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Insurance Penetration, Financial Development and Economic Growth: Schumpeter is right in Africa

by

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¹ **Note:** The findings from this working paper does not in any way reflect the views of the Development Finance Centre (DEFIC). The views are only representative of the authors.



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Insurance Penetration, Financial Development and Economic Growth: Schumpeter is right in Africa

Abdul Latif Alhassan and Nicholas Biekpe

Abstract

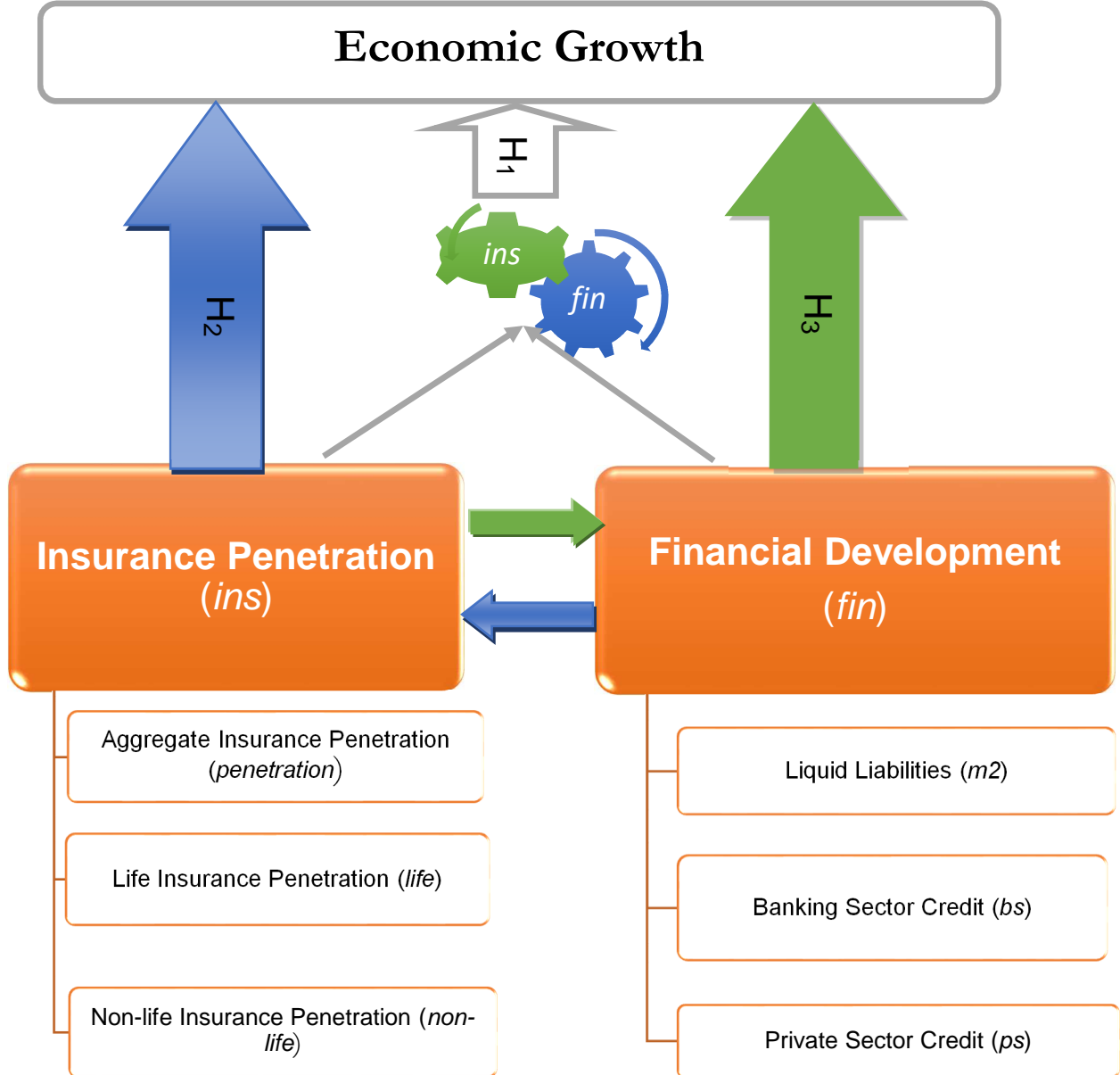
This paper examines the complementarity between insurance penetration and financial development in stimulating economic growth in Africa. Using a panel data of 30 African countries from 1996 to 2010, we employ the system GMM to estimate a dynamic panel with three proxies for insurance penetration and financial development. Our results reveal a negative effect of insurance penetration on economic growth in Africa. However, we find a positive effect of the interaction between insurance penetration and financial development on economic growth to suggest a positive complementary effect of insurance penetration and financial market development on economic growth in Africa. In addition, the empirical estimates suggest that financial development serves as the conduit for the efficient allocation and utilization of insurance funds to promote economic growth. Policy implications for insurance market development are drawn from the findings.

Keywords: Insurance Penetration | Financial Development | Economic Growth| Africa|

JEL Classification: C33; G 22; O 16

Graphical Abstract

Figure 1: Hypothesized complementarity between insurance penetration and financial development



Source: Author's derivation based on research hypothesis