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### **Abstract**

Many advancing economies employ life insurance mechanism to drive capital formation and accumulation. This paper presents observable facts on Nigeria relative to peers, which suggest abysmal life insurance density and penetration; perhaps are responsible for the extremely low capital formation gap. The paper is motivated by the economy’s low savings ratio, hence it hypothesises that capital formation through life insurance mechanism may not develop. Two stage least square (TSLS) method in a recursive system was employed from 1980 to 2013. The result finds that capital formation ratio (Cfr) is positively sensitive to life insurance penetration (LIP), and to a period lag of the problem variable (Cfr(1)). The outcomes of instrumental variables are in line with a priori, except for interest rate. The dynamic and static ex-post simulations, and ex-ante forecasts evaluation meet the standards. The forecast results fit the expectations of the underlining assumptions, suggesting that on average Cfr can grow by 8% per annum ceteris paribus. This finding is therefore consistent with financial development theory. It recommends that Pension regulators should step-up compliance of existing statute on compulsory life cover by employers; Insurance regulators should engage public education on life insurance; the federal government should adopt fiscal incentives to attract foreign direct investments in the industry for competitiveness and make policies for mandatory life policy for all adult working citizens.