ASSESSING THE EFFECT OF BOND INSURANCE ON THE DEVELOPMENT OF THE NIGERIAN CAPITAL MARKET

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ABSTRACT

This research investigated the effect of bond insurance premiums on market capitalization in Nigeria using data gathered from the World Development Indicator, Global Financial Development Database, and the Central Bank of Nigeria statistical bulletin, from 2000 to 2023. The data were analyzed using the ARDL co-integration approach, and the results showed that, although only in the long run, bond insurance premiums had a positive effect on market capitalization in Nigeria, as did bond insurance claims. The result shows normality test statistics of 1.641757 ($p > 0.05$), LM test statistics of 0.2124238 ($p > 0.05$), heteroscedasticity test statistics of 0.241894 ($p > 0.05$) indicate that the assumption of normality, homoscedasticity and no serial autocorrelation are satisfied. Also, that bond insurance premiums and claims positively affect market capitalization, with a significant long-term impact of 0.93% and 1.89%, respectively. Finally, there was no causal relationship between bond insurance premiums and market capitalization in Nigeria. According to the study's findings, bond insurance significantly contributes to the expansion of Nigeria's capital market. As a result, financial sector regulators must encourage bond issuers to participate in bond insurance programs in order to increase market capitalization in the nation.

Keywords: *market capitalization, bond insurance premium, capital market.*

INTRODUCTION

The world today is vastly different from what it was just a few decades ago. Our methods of investing, conducting business, and assessing risk have undergone significant changes. For instance, the 2008 financial crisis continues to impact investors, leading both existing and prospective investors to adopt a more cautious approach and exhibit a reduced tolerance for risk (Okparaka, 2018). As a result, investors began to view the insurance sector as a potential source of growth and a means of diversifying their holdings in order to reduce risk (Marsh, 2017). Nevertheless, the insurance sector allocates less than 1% of its capital to government securities, mortgages, and real estate (Johnson, 2019). As such, there is the concern that bond insurance may be among the causes of the growth problem in the capital market, hence the necessity for this study.

In particular, one of the key pillars supporting sustained economic growth and development is the capital market. Consumers, corporations, and various governmental levels are among the many diverse consumers that the industry caters to. In contemporary times, the growth of a nation's capital market serves as a crucial gauge of its total economic advancement. Investment in human capital, a crucial component of economic development and progress, is one area in which it excels. In order to support economic output, the capital market also guarantees a substantial pool of cash from surplus units to deficit units (Khayrullo, Khusmiddin, Dinora & Abdusattarova, 2020). According to Capital Market theory, as the capital market grows and deepens, it should be expected that effective financial resource allocation for investments would be made easier, expanding the potential frontier for output (Lawrence & Clementina, 2021).

However, the Nigerian capital market is beset with several issues and difficulties within the national economy, which appears to have constrained its expansion over time. The buy-and-hold mentality of investors and public illiteracy, which encourage insufficient stock market engagement, are the main causes of these issues. In addition, it was found that a number of reasons are impeding the expansion of the capital market, including low investment outlays, a lack of policies that support the capital market, and political instability (Smith & Johnson, 2019).

This situation when considered from the purview of stock market capitalization statistics reveals that there is small stock market in charge of a big economy (Shwarka & Odeniyi 2021). Particularly, economists and financial experts believed that countries with stock market capitalization of 100% of GDP is over-performer, 76% to 99% is properly performed, 50%-75% is moderately underperformer, while below 50% of GDP is undervalued and underperformer (Gore, Sachs & Trzcinka, 2016). But, the capitalization in Nigeria has been less than 50% of GDP for at least the past 10 years, with highest rate of just 17.8% of GDP in 2023 and lowest rate of 9.11% of GDP in 2016 (CEIC, 2021).

Bond insurance's value to borrowers is frequently the subject of heated debates on its place in the capital market. It is believed that bond insurance is interest cost savings since it enhances the quality of debt issue and improves on the marketability of such instrument. Bond insurance is specifically a promise made by an insurance provider to take over the principal and interest payments of a bond in the case of default (Lee, Huang & Yin, 2013). In addition to lowering interest costs for issuers and making debt more marketable and appealing to investors and institutions allowed to hold only investment grade bonds. Additionally, bond insurers improve the issuers' credit ratingand guarantee payment in the event of an issuer default. Accordingly, Erasmus, Nkiru and Ifeanyi (2021) opined that bond insurance, unlike other forms of credit-enhancement, maintains the timing of payments in the event of default, utilizing it as a strategy to draw investors' attention to the bond market.

In literature, there had been studies on the discourse of bond insurance and capital market growth, most especially in Nigeria, yet there is paucity of study relating the two concepts together. For instance, there were studies such as Ibrahim and Mohammed (2020), Idris (2019), Olakanmi (2019), Kato and Germinah (2021), Petry (2019) among others. However, most of these studies either considered how capital market influences economic growth, or how various factors (except bond insurance) affects capital market. Thus, this study examined how bond insurance affects Nigeria's capital market's expansion. As a result, the specific objectives are to assess the causal

relationship between bond insurance and Nigeria's market capitalization growth rate, evaluate the effect of bond insurance premiums on that rate, and look into the influence of bond insurance claims on the same rate.

1. Literature Review

Conceptual Review

Bond insurance, also referred to as "financial guaranty insurance," is a risk reduction technique that is frequently employed in general contracting and related industries (Nanda & Singh 2001). According to Hau (2007), bond insurance ensures that bondholders will receive their principal and interest payments back in the event that the issuer defaults on a payment. A principal or the person buying the bond, an oblige, or the third party receiving the benefit of the bond, and an insurance company, or the surety, are parties to a legal contract. According to Gore, Sach, and Trzcinka (2016), bonds are legal agreements between the three parties that guarantee repayment in the event that the principal fails to fulfill its contractual responsibilities. As such, they are not insurance policies in the traditional sense. It provides a very narrow scope of protection as dictated by the specific type of bond and is different from investment bond.

The capital market is a financial marketplace where equity-backed securities or long-term debt (more than a year) are acquired and sold. The expansion of the capital market is primarily driven by the increase in the value of capital market activities. Capital markets transfer savers' capital to entities that can utilize it for long-term, profitable investments, including governments or businesses (Hagendorff, Hagendorff, Keasey, & Gonzalez, 2014). The trading of financing products, including shares, debentures, debt instruments, bonds, exchange-traded funds (ETFs), etc., is permitted there. It is a way for people, businesses, and governments to raise money. It serves as a conduit for investments and savings between providers and individuals in need. Suppliers are people or organizations with the capital to lend or invest; banks and investors are two obvious examples. According to Bello, Zubairu, and Ibrahim (2022), the market is used by people, governments, and corporations to raise funds.

Theoretical review

The Capital Market Theory

The Markowitz Portfolio Theory, also known as Modern Portfolio Theory (MPT) was proposed by Harry Markowitz and was published in 1952 in the *Journal of Finance (*Markowitz, 1952). This theory laid the foundation for Capital Market Theory. Among the presumptions are that all investors are efficient and look to invest at tangent points on the Efficient Frontier; the particular portfolio chosen depends on precisely where this tangent point is located. A one-period time horizon, homogenous expectations, and an unlimited quantity of borrowing and lending are available to investors.

The model is designed for a single, hypothetical era, and its outcomes may vary depending on a variety of assumptions, including uniform investor expectations, unlimited divisibility of

investments, and the absence of taxes or transaction expenses when purchasing or disposing of assets. The theory also defines assets as ones from which future returns are uncertain, measured by the SD (σ) of expected returns.

As Markowitz suggests in his portfolio model, diversification can reduce risks while at the same time maximizing total returns because the expected return on a risk-free asset is 100% assured. Taking into account that investors have two options when it comes to stocks high-risk, high-return stocks and low-risk, low-return stocks. Additionally, risks can be classified as either systematic or unsystematic. He bases his claims on Markowitz's theories, which hold that markets are efficient and always work in a certain way that investors are rational and will always act in a particular because there are two categories of assets: investments with low and high returns. However, these assumptions are not always true. Since investors sometimes lack the time and competence to obtain pertinent data, diversification is the only approach to minimize investment risks. Additionally, investors are risk adverse. All investors have limitless access to information regarding market developments.

As demonstrated by Markowitz, an investor's decision about their portfolio can be boiled down to just two factors: the portfolio's variation and projected return. Due to the potential for risk reduction through diversification, the pair wise covariance of every asset in the portfolio will also influence the risk of the portfolio, as measured by its variance, in addition to the individual variances of the returns on each asset. Therefore, the crucial factor concerning an asset's risk is not its individual risk but rather how each asset contributes to the whole portfolio's risk. Because the returns on various assets are interrelated, the "law of large numbers" does not fully apply when it comes to diversification risks in a portfolio. Regardless matter the quantity of assets in a portfolio, risk cannot be totally removed. Markowitz created a two-dimensional problem known as mean-variance analysis in order to simplify the difficult task of choosing a portfolio with a wide variety of assets. An investor's budget constraints, variation and covariance, expected returns, and a quadratic utility function make up this quadratic programming issue. Due to its algebraic simplicity and appropriateness for empirical applications, the model has grown in popularity.

Empirical Review

The influence of green bond rules on insurers was examined by Jakubbik and Uguz (2020), concentrating on the European equity market. Using monthly data for the years 2012–2019, the study used a sample of European listed (re)insurers. In order to ascertain when the insurance firms committed to making a green investment, issuing green bonds, or establishing a green fund, the study also examined announcements, press releases, and semi-annual or yearly reports. According to the empirical research, the only green policies that investors in the market appear to be favorably pricing are the introduction of green bond funds and the issuing of green bonds.

Xiaoxia, Namvar, Lee Chun, and Fan Yu (2018) accessed the municipal yield modeling with (and without) bond insurance. The insurers' credit default swap premiums and both insured and uninsured municipal bond transactions were simultaneously utilized in the development of an intensity-based model of municipal yields. Based on the obtained parameters, we deconstruct the municipal yield spread and estimate the model separately for 61 municipal issuers, taking advantage of the sharp decrease in the bond insurers' credit quality from July 2007 to June 2008.

Decomposition shows that the liquidity component has a major effect and that there are interactions between the two.

The crowding out of bank loans, particularly liquidity-driven bond issuance, was examined by Darmouni and Siani (2020). According to the report, even in times of crisis, bank loans are crowded out by the corporate bond market, which is critical for businesses' access to cash. Based on micro data from company balance sheets, the study demonstrates that bond issuance serves as a means of increasing liquid asset holdings as opposed to actual investment. The majority of issuers, including the riskier "high-yield" businesses, would rather issue bonds than take out bank loans. In 2020Q1, more than 40% of bond issuers did not use their credit line, and a significant portion of bond issuance is utilized to settle outstanding bank debt. The results support central bank involvement in corporate bond markets during periods of corporate liquidity and have important implications for unconventional monetary policy.

A notable rise in bonds issued by qualified businesses was found in Santis and Zaghini's (2021) analysis of corporate bond issuance and the effects of the ECB quantitative easing program (CSPP) on qualifying firms. Eligible companies were encouraged by the CSPP to keep cash, make short-term investments, buy back their own shares, and invest in marketable and equity securities. It took some time for eligible firms to convert to euro-denominated bonds; estimates indicate that the CSPP began to have a statistically significant impact at least six months after the purchases began in 2017. This implies that regardless of a firm's risk profile, unconventional monetary policy may promote financing diversification.

Monetary bond insurance's utility was investigated by Lai and Zhang (2013) using a large sample of US municipal bond data from 2001 to 2010. The study indicates that the yields on comparable uninsured municipal bonds issued before 2008 are much higher than those on insured bonds. But the study did discover that after the subprime credit crisis, cost savings disappeared and that, over time, bond insurance value was significantly positively impacted by bond availability and market interest rates.
The dynamic relationships between the stock, bond, and insurance markets were investigated by Lee, Huang, and yin (2013). The research clarified the nature and strength of the relationship between various financial markets as determined by the multivariate Granger causality test, generalized variance decomposition, and generalized impulse response technique. It was demonstrated by the empirical data that several patterns of dynamic interactions exist. It seems that different nations have different causality directions.

Liu (2012) evaluated the credit rating, underlying credit risk, and premium for municipal bond insurance. The future of municipal bond insurance would depend on how well bond insurers were able to assess the credit risk of insured bonds. This subject was investigated. The findings demonstrated that municipal bond insurance premia have the ability to explain credit rating downgrades but not upgrades, provided that they are contingent on bond credit ratings and other explanatory factors. Additionally, the study showed that insurance premia. The underlying credit risk of municipal bonds, as determined by their underlying credit rating transition, may be explained by municipal bond insurance premia, subject to bond credit ratings and other explanatory factors.

Economic growth and capital market performance indicators are causally related, according to Acha & Akpan's (2019) study on Nigeria's capital market performance and economic growth from 1987 to 2014. According to the study, the macroeconomic circumstances reflected in stock prices on the Nigeria Stock Exchange may be used to forecast future economic development. The study also discovered a favorable correlation between capital market performance and the Nigerian economy, suggesting that financial and monetary authorities facilitate unrestricted information exchange inside the market. According to the findings, resolving this issue is essential to Nigeria's economic development.

Wang, Chen, Li, Yu, and Zhong's (2020) study discovered that the Chinese green bond pricing premium is notably higher than that of foreign green bonds. For new offerings from high CSR issuers and underwriters, as well as those with low ownership concentration and long-term institutional investors, the premium is particularly noticeable. This research can be applied to other developing economies that are balancing sustainability and growth. The bond and stock markets' favorable responses point to a successful market-based strategy for tackling climate change in sustainable development.

The implications of capital market expansion on Nigeria's economic growth were examined by Cynthia, Chinedum, and Ikechi (2017). The study employed the RGDP of Nigeria as a data sample, covering the years 1983 to 2016. The data was estimated using ADF, ARDL, LASI, LMCAP, LNC, and LNLS when these variables were accepted. The study's findings showed that the number of listed securities and the all-share index continued to have a strong correlation with Nigeria's economic development over the long and short terms. According to the report, the government must to assist in getting rid of all barriers to the stock market.

Erasmus, Nkiru, and Ifeanyi (2021) evaluated the Nigeria's economic development and capital market indices. The data sample for the study was gathered from the Nigeria Data Bank between 1989 and 2019. OLS, Johansen cointegration, pairwise causality, and the following variables were adopted: RGDP, EGT, CMP, MCAP, TVT, and ASI. The study's conclusion showed that market capitalization significantly and favorably affected Nigeria's actual gross domestic product. Therefore, in order to encourage more international investors to engage in the Nigerian capital market, the research advised that the Securities and Exchange Commission establish policies targeted at raising market capitalization, value of transactions exchanged, and all share index.

Olakanmi, (2019) analyzed the, the structural conduct and performance of the Nigerian capital. The study adopted data sample of Nigeria capital market data structure, from the year 1991-2018, and the data was estimated with the use of regression, following the adoption of these variables, ASI, MC, QC, TNI, and TV. The result from the study showed that those three variables (MC, TNI, and QC) exhibit direct positive relationship, while one (ASI) exhibits inverse and statistically insignificant relationship with economic growth. The study recommended that effective environment for investors on macro economy will increase capital growth.

Okparaka (2018) analyzed the impact of insurance investments on Nigerian capital market. The study employed time series data which were examined with ordinary least square regression estimation technique. The outcome then showed that insurance investments in bonds, stocks, and government securities had a large and favorable influence on the entire market capitalization. As a result, the study came to the conclusion that the capital market investments made by the insurance

business as a whole have the potential to significantly affect market capitalization. As a result, the research suggested that the insurance sector increase its investments by diversifying its portfolio of government securities by purchasing those from other nations. Therefore, this study showed that there exist several studies on the issue of bond insurance and growth of capital market, such as Germinah (2021), Ibrahim and Mohammed (2020), Idris (2019), Olakanmi (2019), Kato and Petry (2019). However, most of these empirical studies were concerned with how capital market influences economic growth, as well as descriptive studies on bond insurance while there is paucity of research on the connection between bond insurance and growth of capital markets, most especially in Nigeria.

Research Methods

Research Design

The longitudinal time series research approach serves as the foundation for this investigation. Generally, correlational research using longitudinal study design allows studies on relationship and effect using recurrent data. It enables evaluation using data from a single entity created over time (time series), or several periods and multiple entities (panel data), or multiple periods for multiple entities (pooled data). The study is based on the longitudinal time series research approach since it examines one entity (Nigeria) over an extended period of time.

Model Specification

The model used in this study was modified from Okparaka's (2018) research, which takes insurance investment in government securities (TINVGS), stocks and bonds (TINVSB), and bills of exchange (TINVBE) as a function of total market capitalization (TMKCP). Therefore, the following is how the model for this study might be stated:

$$TMKCP = f(TINVGS, TINVSB, TINVBE) \quad ---------- 1$$
$$TMKCP_t = \alpha_0 + \alpha_1 TINVGS_t + \alpha_2 TINVSB_t + \alpha_3 TINVBE_t + u_{1t} \quad ---------- 2$$

However, this study modified the model by using bond insurance premium and bond insurance claim as explanatory variable while market capitalization is used as dependent variable. This adjustment allows for a focused analysis of the bond market's dynamics, as bond insurance premiums and claims can reflect both perceived risk and actual financial outcomes. In addition, this study considered interest rate, inflation rate and foreign direct investment as control variables. Therefore, the model for this study is defined as thus

$$MCP = f(BIP, BIC, INT, INF, FDI) \quad ---------- 3$$
$$MCP_t = \delta_0 + \delta_1 BIP_t + \delta_2 BIC_t + \delta_3 INT_t + \delta_4 INF_t + \delta_5 INF_t + u_{3t} \quad ---------- 4$$

Where:

MCP= Market Capitalization
BIP= Bond insurance premium
BIC= Bond insurance claim
INT= Interest rate
INF= Inflation rate
FDI= Foreign Direct Investment
u= error term of each model

Source of Data

Data employed in this study were extracted from Nigerian Insurance Association digest, World Development Indicator Database edition of 2023, Central Bank of Nigeria Statistical Bulletin and Global Financial Development database. Related data from these sources were extracted for twenty three year period spanning from 2000 to 2022.

Method of Data Analysis

Inferential and descriptive analyses are the main focus of this work. Particularly, the mean, standard deviation, skewness, kurtosis, maximum and lowest values, and Jarque bera were employed as descriptive analysis techniques. Time series analysis constitutes the inferential analysis, and the technique used is ordinary least square regression estimation with post estimation, in accordance with the goals and hypotheses of this investigation.

3. Result and Discussion

This section involves result and discussion of findings on the empirical analysis of the relationship between bond insurance and growth of capital market in Nigeria, which includes Augmented Dickey Fuller (ADF) unit root test, Autoregressive Distributed Lag (ARDL) co-integration procedure as well as Granger causality test in line with objectives of the study, then the discussion of findings.

Table 1: ***ADF Unit Root Test***

	ADF Statistics	**1% critical value**	**5% critical value**	**ADF Statistics**	**1% critical value**	**5% critical value**	**I(d)**
lnMCP	-2.20585	-4.44074	-3.63289	-4.21922	-4.44074	-3.63289	I (1)
lnBIP	-1.55294	-3.76959	-3.00486	-5.90549	-3.76959	-3.00486	I (1)
lnBIC	-17.0440	-3.85739	-3.04039	-	-	-	I (0)
INF	-2.46150	-3.75295	-2.99806	-5.97902	-3.76959	-3.00486	I (1)
INT	-1.43703	-3.75295	-2.99806	-4.71784	-3.76959	-3.00486	I (1)
lnFDI	-3.79231	-3.75295	-2.99806	-	-	-	I (0)

Source: *Author's Computation (2024)*

Market capitalization, bond insurance premium, interest rate, and inflation rate are integrated of order one I (1) and only become stable after initial differencing, according to the results of the unit root test shown in Table 1. Bond insurance claims and foreign direct investment, on the other hand, are integrated of order zero I (0) and stationary at level, indicating that this variable does not retain inventive shock passed on it over the same time. Thus, the study's summary of the unit test revealed that the integrated series contained in the models are of mixed order, specifically I(0) and I(1). In order to meet the study's relevant objectives, the ARDL co-integration is used.

Table 2: ARDL Short run and Long run Estimation Result

Short run Estimation

Variables	Coefficient	Std. Error	T-Statistics	Prob.
D(lnBIP)	0.330472	0.306022	1.079894	0.3217
D(lnBIP(-1))	-0.808388	0.242025	-3.340103	0.0156
D(lnBIC)	0.232570	1.605340	0.144873	0.8898
D(INF)	0.019070	0.012881	1.480437	0.1893
D(INF(-1))	-0.143628	0.024215	-5.931285	0.0010
D(INT)	0.054846	0.027189	2.017207	0.0902
D(INT(-1))	0.051114	0.029838	1.713050	0.1375
D(lnFDI)	0.141495	0.033492	4.224719	0.0055
CointEq(-1)	-0.962049	0.141341	-6.806577	0.0005
Cointeq = LNMCP - (0.8047*LNBIP -2.6001*LNBIC + 0.0438*INF -0.2747 *INT - 0.1121*LNFDI + 21.8850)				
Long run Estimation				
lnBIP	0.936937	0.091425	10.248110	0.0001
lnBIC	1.896920	0.174621	10.863053	0.0000
INT	0.026852	0.018421	1.457672	0.1952
INF	-0.223710	0.019425	-11.516762	0.0000
lnFDI	-0.147399	0.076457	-1.927879	0.1021

Jarque Bera: 1.641757 (p > 0.05); 0.214238 (p > 0.05); 0.241894 (p > 0.05)
Source: *Author's Computation (2024)*

The short- and long-term estimates of the impact of bond insurance premiums and bond insurance claims on market capitalization in Nigeria are presented in Table 2. According to the short run estimation results, market capitalization rises by approximately 0.33% and 0.23% for every 1% increase in bond insurance premium and bond insurance claim, respectively. For BIP, the coefficient and probability are 0.33047 and 0.3217 ($p > 0.05$), and for BIC, they are 0.232570 and 0.8896 ($p > 0.05$). Although statistically insignificant, this illustrates that bond insurance premiums and claims have a positive short-term impact on market value. Of the short run discrepancies, only around 96.21% are fixed and incorporated into the long run dynamic yearly in Nigeria, according to CointEq (-1) of -0.962049 and 0.0005 ($p < 0.05$). The long run estimation result, on the other hand, shows that market capitalization increases by approximately 0.93% and 1.89%, respectively, given the coefficient and probability of 0.936937 and 0.0001 ($p < 0.05$) for LNBIP and 1.896920 and 0.0000 ($p < 0.05$) for LNBIC. These findings indicate that bond insurance premium and insurance claim have a significant positive impact on market capitalization over the long term.

Result presented in Table 2 also shows that there is no evidence to reject null hypothesis on normal distribution, homoscedasticity, null hypothesis of no autocorrelation, and linearity. Specifically, result shows normality test statistics of 1.641757 ($p > 0.05$), LM test statistics of 0.2124238 ($p > 0.05$), heteroscedasticity test statistics of 0.241894 ($p > 0.05$) indicate that the assumption of normality, homoscedasticity and no serial autocorrelation are satisfied.

Table 3: Granger Causality Test Result

Null Hypothesis	**F-statistics**	**Prob**
LNBIP does not Granger Cause LNMCP	1.35421	0.2846
LNMCP does not Granger Cause LNBIP	2.55020	0.1071
LNBIC does not Granger Cause LNMCP	0.66845	0.5255
LNMCP does not Granger Cause LNBIC	0.67822	0.5207

Source: *Author's Computation (2024)*

The findings shown in Table 3 suggest that there is insufficient confidence to reject either the null hypothesis—that bond insurance premiums do not granger cause market capitalization—or the null hypothesis—that market capitalization does not granger cause bond insurance premiums. This indicates that there is no correlation between Nigeria's market capitalization and bond insurance premium. The results also show that there is insufficient evidence to reject the null hypothesis that market capitalization does not cause bond insurance claims, nor the null hypothesis that bond insurance claims do not granger cause market capitalization, suggesting that there is no causal relationship between bond insurance claims and market capitalization in Nigeria.

4.6 Discussion of Findings

The findings indicated that if bond insurance premiums rise over the short and long terms, market capitalization (i.e., the capital market increases), but this effect is only substantial over the long term, suggesting that short-term fluctuations in bond insurance premiums have a minimal impact on market capitalization. This is in line with the a priori expectation that an increase in bond insurance premiums would lead to a rise in market capitalization over the long term, as the availability of bond insurance can boost investor confidence in the issuer, encouraging greater investment and market growth.

When investors feel confident that the issuer's bonds are safe, they may be more likely to invest not only in the issuer's bonds but also in its equity. This increased confidence can lead to greater demand for the issuer's stock, driving up the stock price, and as the stock price increases, so does the market capitalization of the issuer. On the other hand, bond insurance premium can signal that bond issuers are taking steps to manage risk, which can improve the companies' overall creditworthiness and attractiveness to investors. Lastly, with bond insurance premium, an issuer might find it easier to raise funds through bond offerings, which can be used for growth initiatives that could enhance profitability and, consequently, stock price. In addition, result is in tandem with the findings of Darmouni and Siani (2020), Ryu and Yu (2020), Jakubbuk and Uguz (2020), Lee, *et al* (2018), among others. For instance, Jakubbuk and Uguz (2020) submitted that market investors are more attracted to bond issuance which had been secured with insurance companies, and Darmouni and Siani (2020) explained that Bond insurance promotes the keeping of liquid assets as opposed to actual investments.

On the other hand, result depicted that market capitalization can be enhanced with an increased in bond insurance claim in Nigeria, revealing there will be increase in growth of capital market with an increase in bond insurance claim. This result however is far from expectation of a negative influence because of the fact that a bond insurance claim has been triggered typically sends a

negative signal to the market, because it maybe an indication that the issuer is in financial distress, which can lead to a decline in investor confidence. A loss of confidence in the issuer can lead to a sell-off of its shares, driving down the stock price. But the result is positive possibly because bond insurer's involvement through payment of bond insurance claim provides companies with a lifeline that allows it to restructure its debts or operations successfully; the market might view this positively. If the issuer can demonstrate a credible path to recovery, it's possible that investor confidence could eventually be restored, leading to a gradual increase in market capitalization. If the insurer has a strong reputation and financial standing, their ability to handle claims might mitigate the negative impact on the bond issuer's stock price to some extent. Hence, the result is in consonance with the submission Band and Iyashina (2015), Lee *et al* (2018), Wang *et al* (2020) etc. For instance, Wang *et al* (2020) demonstrated that there exists positive reaction in bond markets towards bond insurance activities, and Band and Iyashina (2015) claimed that bond yield is positively connected to bond insurance activities.

Result further revealed that there is no causality between bond insurance premium and market capitalization in Nigeria. This implies that previous level of bond insurance premium does not significantly influence current level of market capitalization in Nigeria, and that previous level of market capitalization has no significant influence on the current level of bond insurance premium in Nigeria. Hence, it is difficult to distinguish which variable between bond insurance and market capitalization is an antecedent of the other. In the same manner, result demonstrated that there is no causality between bond insurance claim and market capitalization in Nigeria. This implies that previous level of bond insurance claim does not significantly influence current level of market capitalization in Nigeria, and that previous level of market capitalization has no significant influence on the current level of bond insurance claim in Nigeria. Hence, it is difficult to distinguish which variable between bond insurance and market capitalization is an antecedent of the other. This however differs from the submission of Lee & Yin (2013) which revealed unidirectional causality between bond insurance and market capitalization, although the study recognized that the direction of causality is country specific.

Conclusion and Recommendations

Bond insurance and the expansion of Nigeria's capital market are the subjects of this study. Conclusion: In the long run, notably, bond insurance premiums greatly increase Nigeria's market capitalization. Bond insurance and market capitalization in Nigeria, however, are not causally related. The study makes the following recommendations to the authorities overseeing the financial sector: insurance companies should create suitable policies that draw in issuers; bond issuers should release claims for profitability; and investors should be encouraged to participate in bond insurance activities in order to stimulate the capital market. Additionally, the study recommends that in order to increase Nigeria's market capitalization, financial sector regulators should make sure bond issuers participate in bond insurance programs.

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