indicate that there is a positive relationship between short term investment of insurance companies and liquidity formation of money market (proxies by the value of money market). The positive correlation (r=0.13) suggests that there is a 13 percent positive relationship between STIIC and MMV. The reason for the positive relationship could be because insurance companies' short term investments are in the money market instruments, which positively affects the formation of money market liquidity.

An examination of the t-statistics (t=0.34) and p-value (p=*0.74*) revealed that the positive association between STIIC and MMV is not statistically significant. Though they are positively related, this positive relationship does not raise any significant research concern, and has no implication for further analysis and making empirical inference.

The reported lag 1 and unreported lag 2 granger causality tests of the causality of relationship between STIIC and MMV further indicate that the relationship between both variables does not flow from either of them, with an F-stat of 0.22, p=*0.66* (for reported lag 1).

Thus, H2 null is accepted that there is no significant relationship between short term investment of insurance companies and liquidity formation in the Nigerian money market.

Table 2 represents the correlation matrix between IPREM and GDP. The result indicates that there is a positive relationship between insurance premium in Nigeria and gross domestic product of Nigeria. The positive correlation (r=0.02) suggests that there is a 2 percent positive relationship between IPREM and GDP. The reason for the positive relationship could be because insurance companies contribute to capital formation of the Nigerian economy.

However, an examination of the t-statistics (t=0.07) and p-value (p=*0.94*) revealed that the positive association between IPREM and GDP is not statistically significant. Though they are positively related, this positive relationship is negligible, and has no implications for further empirical inference.

The reported lag 1 and lag 2 granger causality tests of the causality of relationship between IPREM and GDP further indicates that the relationship between both variables does not flow from either of them, with an F-stat of 0.00, p=*0.98* (for lag 1) and F-stat of 0.11, p=*0.90* (for lag 2).

Thus, H3 null is accepted that there is positive but not significant relationship between insurance premium of insurance companies and economic growth of Nigeria and this is in agreement with Ozumba (2013) as well as Akpan and Joseph (2017), Fashagba (2018) and Iyodo, Samuel and Inyada (2018).

7. Conclusion and Recommendation

The study concludes that there exist a negative relationship between the short-term investments of the insurance companies and banks liquidity and this implies that the funds of insurance companies are in other investments (long term) or other lurking variables are responsible for this negative relationship. The study also reveals a positive but not significant relationship between short term insurance companies' investments and capital formation in the Nigerian money market as the investments are so minimal in comparison to the liquidity market value, and the relationship between the insurance company's premium and the Gross Domestic Product (GDP) is statistically positive but insignificant at a 2% or 0.02 conclusion level. Thus, there is no significant relationship between insurance companies' premium and economic growth of Nigeria and this is because the services are either all-embracing or few to attract Nigerians.

The study therefore recommends that insurance companies be recapitalized to afford them more resources to expand their business scope, invest in short term securities and stimulate liquidity formation and money market value. The study also recommends that insurance companies should be innovative enough to provide more services to courte public attention and participation to close the insurance gap Thus, increase premium and impact on the Gross Domestic Product of Nigeria. Finally the National Insurance Commission (NAICOM) and Central Bank of Nigeria (CBN) should revise and ensure compliance to regulatory provisions of the insurance industry. To overcome the challenge of intangibility in their marketing appeal, insurers should add tangible elements to their service profiles in one or more ways. The easiest way of fulfilling this is to augment the physical beauty of the office settings in order to project customers' confidence, by providing a sense of security and operational efficiency.

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