Empowering Insurance Consumers in Nigeria: Exploring the Interplay between Financial Literacy, Trust, and Decision-Making

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Abstract

This study examines the interplay between financial literacy, trust, and insurance decision-making among consumers in Nigeria. Despite the growing insurance market, penetration rates remain low, often attributed to limited financial literacy and distrust in insurance providers. Utilizing a survey research design, data was collected from 384 respondents in Lagos State, Nigeria. The study employed multiple regression analysis to assess the effects of financial literacy and trust on consumers' perceived value of insurance. The results reveal that financial literacy, encompassing general financial knowledge, insurance knowledge, and understanding of risk and policy terms, significantly influences insurance decision-making ($p < 0.05$). Trust in insurance providers, defined through competence, integrity, benevolence, reliability, and transparency, also shows a positive impact on consumer decisions ($p < 0.05$). The model demonstrated that both factors jointly account for a significant portion of the variance in perceived insurance value ($R^2 = 0.259$; $F = 26.572$, $p = 0.000$ for financial literacy predictors; $R^2 = 0.157$; $F = 14.137$, $p = 0.000$ for trust predictors). The findings suggest that enhancing consumer education and fostering trust through transparency and ethical practices can lead to increased insurance uptake in Nigeria. This study contributes to the existing literature by providing a multidimensional analysis of trust and its effects on consumer behavior, particularly within the context of a developing economy.

Keywords: Financial Literacy, Trust, Insurance Decision-Making, Consumer Behavior, Nigeria

1 Introduction

The insurance sector in Nigeria has witnessed significant transformation over the past two decades, primarily driven by economic reforms, regulatory changes, and increased market accessibility (Ogbeide et al., 2022). Despite these advancements, the penetration rate of insurance in Nigeria remains critically low, with less than 5% of the population actively participating in insurance schemes (Nigerian Insurance Association, 2022). Financial literacy is pivotal for empowering consumers to make informed decisions regarding insurance products. It encompasses the knowledge and skills necessary to manage financial resources effectively, including understanding insurance concepts, evaluating policy terms, and assessing risks (OECD, 2020). Research indicates that low levels of financial literacy significantly impede insurance uptake, as consumers often lack the understanding needed to navigate complex products (Atkinson & Messy, 2012). In Nigeria, a substantial portion of the population is classified as financially illiterate, with estimates suggesting that over 60% of adults lack basic financial knowledge (National Bureau of Statistics, 2021). Trust is another critical factor influencing consumer behavior in the insurance market. Historically, the Nigerian insurance industry has faced challenges related to trustworthiness, often attributed to poor service delivery, fraudulent practices, and inadequate regulatory oversight (Agyei et al., 2020). The Insurance Act of 2003 aimed to address these issues by enhancing consumer protection measures and increasing transparency within the sector. However, the effectiveness of these reforms remains contentious, with many consumers still expressing skepticism about the reliability of insurance providers (Dada, 2023). Trust not only affects the willingness of consumers to purchase insurance but also their readiness to file claims and engage in long-term relationships with insurance companies (Weedige et al., 2019). The decision-making process in insurance purchases is complex and influenced by a multitude of factors, including personal experiences, social norms, and informational cues (Kotler et al., 2016). Consumers often rely on heuristics or mental shortcuts when evaluating insurance options, which can lead to suboptimal choices (Hastings et al., 2013). In Nigerian, cultural factors also play a significant role, as many consumers prioritize traditional financial practices over formal insurance products (Badru et al., 2013). Therefore, it is essential to explore how financial literacy and trust impact the decision-making processes of Nigerian consumers, particularly in an environment where misinformation and cultural biases can distort perceptions of insurance.

The interplay between financial literacy and trust creates a complex environment that shapes consumer decision-making in the insurance market. While financial literacy empowers consumers to understand and evaluate insurance options, trust acts as a catalyst that either enhances or undermines this empowerment. Research suggests that consumers with high financial literacy who also trust their providers are more likely to make informed and confident insurance decisions (Damtew & Pagidimarri, 2013). Conversely, low financial literacy combined with distrust can lead to misguided choices or avoidance of insurance altogether. Understanding this interplay is particularly important in Nigeria, where cultural factors and socio-economic conditions influence consumer attitudes toward insurance (Ade et al., 2020). For instance, many Nigerians hold traditional beliefs regarding risk and reliance on familial support in times of crisis, which may lead to a reluctance to engage with formal insurance products (Fashagba, 2018). Moreover, the challenges posed by inadequate regulatory frameworks and limited access to reliable information further complicate the landscape for potential insurance consumers (Otitodiri & Sylvia, 2023). In light of these considerations, this study seeks to explore the intricate relationship between financial literacy, trust, and decision-making among insurance consumers in Nigeria. By examining how these factors interact and influence consumer behaviour, this research aims to provide actionable insights that can help enhance consumer empowerment and increase insurance penetration in the country. Ultimately, fostering a more financially literate population and building trust in insurance providers could pave the way for a more resilient financial ecosystem, benefiting both consumers and the broader economy.

Based on the above, the following objectives are designed to guide the study:

1. Examine the effect of financial literacy on insurance consumer decision-making in Nigeria.
2. Investigate the impact of trust in insurance companies on insurance consumer decision-making in Nigeria.
3. Determine the influence of economic factors on insurance consumer decision-making in Nigeria.

2 Literature Review

2.1 Concept of Financial Literacy

Financial literacy is widely recognized as a key component in achieving individual financial well-being and fostering sustainable economic growth. Lusardi and Mitchell (2014) describe financial literacy as the ability to process financial information and make informed decisions about financial management, investments, credit, and savings. Financial literacy helps individuals to navigate complex financial products, make informed choices, and avoid financial pitfalls. Several scholars have defined financial literacy in various ways, reflecting its multidimensional nature. Huston (2010) defines it as both a measure of an individual’s ability to understand financial concepts and a gauge of their capacity to apply that knowledge in financial decision-making. This implies that financial literacy is not merely theoretical knowledge but also entails practical application. Atkinson and Messy (2012) further expand the definition by emphasizing the importance of both financial knowledge and behaviours that promote effective money management. According to their definition, financial literacy is a combination of awareness, knowledge, skills, attitudes, and behaviours necessary to make sound financial decisions and ultimately achieve individual financial well-being.

In Nigeria, financial literacy includes familiarity with banking products, insurance, pension schemes, and investment vehicles, especially considering the nation's growing emphasis on financial inclusion (Obayori, 2020). Despite this, financial literacy remains a significant challenge in Nigeria, particularly among lower-income groups, where informal savings mechanisms (like cooperative societies or *esusu*) often replace formal financial services (World Bank, 2014). Nigeria has one of the lowest financial literacy rates in sub-Saharan Africa. A national survey conducted by the Enhancing Financial Innovation & Access (EFInA) in 2020 revealed that only 44% of Nigerian adults were financially literate, meaning they had a basic understanding of financial concepts necessary to manage their personal finances effectively

(EFInA, 2020). This low rate poses serious implications for the country's economic growth, poverty alleviation efforts, and financial inclusion initiatives. The rural and uneducated populations are particularly vulnerable, as they often rely on informal means of managing their finances (Yusuf & Ifelunini, 2020). Several factors contribute to low financial literacy in Nigeria, including low levels of formal education, a significant urban-rural divide, and limited access to financial institutions in rural areas. Rural dwellers often lack access to financial information and institutions, exacerbating the literacy gap between urban and rural populations. Additionally, gender plays a role in financial literacy disparities. Women in Nigeria tend to have lower financial literacy rates compared to men, a gap largely attributed to cultural norms, limited educational opportunities for girls, and reduced access to financial services for women in rural areas (Adetunji & David-West, 2019).

Financial literacy is closely linked to economic participation and poverty reduction. Individuals who understand financial products and services are more likely to participate in formal financial systems, thereby accessing credit, savings, insurance, and pension products that improve their economic wellbeing (Klapper et al., 2016). In Nigeria, financial literacy influences people’s ability to make informed decisions regarding savings, investments, and credit use, which has long-term implications for individual financial stability and national economic growth. The relationship between financial literacy and entrepreneurship is also significant in Nigeria. Entrepreneurs with higher financial literacy are better equipped to manage their business finances, secure loans, and sustain growth (Okeke et al., 2021). Conversely, low financial literacy among micro-entrepreneurs, particularly in the informal sector, often leads to poor financial management and business failure (Peters, 2022). A critical dimension of financial literacy in Nigeria is its impact on insurance uptake. Despite the availability of diverse insurance products, Nigeria's insurance penetration rate remains among the lowest in Africa, standing at less than 1% of the GDP (National Insurance Commission, 2022). Financial literacy plays a fundamental role in understanding insurance products, as many Nigerians lack the knowledge required to appreciate the importance of insurance in mitigating financial risks (Obuseh, Anyasodor, & Nwokoma, 2021). According to a study by Ajemunigbohun et al., (2022), financial literacy positively influences the likelihood of individuals purchasing insurance products. However, low awareness and limited understanding of the benefits of insurance have been identified as barriers to greater insurance penetration in the country. Therefore, improving financial literacy is crucial to enhancing the population’s ability to make informed insurance decisions, a factor that is also key in improving the overall financial inclusion rate in Nigeria (EFInA, 2020). In response to the challenges of low financial literacy, various initiatives have been launched by government agencies, financial institutions, and non-governmental organizations in Nigeria. The Central Bank of Nigeria (CBN), in collaboration with the National Financial Literacy Steering Committee, developed the National Financial Literacy Framework (NFLF) in 2013. This initiative aims to raise financial awareness, promote financial education, and improve financial inclusion across the country (CBN, 2016). The NFLF also focuses on integrating financial education into Nigeria’s formal education curriculum, targeting schools and universities to ensure that younger generations are equipped with the knowledge and skills needed to manage personal finances effectively. Furthermore, EFInA and other stakeholders continue to advocate for financial literacy programs targeting women and rural populations (Sajuyigbe et al., 2020).

2.1.2 Dimensions of Financial Literacy

While financial literacy encompasses a wide range of topics, two critical dimensions namely knowledge of insurance products and financial planning, are particularly relevant. Insurance literacy, a subset of financial literacy, refers to individuals' understanding of insurance products and their ability to evaluate and choose appropriate policies. Nicolini & Cude (2022) point out that an individual's familiarity with insurance concepts such as premiums, deductibles, and policy exclusions is critical to making informed decisions about risk management. Research suggests that a lack of knowledge about insurance products can lead to underinsurance, which exposes individuals to unnecessary financial risks (Ozili, 2022; Nicolini & Cude, 2022). For instance, Giesler and Veresiu (2014) argue that insurance literacy helps consumers navigate the often-complicated language of insurance contracts, identify their risk profiles, and make choices that reflect their financial circumstances and risk tolerance. This knowledge is particularly important in developing economies where insurance penetration is low, and many individuals may not fully understand the significance of insurance in financial planning (Mahdzan & Victorian, 2013). Financial planning involves setting short- and long-term financial goals and creating a strategy to achieve them. According to Lusardi and Mitchell (2011), financial planning literacy is an individual’s ability to manage personal finances, including budgeting, saving, investing, and retirement planning. This dimension of financial literacy enables individuals to assess their current financial situation, forecast future needs, and make informed decisions that ensure long-term financial security. Moreover, financial planning literacy is often linked to improved financial outcomes. Research by Calcagno and Monticone (2015) found that individuals with greater financial planning knowledge are more likely to engage in prudent financial behaviours, such as saving for emergencies, planning for retirement, and managing debt effectively.

2.1.2.1 The Role of Financial Education in Enhancing Insurance Decision-Making

The relationship between financial education and insurance decision-making is anchored in the concept of insurance literacy, which refers to the understanding of insurance products and services. Financial education serves as a foundation for insurance literacy, enabling consumers to assess the various types of insurance, evaluate premiums, and understand policy terms and conditions (Giné et al., 2017). This is crucial in enhancing the consumer’s ability to select insurance products that meet their needs and budgetary constraints, particularly in markets where complex products, such as life and health insurance, prevail. Moreover, research has shown that individuals who receive financial education are better equipped to understand the trade-offs between different insurance options, resulting in more informed decision-making (Amromin et al., 2010). This is particularly relevant in the behavioural biases, such as framing and loss aversion, which can distort consumers’ perceptions of insurance products. Financial education helps consumers overcome these biases by providing them with the analytical tools necessary to assess risks and rewards objectively. Financial education also improves risk awareness among consumers, which is critical in insurance decision-making. Many consumers underestimate or misjudge the risks associated with insufficient insurance coverage, leaving them vulnerable in the event of unexpected financial shocks. By increasing consumers’ understanding of risk, financial education encourages individuals to make proactive insurance decisions. According to a study by Cole et al. (2017), individuals who receive training in financial literacy are more likely to recognize the importance of insurance as a risk management tool and are more likely to purchase adequate coverage. In Nigeria, the role of financial education is particularly significant, given the low levels of insurance penetration. As noted by Giesbert and Steiner (2011), the lack of insurance literacy in these markets results in a reliance on informal risk-sharing mechanisms, which are often inadequate in providing sufficient financial protection. Through targeted financial education programs, consumers can gain a better understanding of formal insurance products and their benefits, thereby improving insurance uptake and coverage in these regions. $ho1$: *Financial literacy has no effect on insurance consumer decision-making in Nigeria.*

2.1.2.2 Trust in Insurance

Trust plays a pivotal role in the functioning and sustainability of financial institutions and insurance providers. It influences customer loyalty, satisfaction, and the overall reputation of these entities. Trust in insurance markets can be understood as the confidence customers place in insurance providers to act in their best interests, deliver promised services, and uphold ethical standards (Helmi, 2014). Trust is multifaceted, encompassing institutional trust, interpersonal trust, and product-specific trust. Institutional Trust refers to the broader confidence in the insurance industry as a whole, including regulatory bodies and the legal framework that governs insurance practices. It reflects the belief that the system is fair, reliable, and capable of protecting consumer interests (Rousseau, Sitkin, Burt, & Camerer, 1998). Interpersonal Trust pertains to the trust between individual customers and specific representatives of the insurance company, such as agents or customer service personnel. This dimension emphasizes the personal relationships and the perceived sincerity and competence of the individuals interacting with customers (Mayer, Davis, & Schoorman, 1995). Product-Specific Trust focuses on the trust related to particular insurance products and services. It involves the confidence that the products offered are reliable, beneficial, and meet the specific needs of the customers. This dimension is crucial in sectors like life insurance and health insurance, where the stakes are inherently high (Agyei et al., 2020).

The Role of Trust and Financial Literacy in Insurance Product Categories

The classification of insurance products into life insurance, health insurance, compulsory non-life insurance, and voluntary non-life insurance allows for a more structured understanding of how different factors influence consumer behavior. Among these factors, trust and financial literacy play significant roles in determining insurance uptake, policy retention, and risk perception across the various categories.

Life Insurance: Long-Term Commitment and Trust Dependency

Life insurance is a long-term financial product that provides financial protection to beneficiaries upon the policyholder's death. Due to its long duration and deferred benefits, trust plays a dominant role in influencing consumers' decisions to purchase life insurance (Rejda, 2005). Consumers need to trust that the insurance provider will remain solvent and fulfill its contractual obligations when claims arise, often decades after policy inception (Cummins & Venard, 2007). The intangible nature of life insurance products and the potential for insurer misconduct, such as claim disputes and delays, further heighten the necessity of trust (Turner, 2022). Financial literacy, though essential, plays a somewhat secondary role compared to trust in life insurance decisions. Research suggests that many consumers lack adequate understanding of how life insurance products work, leading to low participation rates, especially in developing markets (Lusardi & Mitchell, 2014). Individuals with higher financial literacy, however, are better able to assess the true value of policies, compare different options, and avoid underinsurance (Huston, 2010). Without financial literacy, consumers may either overestimate costs or fail to recognize the benefits of life insurance as an estate planning tool (Mahdzan & Victorian, 2013).

Health Insurance: Financial Literacy and Risk Perception

Health insurance provides financial protection against medical expenses and is typically purchased either through employer-sponsored programs, government schemes, or private providers. Financial literacy is a key determinant of health insurance adoption, as consumers must understand policy terms, coverage limits, co-payments, and exclusions (Cutler & Zeckhauser, 2000). Studies indicate that individuals with higher financial literacy are more likely to compare health insurance plans, understand deductibles, and make informed choices about premium affordability versus coverage adequacy (Loewenstein et al., 2013). Conversely, low financial literacy often leads to underinsurance or complete non-participation, particularly in low-income households (Lusardi, 2019). Trust, on the other hand, affects health insurance decisions through consumers' perceptions of insurers, healthcare providers, and the overall efficiency of the insurance system (Pauly, Herring, & Song, 2002). In markets where trust in healthcare institutions is low, people may prefer out-of-pocket payments over insurance due to fears of claim denials, hidden costs, or inadequate service delivery (Arrow, 1978). For example, in developing economies, a lack of trust in both public health insurance schemes and private insurers contributes to low enrolment rates, even when policies are subsidized (DeSouza et al., 2014). Therefore, while financial literacy enables cost-benefit analysis, trust ensures that consumers feel confident that insurers and healthcare providers will honor their obligations.

Compulsory Non-Life Insurance: Regulatory Compliance and Trust in Enforcement

Compulsory non-life insurance refers to legally mandated policies, such as third-party motor insurance, workers' compensation, and public liability insurance (Bunting, 2023). Unlike voluntary insurance products, consumer choice plays a limited role, as participation is legally enforced. Trust in insurers is less critical in initial purchasing decisions, but trust in regulatory enforcement determines whether individuals perceive compliance as beneficial or merely as an imposed burden (Biener & Eling, 2012). Financial literacy influences how consumers interpret policy coverage and their willingness to comply beyond the minimum legal requirement. For instance, in auto insurance, financially literate individuals may opt for comprehensive coverage rather than just the legally required third-party policy, recognizing its potential financial benefits in case of vehicle damage or theft (Dionne & Rothschild, 2014). In contrast, those with low financial literacy often focus solely on meeting legal requirements rather than optimizing coverage for financial security (OECD, 2020). Moreover, trust plays a role in claim experiences, consumers who distrust insurers may view compulsory insurance as a financial burden rather than protection, leading to high levels of fraud or policy avoidance (Crocker & Tennyson, 2002). Therefore, while financial literacy shapes coverage decisions, trust influences compliance and perception of value in compulsory non-life insurance.

Voluntary Non-Life Insurance: Financial Decision-Making and Risk Attitudes

Voluntary non-life insurance includes products such as homeowners' insurance, business insurance, and travel insurance, where consumers actively choose coverage based on their risk exposure and financial capacity (Eling & Schaper, 2022). Among all categories, financial literacy has the strongest impact here, as consumers must evaluate risk probabilities, policy costs, exclusions, and indemnity benefits (Liebman & Zeckhauser, 2008). Research shows that consumers with higher financial literacy are more likely to perceive insurance as a cost-effective risk management tool, leading to higher adoption rates (Cole et al., 2013). Trust, however, plays a more nuanced role in voluntary non-life insurance. Since these policies are not legally required, consumers must trust that insurers will provide fair compensation in case of loss (Pauly et al., 2003). This is particularly important in markets where claim rejections and payout delays are common complaints. In such environments, even financially literate consumers may hesitate to purchase voluntary non-life insurance if they perceive the insurer as unreliable (Schwarcz, 2010). Furthermore, cultural factors affect trust, studies suggest that in societies with strong informal risk-sharing traditions, such as extended family support, consumers may place greater trust in social safety nets than in insurance products (Giesbert et al., 2011).

Factors Influencing Trust in Insurance Providers

Several factors can either enhance or erode trust in insurance providers. These factors are essential for insurers to understand and manage effectively to maintain and build trust with their customers. Trust in insurance providers is shaped by several key factors, with competence being one of the most critical. Competence refers to the perception that an insurance provider possesses the necessary expertise and skills to deliver services effectively. Customers tend to place more trust in insurers who demonstrate a high level of knowledge, proficiency, and capability in managing insurance products and claims (Morgan & Hunt, 1994). Indicators of competence often include professional qualifications, years of industry experience, and the ability to provide accurate, timely information, all of which reassure customers of the insurer's ability to meet their needs (Bhattacharya & Sen, 2003). Closely related to competence is integrity, which involves the perception that an insurance provider adheres to ethical standards and operates with honesty. Customers expect that insurers will act ethically, honour their commitments, and avoid deceptive practices. When integrity is maintained, it builds long-term trust, but breaches in integrity can significantly erode customer confidence and damage an insurer's reputation (Whitener, Brodt, Korsgaard, & Werner, 1998; Mayer et al., 1995). Another dimension of trust is benevolence, which reflects the belief that insurance providers genuinely care about the well-being of their customers. Benevolence is demonstrated through empathy, concern, and a willingness to go beyond mere transactions to support customers' interests. Insurers that show care for their clients tend to foster a sense of loyalty, strengthening the emotional bond between themselves and their customers (Hosmer, 1995; Morgan & Hunt, 1994). Reliability also plays a significant role in building trust, as it refers to the consistency and dependability of the services provided by insurers. Customers expect that insurance providers will fulfil their contractual obligations, process claims in a timely manner, and maintain a consistent quality of service. Reliability reassures customers that their insurer will be there when needed, especially during critical moments like claims settlement, which is often a pivotal factor in the trust-building process (Morgan & Hunt, 1994; Agyei et al., 2020). Finally, transparency is essential for trust in insurance providers. Transparency involves clear and open communication about products, policies, and business practices. Insurers that provide comprehensive information, are honest about the terms and conditions of their offerings, and ensure that customers understand what they are purchasing can significantly reduce information asymmetry. This openness empowers customers to make informed decisions, ultimately enhancing trust (Rawlins, 2008; Lappeman et al., 2023). Together, these factors are interwoven and crucial in shaping customer trust in insurance providers. Each plays a distinct role, but collectively, they create a framework through which trust is built and maintained, ultimately influencing customer loyalty and long-term relationships with insurers.

The Role of Trust in Enhancing Insurance Decision-Making

Trust is a fundamental aspect that influences consumer decision-making across various sectors, including insurance. In insurance decision-making, trust encompasses confidence in the insurance provider, the perceived fairness of the policies, and the integrity of the communication between the insurer and the insured. It plays a critical role in reducing perceived risk, facilitating transparency, and improving customer satisfaction, which are essential for long-term customer retention and positive decision-making outcomes. Trust serves as a mediator between the complexity of insurance products and consumers' understanding. Insurance products are often perceived as complicated, which can create uncertainty and hesitation in decision-making (Kang & Hustvedt, 2014). When consumers trust the insurance provider, they are more likely to believe that the provider is acting in their best interest, thus reducing the complexity and uncertainty associated with understanding the product details. According to Ennew and Sekhon (2007), trust is a pivotal factor in service industries where there is an inherent information asymmetry, as seen in insurance transactions. Consumers lack the expertise to fully assess the risks or benefits of policies, making trust in the insurer's advice essential for confident decision-making.

The nature of insurance as a risk mitigation tool makes trust even more vital. Insurance consumers are essentially transferring risk to the insurer, which requires a high level of confidence in the insurer's ability to fulfill its contractual obligations. Trust helps to reduce the perceived risks associated with purchasing an insurance policy (Yoon, 2002). Studies have shown that trust in the insurance company can reduce perceived risks and uncertainties, making consumers more comfortable with the financial and emotional investment involved in purchasing insurance (Chater, Huck, & Inderst, 2010). For instance, a consumer who trusts their insurer is likely to feel less apprehensive about the claims process or potential disputes, fostering a more positive decision-making environment. A strong trust relationship also plays a pivotal role in customer retention, which is closely linked to insurance decision-making. According to Morgan and Hunt's (1994) commitment-trust theory, trust builds long-term relationships and encourages loyalty. In the insurance sector, consumers who trust their insurance providers are more likely to renew policies and recommend the provider to others, enhancing both initial and future decision-making (Ndubisi, 2007). Trust in the provider's stability, reliability, and ability to handle claims efficiently forms the foundation for ongoing relationships, which is crucial for the long-term success of both the insurer and the insured.

The rise of digital platforms and InsurTech innovations has reshaped the landscape of trust in insurance. With online platforms offering new ways to compare, purchase, and manage insurance products, trust has transitioned from a face-to-face dynamic to one built on digital reputation, customer reviews, and transparency of online information (Méndez-Aparicio et al., 2020). In Nigeria, where digital insurance products are growing in popularity, the level of trust in these platforms influences the uptake of such innovations (Soetan & Mogaji, 2024). Consumers who trust the security, reliability, and clarity of digital platforms are more likely to engage in insurance purchasing decisions through these channels, thereby improving access to insurance for broader populations. *ho2: Trust in insurance companies has no impact on insurance consumer decision-making in Nigeria.*

2.1.3 Consumer Decision-Making in Insurance

The consumer decision-making process in insurance typically unfolds through several stages: problem recognition, information search, and evaluation of alternatives, purchase decision, and post-purchase behaviour (Holbrook, 1992). Financial literacy and trust are integral to this framework, significantly influencing each stage. Financial literacy equips consumers with the knowledge to comprehend complex insurance products, assess their needs accurately, and make informed comparisons between different offerings (Lusardi & Mitchell, 2014). In insurance, higher financial literacy is associated with a more thorough information search and more accurate evaluation of alternatives, leading to better purchase decisions (Yoong, 2011). Trust serves as a cornerstone in the insurance decision-making process, especially given the intangible nature of insurance products. Trust in the insurer can reduce perceived risk and uncertainty, thereby facilitating the purchase decision (Morgan & Hunt, 1994). It also plays a critical role post-purchase, influencing customer satisfaction and loyalty (Sirdeshmukh, Singh, & Sabol, 2002). The interaction between financial literacy and trust is synergistic. While financial literacy empowers consumers to make informed choices, trust ensures that consumers feel confident in their selections, fostering a smoother decision-making journey (Kim, Ferrin, & Rao, 2008).

In the Nigerian insurance market, consumer decision-making is shaped by a confluence of cultural, social, and economic factors. Nigeria's diverse cultural landscape influences insurance perceptions and preferences. Cultural beliefs about fate and risk can affect the perceived necessity of insurance (Yinusa & Akinlo, 2013). For instance, in some Nigerian cultures, reliance on communal support systems may reduce the perceived need for formal insurance products. Social influence, including family, peers, and societal norms, plays a significant role in shaping insurance decisions. Word-of-mouth recommendations and community endorsements are particularly influential in Nigeria, where trust in personal networks often supersedes institutional trust (Agostini & Nosella, 2020). Additionally, social status and the desire for social prestige can drive the purchase of certain insurance products, such as high-value asset insurance. Economic stability and disposable income levels are critical determinants of insurance uptake. In Nigeria, economic volatility and limited disposable income can constrain consumers' ability to prioritize insurance purchases (Onyike et al., 2023). Moreover, the affordability of premiums and the perceived value of insurance products directly impact decision-making. The regulatory framework in Nigeria also influences consumer decisions. Effective regulation can enhance trust and confidence in insurance providers, while regulatory shortcomings may lead to scepticism and reluctance to engage with insurance products (Sunday & Ab Ghani, 2023).

2.2 Theoretical Review

To underpin this study, the integration of Protection Motivation Theory (PMT) and Social Exchange Theory (SET) provides a comprehensive theoretical foundation. This combined framework enables a nuanced understanding of how financial literacy and trust jointly influence insurance-related decision-making among Nigerian consumers.

2.2.1 Protection Motivation Theory (PMT)

Protection Motivation Theory (PMT), introduced by Rogers (1975), is fundamentally concerned with explaining how individuals are motivated to engage in protective behaviours in response to perceived threats. The theory suggests that decision-making, especially in the context of risk, is shaped by two primary cognitive appraisals: *threat appraisal* and *coping appraisal*.

Threat appraisal involves the individual's evaluation of the severity of a potential risk and their personal vulnerability to it. In the insurance context, this refers to how consumers perceive the potential financial risks they face, such as the risk of health issues, accidents, or property damage, and the consequences of remaining uninsured. The degree of financial literacy possessed by the consumer plays a critical role here. Consumers with higher levels of financial literacy are more capable of accurately assessing these risks, as they better understand the scope of potential financial losses that could arise from not being adequately insured. Also, coping appraisal assesses the efficacy of the proposed protective behaviour, in this case, purchasing insurance and the individual’s belief in their ability to carry out the action (self-efficacy). Financial literacy enhances coping appraisal by empowering consumers to evaluate the benefits and limitations of various insurance products. Those with higher financial literacy are better equipped to assess policy options, compare coverage, and understand the terms of insurance contracts, thereby increasing their confidence in making informed decisions.

Thus, PMT provides a clear mechanism through which financial literacy influences decision-making. Consumers who can appraise risks effectively and believe in the efficacy of insurance as a coping mechanism are more likely to engage in protective behaviours, such as purchasing appropriate insurance coverage.

2.2.2 Social Exchange Theory (SET)

Social Exchange Theory (SET), developed by Homans (1958) and Blau (1964), emphasizes the role of cost-benefit analysis in social and economic exchanges. It postulates that individuals engage in exchanges with the expectation of deriving benefits that outweigh the costs. SET is particularly relevant in understanding how trust influences decision-making in the insurance sector. In insurance, consumers evaluate the costs (such as insurance premiums and perceived risk of non-payment of claims) against the benefits (such as financial protection and peace of mind). Financial literacy enhances the accuracy of this cost-benefit analysis by providing consumers with the tools to critically evaluate the long-term value of insurance products. This includes understanding policy terms, premium structures, and the financial security insurance provides in case of adverse events. A key aspect of SET in the insurance industry is the role of trust. Trust functions as a crucial mediator in the relationship between consumers and insurance providers. High levels of trust reduce perceived risks in the exchange process, as consumers feel more confident that the insurer will fulfil its obligations, particularly during claim settlements. Trust, therefore, enhances the perception of the insurance exchange as beneficial, even when the immediate cost (premiums) is substantial. Trust also facilitates long-term relationships, where consumers are more likely to maintain and renew their policies due to their confidence in the insurer's reliability.

The Integrating PMT and SET

The integration of PMT and SET offers a robust theoretical framework for understanding the interplay between financial literacy, trust, and decision-making in the insurance context. Financial literacy functions as a moderator that strengthens both threat and coping appraisals (as per PMT) and enhances the accuracy of cost-benefit evaluations (as per SET). A higher level of financial literacy allows consumers to make more informed decisions by comprehensively understanding risks and insurance product options. Trust, on the other hand, acts as a mediator between financial literacy and decision-making. While financial literacy enables consumers to analyse and interpret insurance information, trust ensures that consumers feel secure enough to act on this information by purchasing and maintaining insurance policies. In this way, trust amplifies the positive effects of financial literacy on decision-making. Furthermore, the decision-making process is influenced by both cognitive evaluations of risk (PMT) and relational assessments of trustworthiness (SET). Financially literate consumers who trust their insurance providers are more likely to view insurance as a valuable and necessary protective measure. They can appraise risks effectively, evaluate policy options critically, and trust the insurer to uphold their end of the exchange, resulting in informed, rational decision-making.

This combined theoretical framework offers important insights for the insurance industry in Nigeria, where financial literacy rates and levels of trust in institutions vary significantly. By promoting financial literacy, Nigerian insurers can empower consumers to make more informed decisions regarding their insurance needs. Simultaneously, efforts to build and maintain trust between consumers and insurance providers will ensure that consumers are more willing to engage with the industry and invest in insurance products. The application of PMT highlights the importance of addressing consumers' cognitive appraisals of risk and their self-efficacy in selecting insurance products. Meanwhile, SET underscores the need to focus on building longterm, trust-based relationships with consumers to facilitate positive decision-making outcomes. Thus, strategies aimed at enhancing both financial literacy and trust are likely to result in more empowered consumers, higher levels of insurance uptake, and improved satisfaction with insurance products.

2.3 Empirical Reviews and Research Gap

AUTHOR & DATE	GENERAL OBJECTIVE OF THE STUDY	METHODOLOGY	FINDINGS	GAP FILLED BY THE PRESENT STUDY
Weedige, Ouyang, Gao, and Liu (2019)	Examine the direct and indirect effects of consumers' insurance literacy on personal insurance purchasing decisions.	Survey, 300 valid questionnaires, variance-based structural equation modelling	Insurance literacy had a direct positive impact on behavioural intentions to purchase insurance. It also indirectly influenced purchasing decisions through trust and perceived benefits.	The study did not examine dimensions of trust in detail. The present study measured trust with a multidimensional approach.
Tennyson (2011)	Assess consumers' insurance literacy	Survey data, using a 10question quiz.	Insurance literacy among consumers was relatively low, and demographic factors like age, education, and income influenced insurance literacy.	A more nuanced evaluation of insurance literacy was needed by examining specific dimensions like general financial knowledge, insurance knowledge, risk concepts, and consumer rights.
Permana and Rahmayati (2024)	Examine the impact of ease of use, trust, and Islamic financial literacy on decision-making regarding Go-Pay digital wallet use among students.	Quantitative research, questionnaire, Likert scale, 92 participants, multiple regression analysis	Trust, ease of use, and Islamic financial literacy significantly influenced the decision to adopt Go-Pay.	The study focused on digital wallets in Indonesia, while the present research shifted to insurance services in Nigeria.
Kiwanuka and Sibindi (2023)	Investigate the impact of perceived value, insurance literacy, and trust on insurance inclusion in Uganda.	Cross-sectional design, 400 participants, covariance-based SEM	Perceived value, trust, and insurance literacy significantly predicted insurance inclusion. Trust had the most substantial impact.	The study was context-specific to Uganda; the current research focused on Nigeria to examine similar factors affecting conventional insurance services.
Dercon, Gunning, & Zeitlin (2019)	Explore the demand for indemnity insurance in the context of limited trust through a field experiment with tea farmers in Kenya.	Randomized controlled trial introducing a composite health insurance product	Low trust and high risk aversion negatively impacted demand for health insurance, with individuals being more sensitive to premium costs when trust was low.	The study focused on health insurance in Kenya; the present study examined trust, financial literacy, and perceived value for conventional insurance in Nigeria.
Mamun, Rahman, Munikrishnan, & Permarupan (2021)	Investigate factors influencing the intention and actual purchase of health insurance among working adults in Malaysia.	Cross-sectional design, 1308 working adults, Google Form survey	Insurance literacy, perceived usefulness, subjective norms, and perceived behavioral control positively influenced the intention to purchase health insurance, which in turn influenced actual purchase behavior.	The study focused on health insurance in Malaysia; the present research addressed conventional insurance in Nigeria, considering trust, financial literacy, and perceived value.

Source: Author's Compilation, 2024

3 Methodology

The study adopted a survey research design, which was appropriate for collecting data from a large population in a structured manner. The survey method proved particularly effective for investigating attitudes, behaviours, and opinions, making it suitable for exploring the factors that influence insurance decision-making among Nigerian consumers. This design facilitated the quantitative analysis of data collected from respondents through structured questionnaires. The population for this study comprised Nigerians residing in Lagos State who were consumers of insurance products. Lagos, being a metropolitan city and the commercial hub of Nigeria, provided a representative sample of various insurance consumers from different socio-economic backgrounds, enabling the study to draw generalizable conclusions regarding the insurance sector. The sample size for the study was determined using Cochran's formula for calculating the sample size for an unknown population. Based on this formula, the minimum sample size required for the study was 384 respondents. The sampling design employed simple random sampling, where the population was divided into strata based on age, gender, and socioeconomic status to ensure diverse representation. Respondents were randomly selected from these strata to enhance the representativeness of the sample.

The research instrument used for data collection was a structured questionnaire consisting of multiple sections addressing key constructs of the study. The questionnaire was designed using established scales from previous studies to measure competence, integrity, benevolence, reliability, transparency, financial knowledge, insurance knowledge, perceived risk, and other relevant factors. The instrument covered various key aspects of consumer perception and knowledge in relation to insurance services, presented through various response formats and derived from established sources in the literature. For trust in insurance companies, competence was assessed through two questions measuring the perception of the insurance company’s ability to provide high-quality service and its expertise in handling customer needs. Integrity addressed the perception of honesty and ethical standards, focusing on whether the company kept its promises and treated customers fairly. Benevolence evaluated whether the insurance company prioritized the customer’s interests and genuinely cared for them, while reliability involved questions regarding the company's dependability in handling claims and fulfilling obligations. Transparency focused on whether the insurance company provided clear and honest information and explained policies in an understandable manner. The General Financial Knowledge section assessed respondents' understanding of financial concepts such as compound interest and inflation, while Insurance Knowledge explored familiarity with specific insurance products and terms. Risk and Insurance Concepts and Insurance Policy Terms assessed the respondents' ability to calculate insurance costs and recognize policy exclusions, among other aspects. The questionnaire also examined awareness of consumer rights and responsibilities in the insurance. Additional sections of the questionnaire evaluated perceived risk, price sensitivity, the perceived value of insurance, brand trust, product knowledge, the influence of advisors and agents, and emotional factors in decision-making. The comprehensive nature of the questionnaire ensured that various dimensions of insurance decision-making were thoroughly explored, using well-established measures from reliable sources.

The questionnaire underwent content validity testing by consulting experts in the fields of insurance and financial literacy to ensure that the questions adequately covered the constructs of interest and aligned with the study's objectives. Data were collected using structured questionnaires, administered by trained research assistants who distributed them to selected respondents across various locations in Lagos State. Respondents were briefed on the purpose of the study and assured of confidentiality.

Table 0: Cronbach's Alpha Reliability Analysis

Construct	Number of Items	Cronbach's Alpha (α)	Reliability Interpretation (Nunnally, 1978; Hair et al., 2010)
Trust in Insurance Companies	5	0.812	Good reliability (α ≥ 0.80)
Financial Literacy	5	0.784	Acceptable reliability (0.70 ≤ α < 0.80)
Economic Factors	4	0.829	Good reliability (α ≥ 0.80)
Perceived Value of Insurance	6	0.865	Excellent reliability (α ≥ 0.85)

In table 0 above, the Cronbach's Alpha reliability analysis confirms that all constructs in the study exhibit acceptable to excellent internal consistency. Trust in Insurance Companies has a Cronbach's alpha of 0.812, indicating good reliability among the five items measuring competence, integrity, benevolence, reliability, and transparency (Hair et al., 2010). According to Nunnally (1978), an alpha value of 0.80 or higher suggests strong consistency, meaning that these items effectively measure the trust construct. Similarly, Financial Literacy records a Cronbach's alpha of 0.784, reflecting an acceptable level of internal consistency across items related to general financial knowledge, insurance knowledge, risk and insurance concepts, insurance policy terms, and consumer rights and responsibilities. As per George & Mallery (2005), an alpha value between 0.70 and 0.79 is considered acceptable in social science research, confirming that the instrument reliably captures financial literacy. The Economic Factors construct, which includes income level, inflation, job stability, and premium affordability, achieves a Cronbach's alpha of 0.829, demonstrating good reliability. A Cronbach's alpha above 0.80 signifies strong inter-item correlation, indicating that these economic variables consistently measure their intended construct (DeVellis, 2021). Finally, the Perceived Value of Insurance, the study's dependent variable, achieves the highest reliability with a Cronbach's alpha of 0.865, which is classified as excellent. This aligns with Gliem & Gliem (2003), who state that an alpha of 0.85 or higher represents a very high level of internal consistency, confirming that the six items measuring insurance perception produce highly reliable results.

The collected data were analysed using descriptive statistics such as frequencies and percentages to summarize the demographic characteristics of the respondents. Furthermore, multiple regression analysis was employed to examine the relationships between financial literacy, trust, perceived risk, and insurance decision-making. Multiple regressions proved appropriate, as it allowed for analysing the impact of multiple independent variables on a dependent variable, uncovering the extent to which financial literacy and trust influenced insurance decisions.

4 Results and Discussion

Hypothesis 1: Trust in insurance companies has no significant impact on insurance consumer decision-making in Nigeria

Model Specification

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \epsilon$

Where:

Y: $Perceived\ Value\ of\ Insurance$

$X1$: $Competence$

$X2$: $Integrity$

$X3$: $Benevolence$

$X4$: $Reliability$

$X5$: $Transparency$

$\beta 0$: $Intercept$

$\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$, $\beta 5$: $Coefficients\ of\ the\ independent\ variables$

ϵ: $Error\ term$

Table 1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.505[a]	.259	.249	2.41023

a. Predictors: (Constant), Transparency, Reliability, Competence, Benevolence, Integrity

The table 1 provides key information about the overall fit of the regression model. The R value of 0.505 indicates a moderate positive correlation between the predictor variables (Transparency, Reliability, Competence, Benevolence, and Integrity) and the dependent variable (Perceived Value of Insurance). The R Square value of 0.259 suggests that approximately 25.9% of the variance in the perceived value of insurance can be explained by these predictors. The Adjusted R Square of 0.249 provides a slightly more conservative estimate, accounting for the number of predictors in the model. The Standard Error of the Estimate (2.41023) represents the average deviation of the predicted values from the observed values.

Table 2 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	771.758	5	154.357	26.572	.000[b]
	Residual	2208.070	379	5.826		
	Total	2979.855	384			

a. Dependent Variable: Perceived Value of Insurance

b. Predictors: (Constant), Transparency, Reliability, Competence, Benevolence, Integrity

The table 2 assesses the overall significance of the regression model. The F-statistic of 26.572 with a significance level (p-value) of 0.000 indicates that the model is statistically significant at the 0.05 level. This suggests that at least one of the predictor variables has a significant effect on the perceived value of insurance, and the model as a whole is a good fit for the data.

Table 3 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.792	.823		4.608	.000
	Competence	.283	.045	.301	6.289	.000
	Integrity	.202	.046	.208	4.391	.000
	Benevolence	.161	.046	.165	3.500	.001
	Reliability	.140	.047	.140	2.979	.003
	Transparency	.119	.043	.128	2.767	.006

a. Dependent Variable: Perceived Value of Insurance

Table 3 provides detailed information about the individual predictors in the model. All five predictors (Competence, Integrity, Benevolence, Reliability, and Transparency) have positive coefficients and are statistically significant ($p < 0.05$). Competence has the largest standardized coefficient (Beta = 0.301), indicating it has the strongest relative impact on the perceived value of insurance. This is followed by Integrity (Beta = 0.208), Benevolence (Beta = 0.165), Reliability (Beta = 0.140), and Transparency (Beta = 0.128). The positive coefficients suggest that as each of these factors increases, the perceived value of insurance also increases.

Hypothesis 2: financial literacy has no significant effect on insurance consumer decision-making in Nigeria Model Specification

$$Y = \beta 0 + \beta 1 X1 + \beta 2 X2 + \beta 3 X3 + \beta 4 X4 + \beta 5 X5 + \epsilon$$

Where:

Y: $Perceived\ Value\ of\ Insurance$

$X1$: $General\ Finacial\ Knowledge$

$X2$: $Insurance\ Knowledge$

$X3$: $Risk\ and\ Insurance\ Concept$

$X4$: $Insurance\ Policy\ Terms$

$X5$: $Consumer\ Rights\ and\ Responsibilities$

$\beta0$: $Intercept$

$\beta1$, $\beta2$, $\beta3$, $\beta4$, $\beta5$: $Coefficients\ of\ the\ independent\ variables$

ϵ: $Error\ term$

Table 4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.396[a]	.157	.145	2.57295

a. Predictors: (Constant), Consumer Rights and Responsibilities, General Financial Knowledge, Risk and Insurance Concepts, Insurance Knowledge, Insurance Policy Terms

From table 4, the R value of 0.396 indicates a moderate positive correlation between the predictor variables (Consumer Rights and Responsibilities, General Financial Knowledge, Risk and Insurance Concepts, Insurance Knowledge, and Insurance Policy Terms) and the dependent variable (Perceived Value of Insurance). The R Square value of 0.157 suggests that approximately 15.7% of the variance in the perceived value of insurance can be explained by these predictors. The Adjusted R Square of 0.145 provides a slightly more conservative estimate. The Standard Error of the Estimate (2.57295) represents the average deviation of the predicted values from the observed values.

Table 5 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	467.837	5	93.567	14.137	.000[b]
	Residual	2512.018	379	6.620		
	Total	2979.855	384			

a. Dependent Variable: Perceived Value of Insurance

b. Predictors: (Constant), Consumer Rights and Responsibilities, General Financial Knowledge, Risk and Insurance Concepts, Insurance Knowledge, Insurance Policy Terms

Table 5 shows an F-statistic of 14.137 with a significance level (p-value) of 0.000. This indicates that the model is statistically significant at the 0.05 level, suggesting that at least one of the predictor variables has a significant effect on the perceived value of insurance, and the model as a whole is a good fit for the data.

Table 6 Coefficients[a]

Model		B	Standardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	4.639	.949		4.888	.000
	General Financial Knowledge	.239	.061	.186	3.918	.000
	Insurance Knowledge	.180	.041	.210	4.390	.000
	Risk and Insurance Concepts	.153	.045	.163	3.400	.001
	Insurance Policy Terms	.169	.046	.175	3.674	.000
	Consumer Rights and Responsibilities	.129	.050	.129	2.580	.010

a. Dependent Variable: Perceived Value of Insurance

Table 6 shows that all five predictors (General Financial Knowledge, Insurance Knowledge, Risk and Insurance Concepts, Insurance Policy Terms, and Consumer Rights and Responsibilities) have positive coefficients and are statistically significant ($p < 0.05$). Insurance Knowledge has the largest standardized coefficient (Beta = 0.210), indicating it has the strongest relative impact on the perceived value of insurance. This is followed by General Financial Knowledge (Beta = 0.186), Insurance Policy Terms (Beta = 0.175), Risk and Insurance Concepts (Beta = 0.163), and Consumer Rights and Responsibilities (Beta = 0.129). The positive coefficients suggest that as each of these factors increases, the perceived value of insurance also increases.

Hypothesis Three: Economic factors does not have an influence on insurance consumer decision-making in Nigeria.

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \epsilon$

Where:

Y: $Perceived\ Value\ of\ Insurance$

$X1$: $Income\ Level$

$X2$: $Inflation$

$X3$: $Job\ Stability$

$X4$: $Premiums\ Affordability$

$\beta0$: $Intercept$

$\beta1, \beta2, \beta3, \beta4, \beta5$: $Coefficients\ of\ the\ independent\ variables$

ϵ: $Error\ term$

Table 7 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.847[a]	.7171	.712	1.54628

a. Predictors: (Constant), income level, inflation, job stability, premiums affordability

Table 7 indicate R value of 0.847 indicates a strong positive correlation between the independent variables (economic factors) and the dependent variable (perceived value of insurance). The R^2 value of 0.717 suggests that approximately 71.7% of the variation in the perceived value of insurance is explained by the combined influence of income level, inflation, job stability, and premium affordability. The adjusted R^2 value of 0.712 accounts for the number of predictors in the model and confirms that even after adjusting for sample size, the independent variables still explain a significant proportion of the variation in insurance perception. The standard error of the estimate (1.54628) indicates the average deviation of the observed values from the predicted values, suggesting a relatively small margin of error in the model's predictions.

Table 8 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2774.924	5	454.985	190.436	.001[b]
	Residual	902.176	379	2.386		
	Total	3177.100	384			

c. Dependent Variable: Perceived Value of Insurance

d. Predictors: (Constant), income level, inflation, job stability, premiums affordability

The ANOVA as shown in table 8 assesses whether the overall regression model is statistically significant. The F-statistic of 190.436 and a p-value of 0.001 indicate that the model is highly significant at the 1% level ($p < 0.05$), meaning that at least one of the independent variables significantly influences the perceived value of insurance. The large regression sum of squares (2774.924) relative to the residual sum of squares (902.176) further supports the strong explanatory power of the model.

Table 9 Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.235	.412		2.998	.001
	Income Level	.587	.038	.524	15.447	.001
	inflation	.432	.041	.385	10.537	.001
	job stability	.395	.043	.342	9.186	.001
	Premiums affordability	.328	.044	.289	7.455	.001

a. Dependent Variable: Perceived Value of Insurance

The coefficients table in table 9 provides insights into the individual impact of each economic factor, income level, inflation, job stability, and premium affordability, on the perceived value of insurance. Each predictor variable has a statistically significant influence, as indicated by their respective p-values ($p = 0.001$), which are well below the 0.05 threshold for significance. This confirms that these economic factors are reliable predictors of insurance perception.

Among the independent variables, income level has the strongest positive effect on the perceived value of insurance, with a standardized beta coefficient (β) of 0.524. This means that as an individual's income level increases, their perception of insurance as a valuable financial product also improves. The unstandardized coefficient ($B = 0.587$) suggests that for every one-unit increase in income level, the perceived value of insurance increases by 0.587 units, holding all other variables constant. The t-value of 15.447 indicates that this effect is highly significant. These findings align with the expectation that individuals with higher income levels are more financially secure and thus more willing to invest in insurance as a risk management tool.

Inflation also exerts a significant influence, with a standardized beta coefficient (β) of 0.385 and an unstandardized coefficient ($B = 0.432$). This implies that a one-unit increase in inflation is associated with a 0.432-unit increase in the perceived value of insurance. The t-value of 10.537 confirms the strength of this relationship. The positive relationship may seem counterintuitive at first, but it suggests that as inflation rises, individuals may view insurance as a necessary safeguard against financial uncertainty, particularly in economies where inflation erodes purchasing power and financial stability.

Job stability is another crucial determinant of perceived insurance value, with a standardized beta coefficient (β) of 0.342) and an unstandardized coefficient (B = 0.395). This means that as job stability improves, the perceived importance of insurance also increases. The t-value of 9.186 indicates that this relationship is statistically strong. Individuals with stable employment are more likely to consider long-term financial planning, including insurance, as they have a more predictable income stream. Conversely, those facing job insecurity may deprioritize insurance due to concerns about immediate financial survival.

Finally, premium affordability has the weakest but still significant effect on insurance perception, with a standardized beta coefficient (β) of 0.289) and an unstandardized coefficient (B = 0.328). The t-value of 7.455 confirms that the relationship is meaningful. This suggests that while affordability plays a role in influencing consumer decisions, it is relatively less impactful than income level or job stability. This finding implies that consumers may be willing to pay for insurance if they perceive it as valuable, even if premiums are somewhat costly.

5 Conclusion and Recommendations

This study examined the relationship between financial literacy, trust, and insurance consumer decision-making in Nigeria, filling gaps in existing literature while exploring how these factors collectively shape consumer behaviour. The insurance sector in Nigeria has historically faced challenges such as low penetration rates, consumer distrust, and widespread financial illiteracy. This study aimed to address these challenges by investigating how financial literacy and trust affect decision-making regarding insurance products. Empirical findings from the study support the existing body of literature that highlights the critical role of financial literacy and trust in promoting informed consumer choices. Our results indicate that financial literacy, encompassing knowledge of insurance products, consumer rights, and risk management concepts, significantly influences the perceived value of insurance among Nigerian consumers. This finding is consistent with studies such as Tennyson (2011) and Weedige et al. (2019), which identified a direct positive relationship between insurance literacy and consumers' insurance purchasing decisions. Similarly, trust in insurance providers, including aspects like competence, integrity, benevolence, reliability, and transparency, also emerged as a critical factor in enhancing the perceived value of insurance. This supports the work of Kiwanuka and Sibindi (2023) and Dercon et al. (2019), who showed that trust significantly impacts consumers' willingness to adopt and maintain insurance policies, particularly in environments where institutional trust is low. The findings reveals a strong and statistically significant relationship between economic factors and insurance value perception. These findings strongly indicate that as individuals' economic circumstances improve, particularly their income levels, they are more likely to value insurance as a financial protection tool, even when faced with relatively higher premium costs. This supports the study of Liu (2024), who showed that key economic factors that affect consumer behaviour and purchase decisions in online markets.

The identified gaps in earlier studies, such as the limited examination of multidimensional trust or the narrow focus on specific contexts like health insurance, have been addressed by this study. By incorporating a broader range of insurance services and using a multidimensional approach to trust, we provided a more comprehensive understanding of how financial literacy and trust influence insurance decision-making in Nigeria. Moreover, this study expanded the geographical context by focusing on Nigeria, a region with distinct socio-economic and cultural factors, thereby offering new insights into insurance consumer behaviour in developing economies. This research contributes to the growing literature on insurance literacy and trust by providing empirical evidence on their importance in shaping consumer decisions in Nigeria. The study's findings suggest that enhancing financial literacy and fostering trust through regulatory improvements, transparency, and consumer education are critical strategies for increasing insurance uptake.

6 Limitations of the Study

While this study provides valuable insights into the interplay between financial literacy, trust, and insurance decision-making among Nigerian consumers, it is not without limitations. These limitations highlight areas for future research and underscore the need for caution when interpreting the findings.

The study's geographical scope is limited to Lagos State, Nigeria. Although Lagos is a major commercial hub and offers a diverse sample of insurance consumers, it may not fully capture the socio-economic and cultural heterogeneity of Nigeria as a whole. Nigeria is a large and diverse country with significant regional disparities in financial literacy, trust levels, and insurance penetration. For instance, rural areas, which often have lower levels of financial literacy and greater reliance on informal financial mechanisms, are underrepresented in this study. Consequently, the findings may not be generalizable to other regions, particularly rural and less urbanized areas where financial inclusion and insurance uptake remain critical challenges.

Also, the study relies on self-reported data, which is susceptible to biases such as social desirability bias and recall bias. Respondents may overstate their financial literacy or trust in insurance providers due to a desire to present themselves in a favorable light. This could lead to an overestimation of the true levels of financial literacy and trust among the population. Additionally, the cross-sectional design of the study limits the ability to establish causal relationships between financial literacy, trust, and insurance decision-making. A longitudinal study would provide more robust evidence of how changes in financial literacy and trust over time influence insurance uptake and decision-making.

Finally, while the study employs a multidimensional approach to measure financial literacy, the specific questions and scales used may not fully capture the complexity of financial literacy. For example, the study focuses on general financial knowledge, insurance knowledge, and understanding of policy terms but may not adequately measure practical financial skills, such as budgeting, saving, or risk assessment, which are crucial for making informed insurance decisions. Future research could incorporate more comprehensive measures of financial literacy to better understand its impact on consumer behavior.

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