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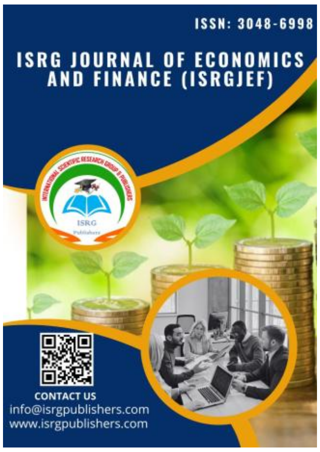

THE IMPACT OF FINANCIAL INSTITUTIONS AND INSURANCE ON ECONOMIC GROWTH IN NIGERIA

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Abstract

This study examined the relationship between financial institutions, insurance, and economic growth in Nigeria using an ex-post facto research design and secondary data from the Central Bank of Nigeria's Statistical Bulletin reports (2000-2022). Multiple linear regression analysis revealed that financial institutions have a significant negative impact on economic growth, with a 1% increase in Growth Rate of Public Fund Assets expected to decrease economic performance by 942.70% ($\beta = 9.427$, $p = 0.013$). Similarly, insurance has a significant negative impact on economic growth, with a 1% increase in insurance expected to decrease economic growth by 21973% ($\beta = 219.73$, $p = 0.000$). The study recommends that Nigerian financial institutions and insurance companies prudently manage and invest capital in line with regulatory guidelines and internal and external directives to ensure economic growth and sustainability.

Keywords: Financial Institutions, Insurance, Insurance Companies, Economic Growth.

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1. Introduction

Generally speaking, it is evidenced that capital and money market are channeled for raising fixed and working capital used in running financial institutions especially insurance and banking sectors (Babu, 2018). The availability of these capitals has served as the bridge between savings and investment in order to facilitate and increase insurance and banking sectors for mobilization, operational, financial and strategic activities as multiplier effects on economic growth and development (Etale & Edoumiekumo, 2020). Likewise, financial performance has strongly revealed the survival of insurance industry (Falade & Oyedokun, 2021) and highly qualitative stability for the banking sector functioning as the prerequisite for functioning of economic market on socio-economic progressive status (Nadiya, Olha, Yuliia, Mariia, & Taras, 2021). The optimization of gross domestic product is directly affected by the favorable and crucial effect to insurance industry (Fadun, 2023). In insurance company as service delivery, highly professional personnel (Nafiu, Raji, Adisa, & Akintayo, 2023) are mostly drive the adequacy of risk management in relations to technical Know-how (Sterling Assurance Limited [SAL], 2019). In Nigerian settings, the insurance sector as a risk management institution that usually responds to critical responsibility in terms of investment on life, pension, general and mutual funds in government bonds and other public stocks (Etale & Edoumiekumo, 2020).

The financial system effectiveness and efficiency is integrated as the dependency of financial, social, political convergence, including economic growth. The optimum growth in investment opportunities and profitability of emergent projects as well as the flow of information flow on business structural processes facilitate the integration of financial institutions (insurance and banking sectors) and economic growth (Nadiya *et al.*, 2021). Meanwhile, the financial system uses to serve as the integration between owners of wealth and business stakeholders in order for the capital mobilization to have adequate economic growth in view of conventional system (Sharma, 2021). That is, the significant relationship between socio-political, norms and cultural factors has influenced the economic growth to have described as Islamic economic growth. These mainly depends resources and capital accumulation as well as social solidarity in order to have multiplier effects on national prosperity (Firdaus, Ilham, Asiam, Nurbaiti, & Nasution, 2024) through the technical progression, physical and human capital, economic development and financial system (Sharma, 2021).

Insurance and bank as financial and institutional industries stand to provide crucial security for financial intermediation in order to have multiplier effect on economic growth in any developed and developing economy (Ime & Emem, 2017).. In Nigerian context, the contributory portfolios invested through ordinary and preference shares, bonds, subsidiaries, and debenture (Central Bank of Nigeria [CBN], 2022) from insurance and banking sectors on economic growth are expected to be distinguished to other neighboring countries. Despite, there are various problematic challenges accountable for this development, which these have posed sensitivity of illiquidity on insurance and banking companies (Ime & Emem, 2017). The specific objectives of the study include the following;

i. To evaluate the effect of financial institutions funds on gross domestic products in Nigeria
ii. To assess the effect of insurance funds on gross domestic products in Nigeria.
iii. To examine the relationship between financial institutions funds and insurance funds in Nigeria.

2. Literature Review

2.1. Conceptual Review

2.1.1. Concept of Financial Institutions

Financial institutions are otherwise known as banking institutions that operate as business entity different from their owners, and primarily make provisional services as financial intermediaries between the apex bank and customers for several financial monetary transactional agreements (Wikipedia, 2025). In financial economics context, a financial institution is a going concern institutional organization that builds up for financially transactional services for the potential and existing clients within the economy, which is regulated by governmental body (Purna, 2012). A financial institution is an organized enterprise that provides financially and monetarily transactional agreement namely banking firm, loans and deposits firms, pension firm, insurance company, brokerage firms and investment dealers. In addition, these financial institutions are mostly and essential built as money, assets and capital market in order to effectively and efficiently allocate capitals to be useful for their clients through the various types of financial houses namely credit unions, insurance and investment companies, banking organizations, and pension companies (Hayes, 2024).

2.1.2. Concept of Insurance

Insurance sector is a financial institution that is agreed contractually to specialize for the provision of insurance coverage or protection to their natural and artificial persons against purely and particularly insurable risks named perils (Ime & Emem, 2017). The peculiarities of insurance make it to consider separately as a sector that protects natural and artificial persons against their severely catastrophic material and non-material damage to property or loss of bodily injury (Pfeifer & Langen, 2021). The objective of insurance sector is to safeguard and protect the policyholders' properties through the risk transfer mechanism and pool as agreeable between insurers and policyholders (Insurance Information Institute [III], 2010).

2.1.3. Concept of Economic Growth

Economic growth describes as the increment in product's production over capita in terms of process, per capita output and long run (Fardaus *et al.*, 2024), which can further explain as the numerical quantitative measures of gross domestic product (GDP) with comparison between current and previous year (Sukirno, 2017). This GDP is adopted to measure economic growth as the multiplier parameter to the society's welfare (Mankiw, 2021). In reality, the fundamental measure of the nation's aggregate outcome is measured through gross domestic product or income as the overall market value of the finally produced products (goods and services) within the geographical boundary of country within specified period especially in a year (Khan *et al.*, 2015).

2.2. Theoretical Review

2.2.1. Financial Intermediation Theory

Gurley and Shaw developed the financial intermediation theory in 1960, which is an integration of information asymmetry and agency theory. This posits that financial institutions namely banking firms, pension companies and insurance companies in order exercise a vital role in facilitating economic growth through

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mobilization of savings, allocation of resources, and management of apparent and inherent risks (Kithandi, 2025). This theory explains the principle of financial intermediaries in terms of attributable existing factors namely high transactional costs, lack of adequately useful information timeline, and regulatory methods (Chen, 2024) in order to assist reducing transactional costs, asymmetric information and risk, thereby promoting economic efficiency and growth (Kithandi, 2025).

2.2.2. Economic Growth Theory

Joseph Schumpeter postulated the economic growth theory in 1934 by analyzing it as the integration of entrepreneurs' innovation and creativity would determine economic development, and led to profitability, but in the long due to competitive invention, the profits earned would have been declining to a certain level. The economic growth theory was asserted based on private property assumptions, market competitiveness, and financial markets in order to support innovative production or newly invented products through the provision of the Solow model and endogenous growth theory or framework for comprehending the association between financial institutions, insurance, and economic growth (Pietak, 2014). In addition, Arthur Lewis opined that the collected savings would lead to income growth appearance because of capita stock increment. In fact, there will be enlargement differences and income equalization levels in the short run and long run respectively (Lewis, 1956), which this will lead to economic growth positive dynamic and increment share of urban population over total population (Kuznets, !976).

2.3. Empirical Review

Gowda (2020) asserted that financial institutions are the backbone of a thriving economy, playing a multifaceted role in fostering economic development. As critical intermediaries, banks, investment firms, and central banks efficiently channel savings into productive investments, fueling economic growth and job creation. By providing financing to businesses and entrepreneurs, these institutions contribute to the expansion of economic activities, driving innovation and progress. Risk management is another crucial function of financial institutions, as they diversify and mitigate risks through various instruments, ensuring stability and confidence in the financial system. Moreover, their involvement in payment systems and financial infrastructure ensures the smooth functioning of transactions, promoting overall business efficiency and facilitating economic growth. Financial institutions also act as catalysts for inclusive development, promoting financial literacy and extending services to marginalized populations. In developing economies, microfinance institutions empower underserved communities, particularly women, by providing access to financial resources, enabling them to participate in the economy and improve their livelihoods. The impact of financial institutions can be seen in various contexts, such as in India, where they have contributed to rural development, infrastructure financing and digital financial inclusion. As technological advancements reshape the financial landscape, institutions are embracing digital innovation to enhance efficiency and broaden access, enabling greater financial inclusion and economic participation. However, regulatory frameworks must evolve to balance innovation and stability, ensuring that all share the benefits of financial development. Looking forward, financial institutions face the challenge of addressing environmental, social, and governance considerations, contributing to sustainable economic development and building resilient and inclusive economies.

Haini (2020) opined to examine the development of financial institution and economic growth in the Association of Southeast Asian Nations (ASEAN) economies for 13 years (1995-2017), adopting a dynamic panel estimator. The measured findings revealed that financial institutions and institutional quality were positively significant but financial markets were directly non-significant on economic growth. Amazingly, the study found the institutional development to have complementarily response to financial markets and institutions. The economies of ASEAN from the states' members should generally emphases on the integration of financial markets and institutions in order to alongside have the improvements in institutional quality through the effectiveness increased of financial growth and development.

Nadiyal *et al.* (2021) asserted the banking sector plays a crucial role in ensuring the stability of economic growth. This study aims to monitor the development of the banking sector and investigate the causal relationship between the banking sector and economic growth. To achieve this, the study employs advanced methodological tools, including Principal Component Analysis, causal relationship analysis, and vector regression modeling. The empirical analysis is based on data from the World Bank databank, utilizing eight components for integral analysis and seven indicators for causality analysis. The study develops an improved algorithm for monitoring the level of banking sector development, which calculates an integral coefficient to assess the sector's performance. The findings reveal that the level of banking sector development in Ukraine is low and significantly lags behind EU countries. Over the period of 2000-2019, the development of the banking sector in Ukraine ranged from 0.061 to 0.153, indicating a substantial gap with EU countries, particularly the Czech Republic and Poland. The causality analysis confirms a strong positive relationship between the level of banking sector development in Ukraine and GDP per capita (0.796), a moderate relationship with foreign direct investment (0.400), and a negative relationship with national poverty levels (0.678). These findings have practical implications for identifying sustainable development and economic turbulence, and for forming a conceptual vision of the role of the banking sector in achieving social and economic goals. This study highlights the importance of a well-developed banking sector in promoting economic growth and stability, and provides valuable insights for policymakers and stakeholders seeking to improve the banking sector's performance in Ukraine and other emerging economies

Lisbinski and Burnquist (2023) opined that this study examines the relationship between institutional characteristics and financial development across a diverse range of economies. By analyzing a dynamic panel of 131 countries, including both developed and developing nations, the research aims to shed light on how institutions influences financial development. The study employs a robust methodological approach, utilizing the Generalized Method of Moments (GMM) system model. This approach provides superior statistical precision compared to traditional linear estimation methods, allowing for a more accurate analysis of the complex relationships between institutional variables and financial development. The findings suggest that well-defined and concrete institutions are crucial for financial development, confirming previous research. The study's comprehensive analysis, which includes a large sample of countries, provides valuable insights into the impact of institutional characteristics on financial development.

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Sallai (2023) studied that this study investigates the relationship between financial development and global competitiveness, focusing on financial institution efficiency, analyzing the Global Competitiveness Index (GCI) and Financial Market Development Index Dataset (2007-2019) by comparing rankings of EU member countries and the UK in terms of financial market development. The efficient financial sector allocates resources, facilitates business investment, and fosters productivity with sound banking, regulated stock exchanges, and venture capital drive private sector investments, and essential for protecting investors and ensuring economic stability. The Study provides valuable insights for policymakers and stakeholders to strengthen the EU's financial sector and economic competitiveness.

Tashtamirov (2023) asserted that this study explores the relationship between institutional quality and economic development in six countries: the US, UK, Germany, Turkey, Russia, and China. Using panel data regression analysis, the research examines the impact of institutional quality on economic development over the period of 1996-2019. The study reveals that institutional quality, encompassing factors such as the rule of law, anti-corruption efforts, and regulatory framework efficacy, has a positive impact on economic development in all six countries. The effect of each institutional quality indicator differs across nations, highlighting the importance of context-specific policies. Investment and population expansion are found to positively impact economic growth, while trade openness and human capital have a lesser impact. The study suggests that countries should prioritize improving institutional quality to foster economic growth. The research highlights the critical role of institutional quality in promoting economic development and provides valuable insights for policymakers seeking to drive economic growth in their respective countries.

Firdaus *et al.* (2024) postulated that this research is motivated by the global economic growth that moves volatile and the vulnerability of the conventional financial system to the recession that hit the last few decades and the Islamic financial system that is still not well implemented in Muslimmajority countries. This study analyzes the comparison of economic growth for countries that implement Islamic and conventional financial systems. The sample is 10 countries with the largest Islamic financial assets and 10 largest countries that implement conventional financial systems. Independent t-test/Mann Whitney test is used for hypothesis testing. The results of this study show, there is no difference in economic growth for countries that applied Islamic and conventional financial systems. This is due to the relatively small size of the Islamic financial ecosystem and its incomplete implementation in many Muslim-majority countries.

Afsana-Reza, Farheen, and Ar-Rahaman (2025) opined that The COVID-19 pandemic has significantly affected global economies, with emerging regions facing unique challenges during the recovery phase. This study examines the effects of trade diversification, investment patterns, and fiscal policies on GDP growth in 26 developing market economies between 2019 and 2022. The study reveals that taxation plays a crucial role in post-pandemic economic recovery, with a 1% increase in tax rates correlated with a 0.063% increase in GDP growth. The short-term effects of trade diversification and foreign direct investment (FDI) on economic growth are found to be minimal. The study also finds weak relationships between GDP growth and higher interest rates and unemployment rates, suggesting that other macroeconomic factors may be more important. Future studies should examine the effects on particular industries and the role of the digital revolution in developing nations.

3. Methodology

This study employs an ex-post facto research design approach, utilizing secondary data collected from the Central Bank of Nigeria (CBN) Statistical Bulletin reports over a 23-year period, from 2000 to 2022. The study used a simple random sampling method to select observations and employed multiple linear regression analysis as the statistical technique to analyze the relationships between financial institutions (FIN) and insurance (INS) on gross domestic products (GDP). The multiple linear regression models for this study is likely represented by the equation below:

$$GDP = f(FIN, INS) - - - - - - - - - - - - - 1$$

$$GDPit = \beta 0 \ + \beta 1FINit + \beta 2INSit + € - - - -2$$

Where;

GDP = Gross Domestic Products

FIN = Financial Institutions

INS = Insurance

€ = Unexpected Variable

The coefficients of the variables (β0–β2) are measured by using the multivariate least square statistics.

3.1. Presentation of Data for Independent and Dependent Variables

Table 1: Component of Independent and Dependent Variables

S/N	Year	Financial Institutions	Insurance	GDP
1	2000	1033.08	118.51	25,169.54
2	2001	1079.57	123.25	26,658.62
3	2002	1397.18	159.51	30,745.19
4	2003	1268.02	128.76	33,004.80
5	2004	1299.72	142.73	36,057.74
6	2005	1333.55	158.21	38,378.80
7	2006	1397.11	176.10	40,703.68
8	2007	1464.31	196.05	43,385.88
9	2008	1531.52	217.59	46,320.01
10	2009	1589.49	238.47	50,042.36
11	2010	1648.74	260.07	54,612.26
12	2011	1129.56	265.13	57,511.04
13	2012	1461.70	226.20	59,929.89
14	2013	1592.13	241,52	63,218.72
15	2014	1723.78	258.89	67,152.79
16	2015	1851.83	272.07	69,023.93
17	2016	1748.75	278.76	67,931.24
18	2017	1782.33	270.68	68,490.98

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19	2018	1807.43	287.24	69,799.94
20	2019	1850.84	297.55	71,387.83
21	2020	2097.67	252.02	70,014.37
22	2021	2318.55	267.74	72,393.67
23	2022	2718.36	290.98	74,639.47

Source: Central Bank of Nigeria, 2024

4. Results and Discussion of Findings

4.1. Descriptive Statistics

Table 2: Descriptive Analysis for Dependent and Independent Variables

	N	Minimum	Maximum	Mean	Std. Deviation
Gross Domestic Products	23	25169.54	74639.47	53764.0326	16510.98315
Financial Institutions	23	1033.08	2718.36	1614.1400	396.70168
Insurance	23	118.51	297.55	222.9578	59.29369
Valid N (listwise)	23				

Source: Authors' Computation, 2025.

The summary of the descriptive statistical analysis is with the total observations of 23 years from 2000 to 2022. The Gross Domestic Products shows the means of 53764.03 with the lowest recorded value of 25169.54 in 2000 and 74639.47 as the highest value in 2022. The variability level of 16510.98 aligns trends with the multiplier effect, which this has observed a strong connection with the financial institutions and insurance.

The financial institutions also shows the means of 1614.14 with the lowest recorded value of 1033.08 2000 and the highest reaching value of 2718.36 in 2022. The variability level of 396.70 aligns the trends with the banking firms and other banking companies.

The insurance also shows the means of 222.96 with the lowest recorded value of 118.51 in 2007 and the highest reaching value of 297.55 in 2022. The variability level of 59.29 aligns the trends with the values from the annuity, life assurance and general insurance companies.

4.2. Correlation Analysis

Table 3: Correlation Matrix for Dependent and Independent Variables

		Gross Domestic Products	Financial Institutions	Insurance
Gross Domestic Products	Pearson Correlation	1	0.806**	0.955**
	Sig. (2-tailed)		0.000	0.000
	N	23	23	23
Financial Institutions	Pearson Correlation	0.806**	1	0.734**
	Sig. (2-tailed)	0.000		0.000
	N	23	23	23
Insurance	Pearson Correlation	0.955**	0.734**	1
	Sig. (2-tailed)	0.000	0.000	
	N	23	23	23
**. Correlation is significant at the 0.01 level (2-tailed).				

Source: Authors' Computation, 2025.

The financial institutions (FIN) shows positive correlation result with Gross Product products (GDP) with r = 0.806. In addition, there is also significant relationship between financial institutions and Gross Product Assets with p-value = 0.000.

The Insurance (INS) shows positive correlation result with Gross Product Assets (GGDP) with r = 0.955. In addition, there is also significant relationship between insurance and Gross Product Assets with p-value = 0.000.

The FIN also shows positive correlation result with INS with r = 0.734. In addition, there is also significant relationship between FIN and INS with p-value = 0.000.

4.3. Regression Analysis

4.3.1. Summary of the Model

Table 4: Regression Summary Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.968[a]	0.936	0.930	4369.13568

Source: Authors' Computation, 2025.

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The regression analysis results show that the combined effects of financial institutions and insurance approximately 93.6% (R-Squared) to 93% (Adjusted R-Squared) of the variation in Nigerian Gross Domestic Product (GDP). This suggests a strong relationship between financial institutions and insurance and economic growth, affirming the effectiveness of the financial institutions and insurance on the economic growth efficiency.

4.4. ANOVA and Regression Coefficients

4.4.1. ANOVA Analysis

The ANOVA analysis and regression coefficients are to evaluate the financial institutions and insurance and economic growth within the country.

Table 5: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5615689487.230	2	2807844743.615	147.090	0.000[b]
	Residual	381786932.397	20	19089346.620		
	Total	5997476419.628	22			

Source: Authors' Computation, 2025.

The ANOVA (Analysis of Variance) results further validate the model's significance, with an F-value of 147.09 and a p-value of 0.000, suggesting that the combination of independent variables together have positively significant assessment on gross domestic products. This means that there is direct relationship between financial institutions and insurance and economic growth financial institutions and insurance industries, when the growth efficiency of contributory pension funds increases, performance also tends to increase by 5615689487.230

4.4.2. Regression Coefficient

Table 6: Regression Coefficients of the Variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-10441.767	4039.851		-2.585	0.018
	Financial Institutions	9.427	3.458	0.226	2.726	0.013
	Insurance	219.725	23.137	0.789	9.497	0.000

Source: Authors' Computation, 2025.

From the table above, the financial institutions coefficient of 9.427 reveals that for every 1% increase in Growth Rate of Public Fund Assets, economic performance of insurance industry is expected to decrease by 942.70%. The p-value of 0.013 means there is significant relationship between financial institutions and gross domestic products.

In addition, the insurance coefficient of 219.73 reveals that for every 1% increase in insurance, economic growth of economy is expected to decrease by 21973%. The p-value of 0.000 means there is significant relationship between insurance and gross domestic products.

4.5. Discussion of Findings

Generally, the results reveal that the financial institutions and insurance do have a positively and statistically significant relationship effect respectively with economic growth in Nigeria. The previous researchers have similar findings for this study (Afsana-Reza *et al.*, 2025; Firdaus *et al.*, 2024; Tashtamirov, 2023) because of a directly and statistically significant associative effect. Meanwhile, there are contrary findings to this study from the previous research (Gowda, 2020; Haini, 2020; Nadiyal *et al.* (2021) by presents differing views. This disparity in research outcomes underscores the dynamic nature of academic inquiry, where varied methodologies and datasets can yield distinct conclusions. Likewise, the strongly and positively significant from R-square value as well as the significant of p-value has made the assertion to be suggested that the model employed may have good fitness for the data, which indicates that the model may be sufficiently captured the data.

5. Conclusion and Recommendations

The study examines a 23-year (2000-2022) on the effectiveness of financial institutions and insurance on Nigerian economic growth revealed a strong direction and relationship between FIN and INS, and Gross Domestic Product (GDP). This suggests that financial institutions and insurance contribute positively to economic growth with their influence is relatively minimum. The research indicates that financial institutions and insurance have grown significantly over the years, with financial institutions and insurance reaching approximately. The study concludes that the financial institutions and insurance have a direct and significant effectiveness on Nigerian economic growth, particularly in the financial institutions and insurance industry. To enhance this impact, banks, insurance companies, pension firms, loans and savings firm, and investment dealers are to advise prudently, and implement financial policies that optimize investment strategies and financial terms and conditions in order for capital and money market to channel their fixed and working capital used in running insurance and banking sectors. Based on this, the study recommends that Nigerian financial institutions and insurance should prudently manage and invest capital in line with the financial institutions and insurance policies and regulatory guidelines in relations to the internal and external directives to utilize investment strategies and ensure the growth and sustainability of economy.

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