# Insurance Industry Investments in Nigeria and Liquidity Risks

**Agbaji, B. C. (Ph.D.)[1]; Amobi, M. C.[2]**
[1,2]Department of Insurance and Risk Management
Enugu State University of Science and Technology

## ABSTRACT

*This study was on insurance industry investments in Nigeria and liquidity risks. The specific objectives of the study are to assess the effect of Liquidity risk on Insurance industry investments in Policy loans in Nigeria; to ascertain the effect of Liquidity risk on Insurance industry investments in Bills of Exchange in Nigeria; and to determine the effect of Liquidity risk on insurance industry investments in real estate and mortgage. The design adopted for this study is the Ex-post facto research design. Secondary data were sourced from the Central Bank of Nigeria Statistical Bulletin and Nigerian Insurers Association Annual publications of various years. Ordinary Least Square Regression was used to test the three hypotheses formulated. It was found that liquidity risk has a negative and significant effect on the Nigerian insurance industry investments in policy loan. Also, it was found that liquidity risk has a negative and significant effect on the Nigerian insurance industry investments in bills of exchange. Finally, it was established that liquidity risk has a positive and insignificant effect on the Nigerian insurance industry investments in real estate and mortgage. Based on the findings of the study it was concluded that liquidity risks of the insurance industry is less pronounced in the insurance industry's transactions in Real estate and mortgage. On the other hand, it is more pronounced in relation to its investments in Policy loans and Bill of Exchange. Thereafter, it was recommended that a benchmark should be set to determine the amount of Policy loans an insurance company can give out on a quarterly or annual basis. This will ensure that the industry becomes wary of exceeding it capacity at a given period. Also, each insurance company should respectively put in place a check means that watches against the distribution (amount) of its Bill of Exchange investments against the likely to occur exposures.*

*Keywords: Insurance, Industry, Investments, Liquidity, Risks and Nigeria*

## 1. Introduction

One of the most important decisions a financial manager makes is how liquid a firm's balance sheet should be. Given an inflow of cash to the firm, a manager can choose to reinvest the cash in physical assets, to distribute the cash to investors, or to keep the cash inside the firm. In fact, managers choose to hold a substantial portion of their assets in the form of cash and other liquid securities. Cash is a very important current asset for the operation of any business (Ejoh, Okpa and Egbe, 2014). It is the input needed to keep the business running continuously. An insurance company as a business concern needs to have cash and assets which it can easily convert into cash at short notice in order to pay claims as and when due. Simply put it needs to be liquid.

Cash is considered the standard for liquidity, because it can most quickly and easily be converted into other assets (Investopedia, 2018). Traditionally, liquidity has been defined as: the capacity of financial institutions to finance increases in their assets and comply with their liabilities as these mature. It refers to the ability to obtain funding on the market and asset (or market) liquidity, associated with the possibility of selling the assets. We think of liquidity as a measure of a company's ability to meet its known and unknown cash needs as they arise (Society of Actuaries, SOA, 1995). Liquidity refers to the speed and certainty with which an asset can be converted back into cash whenever the asset holder desires (Acharya and Naqvi, 2012). Liquidity means how quickly you can get your hands on your cash. In simpler terms, liquidity is to get your money whenever you need it.

An insurance firm requires the ability to pay its liabilities in a timely manner, as they come due for payment under their original payment terms. Having a large amount of cash and current assets on hand is considered evidence of its high level of liquidity. It shows the degree to which its assets or securities can be quickly bought or sold in the market without affecting the asset's price. Regardless of the reasons for which an insurance company may be called upon to pay claims, the simple fact that much of its equity is invested in securities, which cannot be readily or without costs converted into cash, constitutes a risk.

When a company does not have the cash flow necessary to make its required debt payments, even though it is not without assets, this risk is known as liquidity risk. The Financial Services Authority (FSA, 2014) cited in Pattni and Agrawal (2016) defines Liquidity risk as "the risk that a firm, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost". The IFA (2013) defines liquidity risk as the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. Simply put, firms face liquidity risk when, in spite of holding a higher level of assets than liabilities, these assets are 'illiquid', and not easily convertible to cash. This forces it to sell its assets at a discount to quickly raise the required cash resources. Alternatively, the firm may borrow funds, which will further require a payment of interest on the loan, therefore giving rise to the 'excessive cost'.

The inability of insurance firms to raise liquidity can be attributed to a funding liquidity risk that is caused either by the maturity mismatch between inflows and outflows and/or the sudden and unexpected liquidity needs arising from contingency conditions (Kamau and Njeru, 2013). Insufficient liquid resources may cast a black shadow on goodwill of insurers because the ability to pay short-term liability may be doubted by the insured and general public at large.

### Statement of the Problem

In Nigeria, the insurance industry is bound by law on where to invest. Section 25 of Insurance Act 2003 provides that an insurer shall at all times in respect of the insurance transacted by it in Nigeria, invest and hold invested in Nigeria assets equivalent to not less than the amount of policy holder's funds in such accounts of the insurer. Compliance with this stipulation of the lw has been challenged by liquidity risk. When investment opportunities arise the liquidity level of the former equity determines the ease with which an insurer can invest in the opportunity. Besides, the majority of the market in Nigeria is in non-life insurance whose policy tenures are usually short term. This compels the industry to invest mostly in short term instruments in order to be able to respond in the aftermath of shocks to the insured. Through this the tenure of investments made by insurers are limited by the liquidity risk exposures they face. Also, when interest rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread among assets, liabilities, and off-balance-sheet instruments of similar maturities or re-pricing frequencies (Edem, 2017). As such, whatever instrument serves as the vehicle of investments made by the insurance industry is unavoidably affected. Considering the above scenarios, it is seen that it was in order to elaborate on the effect of liquidity risk on investments made by insurance companies in Nigeria that this study was carried out.

**Objectives of the study**

The main objective of this study is to determine the effect of liquidity risk on insurance investments in Nigeria. Specifically the study sought:

1. To assess the effect of Liquidity risk on Insurance industry investments in Policy loans in Nigeria
2. To ascertain the effect of Liquidity risk on Insurance industry investments in Bills of Exchange in Nigeria
3. To determine the effect of Liquidity risk on insurance industry investments in real estate and mortgage

**2. Empirical review**

Mazviona, Dube and Sakahuhwa (2017) examined factors affecting the performance of insurance companies in Zimbabwe utilizing secondary data from twenty short-term insurance companies. The data was for the period from 2010 to 2014. Using factor analysis and multiple linear regression models to determine the factors affecting performance and identifying their impact, findings revealed that expense ratio, claims ratio and the size of a company significantly affect insurance companies" performance negatively whilst leverage and liquidity affect performance positively.

Kurotamunobaraomi, Giami and Obari (2017) empirically investigated the interrelationship between liquidity and corporate performance of banks in Nigeria with the use of annual data from 1984 to 2014. The work utilized Cash Reserve Ratio, Liquidity Ratio and Loan-to-Deposit Ratio as proxies for liquidity; and Return on Shareholders funds as the proxy for performance and applied finometric analyses that include Ordinary Least Square Regression, Johanson Cointegration, Granger Causality test and Error Correction Model. Empirical results indicate a significant negative short-run relationship between Cash Reserve Ratio and corporate performance as well as a positive relationship between Loan-to- Deposit Ratio and Liquidity Ratio on one hand and corporate performance on the other albeit significantly and insignificantly respectively. Also, Cash Reserve Ratio and Liquidity Ratio are statistically significant enough to influence Return on Shareholders Fund in the long run, while the Loan-to-Deposit Ratio exhibits complacency in instigating Performance in deposit money banks in Nigeria; a position corroborated by the Causality results, implying that other factors could be responsible for banks" performance such as industry structure and government policies or regulations. Consequently, it is recommended that regulators such as the Central Bank of Nigeria may need to deliberately reconsider banks capital reserves ratio as negative relationship found in this study points towards that direction in order to increase the corporate performance of banks, banks should avoid excess liquid assets, banks should fully utilize the loan to deposit ratio by increasing marketing effort.

Ariwa, Ani, Onyele, Ekeleme and Okwuchukwu (2017) investigated the impact of stock market liquidity and efficiency on performance of the manufacturing sector in Nigeria using time series data from 1985-2014. In the course of data analysis, the study employed unit root test and ARDL bounds test approach to cointegration. The unit root test results showed that capacity utilization from the manufacturing sector, stock market efficiency and turnover ratio were integrated at order zero, while other variables were integrated at order one. The ARDL bounds test result revealed that the variables in the specified model were bound together in the long-run. The associated equilibrium correction was also significant attesting to the existence of longrun relationship. The findings also indicated that stock market efficiency and number deals were significant variables that explained the changes in the Nigerian manufacturing sector. Therefore, an efficient market must be large and liquid. As such, accessibility and cost information must be widely available and released to investors at more or less the same time.

Mucheru, Shukla and Kibachia (2017) determined the effects of liquidity management on the performance of commercial banks. Firm performance was measured using Return on Equity (ROE). The data was analyzed using descriptive statistics such as mode, median, mean, standard deviation. Multiple regression analysis was employed to determine relationship between liquidity management and financial performance of commercial banks in Rwanda. Data was presented in tables, charts, figures and mathematical expressions. The findings revealed that holding Liquidity decisions, Cash management, Noncore investment, and Loan repayment to a constant zero, financial performance would be at 0.347. A unit increase on Liquidity decisions would lead to increase in financial performance by a factor of 0.162, a unit increase in Cash management would lead to increase in financial performance by a factor of 0.282, a unit increase in Non-core investment would lead to increase in financial

performance by a factor of 0.194 and unit increase in Loan repayment would lead to increase in financial performance by a factor of 0.211. The study concludes that liquidity risk management has a significant negative relationship with financial performance of commercial banks. The study also concludes that holding more liquid assets as compared to total assets will lead to lower returns to commercial banks in Rwanda but the effect of not significant at 5%. Holding more liquid assets as compared to total deposits will lead to lower returns to commercial banks in Rwanda and the effect is significant at 5%.

Sisay (2017) examined the effect of financial risk on performance of insurance companies in Ethiopia and interprets the result by relating with the regulations. The study used balanced panel model in examining the regression model and collected data from eight insurance companies covering the period of sixteen (16) consecutive years, 2000-2015. Specifically fixed effect model was used as analysis technique. The study used one dependent variable return on asset (ROA), six independent variables that are credit risk, liquidity risk, reinsurance risk, solvency risk, technical provisions risk and underwriting risk. The regression result show that credit risk, liquidity risk, solvency risk, underwriting risk and technical provisions risk show negative and significant effect at 1% and 5% significance level on performance of insurance companies in Ethiopia, where as reinsurance risk has insignificant effect at 5% significance level on performance of insurance companies. The research concluded that financial risk has significant effect on the performance of Ethiopian insurance companies. Hence, the study recommend in support of each variables for Ethiopian insurance companies to give due attention on financial risk to enhance their performance significantly.

## 3. Methodology

The design adopted for this study is the Ex-post facto research design. Secondary data were sourced from the Central Bank of Nigeria Statistical Bulletin and Nigerian Insurers Association Annual publications of various years. The model for the study is based on the study of Agbaji and Amobi (2020) who examined effect of liquidity risks on insurance industry investments in Government securities and stocks and bonds in Nigeria. However, this study differs by looking into the industry's investments in Policy loans, in Bills of Exchange and in real estate and mortgage. The decision criteria is to accept the null hypothesis if the sign of the coefficient is -tive and the probability of the t-Statistics > 0.05, otherwise reject the null hypothesis while accepting the alternate accordingly.

Thus, the hypotheses of the study were modelled as follows:
*Hypothesis one was modelled as:*
INSIPL = f (LR) …………………………………………………………….……………….(1)
The model is specified as follows:
INSIPL = $\beta_0$ + $\beta_1$ LR + $\mu$ …………………………………………………………..(2)
Where INSIPL: = Insurance Sector investments in Policy loans in Nigeria
LR = Liquidity Risk
$\beta_0$, = constant parameter,
$\beta_1$ = coefficient of LR
$\mu$ = the error term
*Hypothesis two was modelled as:*
INSIBEt = f (LR) ………………………………………………………………… (3)
The model is specified as follows:
INSIBE = $\beta_0$ + $\beta_1$ LR + $\mu$ ………………………………………………………..(4)
Where: INSIBEt = Insurance Sector investments in Bills of Exchange in Nigeria
LRt = Liquidity Risk
$\beta_0$, = constant parameter
$\beta_1$ = coefficient of LR
$\mu$ = the error term
Hypothesis three was modelled as:
INSIPL = f (LR) ………………………………………………………………………(5)
The model is specified as follows:
INSIPL = $\beta_0$ + $\beta_1$ LR + $\mu$ ………………………………………………………..(6)

ACADEMIC INK REVIEW | AGBAJI & AMOBI, 2020

Where INSIPL: = Insurance Sector investments in real estate and mortgage in Nigeria
LR = Liquidity Risk
$\beta_0$, constant parameter,
$\beta_1$ = coefficient of LR
$\mu$ = the error term

**Description of Variables**
**Dependent variables:**
**Investment in Policy Loans:** This refers to loans issued by an insurance company that uses the cash value of a person's life insurance policy as collateral. This variable was arrived at as a ratio of insurance industry investment in policy loans and total investment of the industry.
$RISIPL_t = PL_t / TI_t$ ……………………………………………………………………. (7)
Where:
RISIPL = Ratio of Insurance Sector Investment in Policy Loans; IPL = Investment in Policy Loans; TI = Total Investment; t = Time
**Investment in Bills of Exchange:** This refers to fulfilling the demands of a written, unconditional order by one party (the drawer) to another (the drawee) to pay a certain sum, either immediately (a sight bill) or on a fixed date (a term bill), for payment of goods and/or services received. The drawee accepts the bill by signing it, thus converting it into a post-dated cheque and a binding contract. This variable was arrived at as a ratio of insurance industry investment in bills of exchange and total investment of the industry.
$RISIBE_t = IBE_t / TI_t$ …………………………………………………………. (8)
Where:
RISISB = Ratio of Insurance Sector Investment in Bills of Exchange; IBE = Investment in Bills of Exchange; TI = Total Investment; t = Time
**Investment in Real Estate & Mortgage:** This involves the purchase, ownership, management, rental and or sale of real estate for profit as well as investment in mortgaged backed securities. However, real estate is an asset form with limited liquidity relative to other forms of investment. This variable was arrived at as a ratio of insurance industry investment in real estate and mortgage and total investment of the industry.
$RISIREM_t = PL_t / TI_t$ …………………………………………………………(9)
Where:
RISIPL = Ratio of Insurance Sector Investment in Real Estate and Mortgage; IREM = Investment in Real Estate and Mortgage; TI = Total Investment; t = Time
**Independent Variable**
**Liquidity risk:** Liquidity from the context of insurance companies is a measure of the ability of an insurance company to pay liabilities such as payments for losses/benefits under insurance policies which fall in a period less than a year (Mazviona, Dube and Sakahuhwa, 2017). This variable was arrived at as a ratio of insurance industry assets and liabilities of the industry.
$LR_t = IIA_t / IIL_t$ …………………………………………………………….. (10)
Where:
LR = Liquidity Risk, ISA = Insurance Sector Asset; ISL = Insurance Sector Liability; t = Time
**4. Presentation of Data and Analysis**
To avoid unreliable and misleading regressions result, the study conducted stationarity test. The data was analyzed using Ordinary Least Square Regression. The decision criteria is to accept the null hypothesis if the sign of the coefficient is -tive and the probability of the t-Statistics > 0.05, otherwise reject the null hypothesis while accepting the alternate accordingly.

**Table 1 Descriptive Statistics**

|  | LR | RBETI | RPLTI | RRETI |
|---|---|---|---|---|
| **MEAN** | 0.894657 | 0.102212 | 0.082322 | 0.137865 |
| **MEDIAN** | 0.870274 | 0.015999 | 0.039319 | 0.137683 |
| **MAXIMUM** | 1.596136 | 0.321628 | 0.213883 | 0.292693 |
| **MINIMUM** | 0.523566 | 0.009637 | 0.036443 | 0.011174 |
| **STD. DEV.** | 0.312478 | 0.123505 | 0.066215 | 0.085612 |
| **SKEWNESS** | 0.705992 | 0.806122 | 1.203953 | -0.005833 |
| **KURTOSIS** | 2.506371 | 1.811467 | 2.710273 | 2.322138 |
| **JARQUE-BERA** | 1.957700 | 3.510449 | 5.146711 | 0.402178 |
| **PROBABILITY** | 0.375743 | 0.172868 | 0.036279 | 0.817839 |
| **SUM** | 18.78780 | 2.146451 | 1.728757 | 2.895157 |
| **SUM SQ. DEV.** | 1.952844 | 0.305067 | 0.087689 | 0.146588 |
| **OBSERVATIONS** | 21 | 21 | 21 | 21 |

Source: *Researcher's calculation*
*Where*:
RRETI = Ratio of investment in Real Estate and Mortgage to Total Investment
RPLTI = Ratio of investment in Policy Loans to Total Investment
RBETI = Ratio of investment in Bill of Exchange to Total Investment
LR = Liquidity risk = Ratio of Asset - Liability

Standard deviations of the variables are checked against their respective means. The standard deviations of LR, RPLTI and RRETI at 0.312478, 0.123505, 0.066215 and 0.085612 respectively are all lower than their respective means except RBETI. This shows that the volatility of each variable is low except that of RBETI. The leanness of the dataset to one side of the distribution is determined by the skewness and could be positively or negatively skewed. The skewness estimate for the individual samples suggests that all variables are positively skewed. This suggests that probability distribution of the variables means have fatter tails to the right of the distribution. The normality of the probability distribution is justified by the Jarque-Bera statistics as we uphold the null hypothesis that the variables are normally distributed given that the probability of Jarque-Bera statistics for LR, RBETI, RPLTI and RRETI at 1.957700, 3.510449, 5.146711 and 0.402178 respectively is higher than 0.05 (the level of significance).

**Table 2 Result of Unit root test**

| Variables | Test Critical value* at 1%. | Adj. t-Stat @ level | Status | Test Critical value* at 1%. | Adj. t-Stat @ level |
|---|---|---|---|---|---|
| LR | -4.532598 | -1.482517 | 1(2) | -4.571559 | -4.888049 |
| RBETI | -4.571559 | -2.360463 | 1(2) | -4.571559 | -9.555405 |
| RPLTI | -4.728363 | -2.306787 | 1(1) | -4.532598 | -4.727608 |
| RRETI | -4.532598 | -2.883725 | 1(2) | -4.571559 | -6.809535 |

Source: *Researcher's calculation*

Table 2 shows that the variables were stationary at second difference. This implies that they were integrated at order two.

**Table 3 Result of Hypothesis One Test**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| DLR | -0.100246 | 0.070242 | -1.427157 | 0.1707 |
| C | 0.000117 | 0.009131 | 0.012839 | 0.9899 |

| | | | | |
|---|---|---|---|---|
| R-squared | 0.101652 | Mean dependent var | | -0.001249 |
| Adjusted R-squared | 0.051744 | S.D. dependent var | | 0.041702 |
| S.E. of regression | 0.040609 | Akaike info criterion | | -3.475037 |
| Sum squared resid | 0.029683 | Schwarz criterion | | -3.375464 |
| Log likelihood | 36.75037 | Hannan-Quinn criter. | | -3.455599 |
| F-statistic | 3.036778 | Durbin-Watson stat | | 1.816850 |
| Prob(F-statistic) | 0.030652 | | | |

Source: *Author's Eviews Output, 2018*

Table 3 shows the sign of the coefficient of -0.100246 to be -tive and probability of the t-Statistic of 0.1707> 0.05. Thus, we accept the null hypothesis and conclude that liquidity risk has a negative and significant effect on the Nigerian insurance industry investments in policy loan.

Table 4 Result of Hypothesis two test

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| DLR | -0.153625 | 0.109157 | -1.407380 | 0.1763 |
| C | 0.002411 | 0.014189 | 0.169951 | 0.8669 |

| | | | | |
|---|---|---|---|---|
| R-squared | 0.399132 | Mean dependent var | | 0.000318 |
| Adjusted R-squared | 0.249083 | S.D. dependent var | | 0.064715 |
| S.E. of regression | 0.063107 | Akaike info criterion | | -2.593342 |
| Sum squared resid | 0.071684 | Schwarz criterion | | -2.493768 |
| Log likelihood | 27.93342 | Hannan-Quinn criter. | | -2.573904 |
| F-statistic | 4.980719 | Durbin-Watson stat | | 1.973658 |
| Prob(F-statistic) | 0.016349 | | | |

Source: Author's Eviews Output, 2018

Table 4 shows the sign of the coefficient of -0.153625 to be -tive and probability of the t-Statistic of 0.1763> 0.05. Thus, we accept the null hypothesis and conclude that liquidity risk has a negative and significant effect on the Nigerian insurance industry investments in bills of exchange.

Table 5 Result of Hypothesis three test

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| DLR | 0.013881 | 0.128932 | 0.107663 | 0.9155 |
| C | -0.003496 | 0.016760 | -0.208599 | 0.8371 |
| R-squared | 0.333644 | Mean dependent var | | -0.003307 |
| Adjusted R-squared | 0.154876 | S.D. dependent var | | 0.072574 |
| S.E. of regression | 0.074539 | Akaike info criterion | | -2.260353 |
| Sum squared resid | 0.100009 | Schwarz criterion | | -2.160780 |
| Log likelihood | 24.60353 | Hannan-Quinn criter. | | -2.240915 |
| F-statistic | 4.011591 | Durbin-Watson stat | | 1.936908 |
| Prob(F-statistic) | 0.015454 | | | |

Source: Author's Eviews Output, 2018

Table 4.18 shows the sign of the coefficient of 0.013881 to be +tive and the probability of the t-Statistic of 0.9155> 0.05. Thus, we reject the null hypothesis and conclude that liquidity risk has a positive and insignificant effect on the Nigerian insurance industry investments in real estate and mortgage.

**Discussion of Findings**

The coefficient of liquidity risk in hypothesis one test is -0.100246. This shows it has a negative relationship with insurance industry investment in policy loans. It means that a unit increase in insurance industry investment in policy loans is dependent on -0.100246 basis points decrease in liquidity risk. The p-value of liquidity risk at 0.1707 is higher than the level of significance (0.05). It shows there was no statistical significance. Hypothesis one test results points out that increasing the contingency reserve will not push the insurance industry into adding more incentives through policy loans or broaden the size of policy loans. This result opposes Almajali, Alamro and Al-Soub (2012) who found that leverage and liquidity have a positive effect on the financial performance of Jordanian insurance companies.

The coefficient of liquidity risk in hypothesis two test is -0.153625. This shows it has a negative relationship with insurance industry investment in bills of exchange. It means that a unit increase in insurance industry investment in bills of exchange is dependent on -0.153625 basis points decrease in liquidity risk. The p-value of liquidity risk at 0.1763 is higher than the level of significance (0.05). It shows there was no statistical significance. Result of Hypothesis two shows the insurance industry will not widen its investments towards facilitating bills of exchange were there to be a change in contingency reserve. This is in line with Ondigi and Muturi (2016) who cautioned that profitability of insurance firms is affected by debt.

The coefficient of liquidity risk in hypothesis three test is 0.013881. This shows it has a positive relationship with insurance industry investment in real estate and mortgage. It means that a unit increase in insurance industry investment in real estate and mortgage is dependent on 0.013881 basis points increase in liquidity risk. The p-value of liquidity risk at 0.9155 is higher than the level of significance (0.05). It shows there was no statistical significance.

Finally, hypothesis three result holds that a unit change in contingency reserve can push the insurance industry to make more investment in the real estate and mortgage sector but not large scale investment.

**Summary of Findings**

The following are the findings of the study:

1. Liquidity risk has a negative and significant effect on the Nigerian insurance industry investments in policy loan.
2. Liquidity risk has a negative and significant effect on the Nigerian insurance industry investments in bills of exchange.
3. Liquidity risk has a positive and insignificant effect on the Nigerian insurance industry investments in real estate and mortgage.

**Conclusion**

In Nigeria liquidity considerations of the insurance industry were pre-determined via the provisions of Insurance Act 2003. The law fixed a contingency benchmark and limited the investments of the industry to specified areas. This study considered the effect of Liquidity risk on specific investments in Policy loans, Bill of Exchange and Real estate and mortgage. From the findings of the study found it is concluded that the liquidity risks of the insurance industry is less pronounced in the insurance industry's transactions in Real estate and mortgage. On the other hand, it is more pronounced in relation to its investments in Policy loans and Bill of Exchange.

**Recommendations**

Based on the conclusion above the following recommendations are made:
1. There is a high chance of creditors not honouring their bills. Therefore, a benchmark should be set to determine the amount of Policy loans an insurance company can give out on a quarterly or annual basis. This will ensure that the industry becomes wary of exceeding it capacity at a given period.
2. As bill of exchange is a short-term type of finance engaging in such transactions will put insurance companies at cross roads when liability arise particularly in Non-life insurance business. Therefore, each insurance company should respectively put in place a check means that watches against the distribution (amount) of its Bill of Exchange investments against the likely to occur exposures.
3. The investments made by the insurance industry in Real estate should be institutional investment. This allows the real estate sector to receive a large pool of fund at the same time which will serve as incentive for the general public to rush in and buy houses.

**References**

Acharya, V. V. & Naqvi, H. (2012), The Seeds of a Crisis: A Theory of Bank-Liquidity and Risk-Taking over the Business Cycle. *Journal of Financial* Economics.106 (2), 349-366

Ariwa, F.O., Ani, O.I., Onyele, K.O., Ekeleme, I.J. & Okwuchukwu, O. (2017). Impact of Stock Market Liquidity and Efficiency on Performance of the Manufacturing Sector in Nigeria (1985-2014). *International Journal of Economics and Financial Management*, 2(1), 71-82

Ejoh N. O., Okpa I. B. and Egbe A. A. (2014). The Impact of Credit and Liquidity Risk Management on the Profitability of Deposit Money Banks in Nigeria. *International Journal of Economics, Commerce and Management,* 2(9), 1-15

Insurance Act 2003, Laws of the Federal republic of Nigeria

Kurotamunobaraomi, T., Giami, I. B. & Obari, O. B. (2017). Liquidity and Performance of  Nigerian Banks. *Journal of Accounting and Financial Management*, 3 (1), 34-46

Mazviona, B.W., Dube, M. and Sakahuhwa, T. (2017). An analysis of factors affecting the performance of insurance companies in Zimbabwe. *Journal of Finance and Investment Analysis*, 6(1), 11-30

Mucheru, Shukla and Kibachia (2017). Effect of Liquidity Management on Financial Performance of Commercial Banks in Rwanda. A Study on Selected Banks in Rwanda. *European Journal of Business and Social Sciences*, 6 (7), 01 – 11

Pattni, A. (2017). *GI: Liquidity risk for insurers*. Retrieved on October 22, 2017 from The   Actuary:  The  magazine  of the Institute & Faculty of Actuaries.