TOPIC: ATIKU THOMAS
MAT NO: SBS/2282070344
TOPIC: ANALYSIS OF CAPITAL STRUCTURE OF INSURANCE COMPANIES IN NIGERIA
DEPT: BANKING AND FINANCE

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Capital is an essential tool in every organization. In fact, capital is seen as the life-wire of every venture, be it profit or non-profit oriented. A business cannot function effectively without adequate capital. A business basically, has three sources through which it can raise funds; the first is the sale of ordinary shares, the second is the proceeds from operating activities, and the third is outsourcing, that is borrowing from financial institutions, either interest bearing or non-interest bearing. However, the sources of funds either internally or externally will make the finance team to reason together with fundamentals, or conclude on the optimal mix of both sources of funds. The reasoning together by finance team prompts capital structure.

According to Abor (2007) capital structure decision plays a very significant role in financial performance of any company. Capital Structure is therefore, the way a company finances its operations through the mixture of equity, debt or hybrid securities. According to Ubesie (2016) whether a business is newly born or it is ongoing, it requires fund to carry out its activities. This funds referred to as capital. Capital therefore is the means of funding a business. Capital

Structure decision represents the mix of debt and or equity that a company uses to finance its business (Damodaran, 2001).

According to Akinwumi (2013) one of the importance of capital structure is that, it is tightly related to the ability of firms to fulfill the needs of various stakeholders. It represents the claims to a corporation‘s assets which includes the different types of both equities and liabilities (Riahi-Belkaonui, 1999). According to Akinwumi (2013) a company‘s capital structure implies the proportion of debt and equity in the total capital structure of the company. A company‘s capital simply refers to the combination of long-term debt and equity financing.

According to Akinwumi (2013) there are various alternatives of debt equity-ratio. These include 100% equity: 0% debt, 0% equity: 100% debt and X% equity: Y% debt. From these three alternatives option one is that of the unlevered company, that is, the company that shuns the advantage of leverage (if any). Option two is that of a company that has no equity capital.

This option may not actually be realistic or possible in the real life economic situation; because no provider of fund will invest his money in a company without equity capital. This is what is refers to as —Trading on equity. That is, it is the equity element that is present in capital structures that motivate debt providers to give their scarce resources to business (Chechet & Olayiwola, 2014).

Option three is the most realistic one in that, it combines both a certain percentage of debt and equity in the capital structure and this, and the advantages of leverage (if any) are exploited. However, the following are the factors that determines capital structure; company size, profitability, risk, company growth, tangibility, liquidity etc. It is very obvious that capital structure of a firm is difficult to determined.

In both developed and developing countries, there has been an argument on the effect of capital structure of a firm on firm performance (Nwankwo, 2014). According to Akeem, (2014) financial constraints have been a major factor affecting corporate firms' performance in developing countries especially Nigeria. The basis for the determination of optimal capital structure of corporate sectors in Nigeria is the widening and deepening of various financial markets.

Mainly, the corporate sector is characterized by a large number of firms operating in a largely deregulated and increasingly competitive environment.

Since 1987, financial liberalization resulting from the Structural Adjustment Program has changed the operating environment of firms, by giving more flexibility to the Nigerian financial managers in choosing their firms' capital structure. The macroeconomic

environment has not been conducive for business while both monetary and fiscal policies of government have not been stable.

Economists and financial experts have not reached an agreement on how and the extent to which firms' capital structure influences the value of firms, their performance and governance. However, the studies and empirical findings of the last decades have at least demonstrated that capital structure has more importance than was found with the pioneering Miller-Modigliani model. We might probably be far from the ideal combination between equity and debt, but the efforts of fifty years of studies have provided the evidence that capital structure does affect firms" value and future performance.

The insurance companies are businesses that transfer risk in exchange of premium obtained from the insured party. It is very possible that the amount collected as premium from insurance policies is less than the total sum payable for insurance claims. If this happens, the insurer is expected to reimburse the claims from the equity of the insurance company.

The owners (or investors) of insurance companies are concerned with the return and security of their investments. The concern is whether the insurance company will have sufficient solvency and liquidity to meet its obligations towards the insured party. The financial managers objective of maximizing the assets of the

shareholders which is dependent on the management of the lower cost of capital, reaching the debt etc are all done to reach the optimal capital structure.

Based on the foregoing, this study is aimed at examining capital structure of insurance companies in Nigeria.

1.2 Statement of the Problem

The choice of capital structure has been a problem especially, in terms of the ratio to be allocated to each form, i.e. equity and debt financing. It is believed that for any economy to be developed much attention should be given to its financial sector. In the Nigeria economy, interest rates, foreign currency exchange rates, inflation are all high, which make both the cost of finance and the cost of doing business relatively very high. However insurance firms in Nigeria, like those in the other parts of the world, take external funding in the form of debt as part of their capital structure in order to expand their business, and as part of their working capital management, and most especially, to take advantage of tax deductibility of interest payment. However, studies examining the impact of capital structure on the profitability of the insurance firms appear scanty. This places a strong emphasis on the need to study how capital structure affects the affects the profitability of the insurance firms in Nigeria. The macroeconomic environment has not been conducive for business while both monetary and fiscal policies of government have not been stable.

Debt and equity are the two major classes of liabilities, with debt holders and equity holders representing the two types of investors in the company. Each of these is associated with different level of risk, benefits and control. In reality, the real capital structure of a company in difficult to determine. This will give financial team very big task to identify the percentage to be allocated to equity and or to debt financing.

The appropriate capital structure is a critical decision for any business organization. This is important not only because of the need to maximize returns to various organization Constituencies, but also because of the impact such decision have on an organizational ability to deal with its competitive environment.

Ability of the managing team to reason together to conclude on the optimal of both in sourcing and out sourcing of fund is very difficult to identify the point of optimality at the early stage of a business organization.

Poor capital structure decisions may lead to a possible reduction/loss in the value derived from strategic assets. Hence, the capability of a firm in managing its financial policies is important, if the firm is to realize gains from its specialized resources.

The raising of appropriate fund in an organization will aid the firm in its operation; hence, it is important for firms in Nigeria to know the

debt-equity mix that gives effective and efficient performance, after a good analysis of business operations and obligations.

1.3 Objectives of the Study

The general objective of the study is to examine the capital structure of insurance companies in Nigeria, while the specific objectives are;

i. To determine the effect of total debt on the performance of insurance company in Nigeria.

ii. To examine the effect of total equity on the performance of insurance company in Nigeria.

iii. Short-term debts to Total assets (STDTA) on the performance of insurance company in Nigeria..

1.4 Research Questions

i. To what extent does total debt affect the performance of insurance company in Nigeria?

ii. To what extent does total equity affect the performance of insurance company in Nigeria?

iii. To what extent do Short-term debts to total assets (STDTA) affect the performance of insurance company in Nigeria?

1.5 Statement of Hypotheses

The hypothesis of this study is stated in the null form.

Hypothesis one

Total debt has no significant effect on the performance of insurance company in Nigeria

Hypothesis two

Total equity has no significant effect on the performance of insurance company in Nigeria

Hypothesis three

Short-term debts to total assets (STDTA) has no significant effect on the performance of insurance company in Nigeria

1.6 Significance of the Study

The study shall be of great significance to educational institutions, insurance companies, corporate and government bodies, the insurance public, researcher, student and the nation at large. The researcher's motive on this intrusive research process is to contribute his quota to the already developed work on the issue.

In order to provide the basis of recommendations for empowerment of insurance business on the Nigeria economy, the research had made it a task upon him to review the activities of insurance companies and the benefit of its recapitalization to the Nigeria economy as a whole.

i. **To Insurance Companies:** This study will give insurance companies a basis to be able to compare the ratio of the capital structure to be use. Such comparison will point out how well they have done and what capacity they still have for expansion. It will also highlight those areas that are still unharnessed with very high potential.

ii. **To Policy Holders:** The study will enlighten then by knowing the

competencies of the insurance industries brought about by this decision. Though capital structure is dependent on so many factors which policy holders do not know the implications it has directly as customers ignorance of such implications exclude customers from taking advantages of such benefits. Hence, this study will go a long way to making policy holder understand, recognize and utilize such benefits.

iii. **Regulatory Bodies:** Regulatory bodies like the NDIC, NAA, NICON etc will know how appropriate the rules and regulation set for insurance companies are through this study. It will point out previous area which regulatory frame works have been created and formulated further to cover up loop holes. As insurance companies have been upgraded through the recapitalization exercise, existing regulations should also be upgraded to bring about consistency and this study gives a pointer to those areas. Especially as it affects taxes and dividend payment.

iv. **Economics or Finance Experts:** This study will serve as a basis for comparing, evaluating and analyzing the rate of growth in the financial sector as well as its relationship to other major indicators in the economy, such comparisons may be used to project or predict further state of affairs of the financial sector and the Nigeria economy.

v. **The Government:** The study will also serve as a guide to the government in the area of policy making. It is a basis to assess the

extent of improvement brought about by the capital structure decisions and how policies in other areas of the economy will lead to benefit derivation and relationship from and between other areas of the economy and implications of the capital structures. The aims of government and various level of government all fall within this category because they are in charge of governing individuals and activities the promulgation of laws, regulations and policies i.e. judiciary, execution, legislative, federal, state and local government.

1.7 Scope of the study

The scope of this study is based on capital structure of insurance company in Nigeria within the period of 2014 –2021. Hence this will help us in finding reasonably, the profitability level of quoted insurance companies in Nigeria.

1.8 Limitations of the Study

Funds at the researcher‘s disposal for the conduct of this study may not be sufficient. The study was also limited in scope. Also, some respondents to whom questionnaires were administered failed to return back their questionnaire and this definitely affected the robust of the work.

The unwillingness of some respondents to disclose important information, they tend to avoid researcher because they feel their activities that are not meant for public consumption would be exposed through research work.

1.9 Operational Definition of Terms

Risk: The possibility of suffering damage or loss in the face of uncertainty about the outcome of an action, future events or circumstances. It is the deviation of an actual outcome from the expected outcome in the presence of uncertainty.

Financial Risk: This is the increased risk of equity holders due to financial gearing. It is due solely to the capital structure of a firm or the level of gearing.

Business Risk: This is the variability in earnings before interest and tax (EBIT) associated with a company's normal operation.

Weighted Average Cost of Capital (WACC): This is the composite cost of capital representing the aggregate of the various sources of finance in use. It is used as a discount rate in the appraisal of new investment.

Corporate Income Tax: Corporate income tax is a tax based on the income made by a corporation. The corporation begins with Federal Taxable Income from the federal tax return. Corporate income tax is paid after the end of the taxable year based on the income made during the year.

Company income subject to tax is often determined much like taxable income for individuals. Generally, the tax is imposed on net taxable profits.

Corporate Performance Management: It entails reviewing overall business performance and determining how the business can better reach

its goals. This requires the alignment of strategic and operational objectives and the business' set of activities in order to manage performance.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Concept of Capital Structure

Capital structure is the combination of the debt and equity structure of a company. It can also be referred to as the way a corporation finances its assets through some combination of equity, debt or hybrid securities; that is the combination of both equity and debt. A firm's capital structure is then the composition of its liabilities. The various components of a firm's capital structure according to Inanga and Ajayi (1999) may be classified into equity capital, preference capital and long-term loan (debt) capital. Equity capital refers to the contributed capital; money originally invested in the business in exchange for shares of stock; and retained profits; profits from past years that have been kept by the company to strengthen the balance sheet, growth, acquisition and expansion of the business. Preference capital refers to a hybrid that combines the features of debentures and equity shares except the benefits while debt capital refers to the long term bonds used by the firm in financing its investment decisions while coming up with its principal and also paying back interest. A critical decision for any business organization is a decision for an appropriate capital structure; the decision is not only because of the need to maximize returns to various organizational constituencies, but on an organization's

ability to deal with its competitive environment. The prevailing argument, originally developed by Modigliani and Miller (1963), is that an optimal capital structure exists which balances the risk of bankruptcy with the tax savings of debt. Once established, this capital structure should provide greater returns to stock holders than they would receive from an all-equity firm.

In theory, modern financial techniques would allow top managers to calculate accurately optimal trade-off between equity and debt for each firm. However, in practice; many studies found that most firms do not have an optimal capital structure. This is due to the fact that the managers do not have an incentive to maximize firm's performance because their compensation is not generally linked to it. Moreover, since managers do not share firm's profits with shareholders, they are very likely to increase company's expenditures by purchasing everything they like and surrounding themselves of luxury and amenities. Hence, the main concern of shareholders is ensuring that managers do not waste firm's resources and run the firm in order to maximize its value, which entails finding a way to solve the principal-agent problem.

The issue of capital structure has been a subject of major concern for researchers and scholars in recent years. It is at this avenue that most studies have observed the behaviour of firms' capital raised through sales of shares, debentures, bonds and other long term credits to provide adequate assets in running their businesses

in growing the firms' profit. Other studies have observed that gearing ratio of most companies do have effect on their performances in the sense that if the gearing ratio keeps rising the tendency of its profit growing might not be visible for a particular period. Financial analyst compile that gearing ratio and liquidity ration of a company always have effect on the profitability of these companies which measures their performance. This paper provides empirical evidence for existing determinants of capital structure theories and the effects on corporate performance and thus contributes toward proffering solutions to the above mentioned literature problem.

Upon the significant role firms play in the economy of Nigeria the rise and fall of firms in Nigeria call for in depth study on how to avert and make firms very relevant in the economic growth and development of the nation. Finance and financing decision of the firms should be guided to enable them attain the expected optimal Capital structure level in order to enhance corporate performance and maximize the value of the firms. The fundamental claim is that most capital structure issues are similar across regions and economies irrespective of the institutional differences which call for empirical evidence to prove the claim or otherwise.

Literature is of the opinion that firms need to substitute debt for equity or equity for debt and adjusting this until it reaches maximum level % of value of the firm. The application of excessive

external financing could give rise to over leverage of the organization since the organization will have extensive obligations to the fund providers which could disrupt the business operations and performance. This level is the optimum level of capital structure, a lot of debate among researcher has been on this issue of optimal capital structure that maximizes firm value. Owualah (1998) in his own debate on optimal capital structure opines that debate has shifted from whether they exists to determining the optimal capital structure for any particular firm as well as understanding the underlying influences to the firm's performance. These underlying influence on firms he claims, differ from country to country. The assumption of the wealth maximization rule is that there exists an optimal capital .structure level for a firm which is at the level where risk of venturing into external funding is to increase the financial position of the firm. When the financial position increases it allows the sharing of the extra earning thereby increase return invested capital, therefore, enhances corporate performance.

2.1.2 Insurance

The concept of insurance in its modern form was introduced into Nigeria by the European trading companies mostly British in the closing years of 19th century. These companies started affecting their insurance with established insurers in the London insurance market. As time went on, some British insurers appointed Nigerian agents to represent their interest in the country. These agents later

transformed into full branch offices of their parent companies in Britain. The first company to establish a full branch office in Nigeria was the royal exchange assurance company in 1921, which was later followed by other British insurers and indigenous Nigerian insurers and reinsurers such as national insurance corporation of Nigeria established in 1969 and the Nigeria Reinsurance Corporation established in 1977 operating in Nigeria till today. Between 1958 when the first indigenous insurance company - the African Insurance Company Limited was established up to 2005, there were a total of 104 insurance companies and 4 reinsurance companies in Nigeria (Badejo, 1998; Osunkunle, 2002, Adedokun, 2013). Ever since the emergence of indigenous insurance companies in Nigeria, there have been allegations of risks of potential abuse, low awareness, poor market penetration, low operating capital as well as low capacity for retention and acceptance of foreign risks. All these and more led to massive regulation of the insurance sector.

The first major step at regulating the activities of insurance business in Nigeria was the report of Obande commission of 1961 which resulted in the establishment of department of insurance in the Ministry of Trade and which was later transferred to the Ministry of Finance. The report also led to the enactment of Insurance Companies Act of 1961 which came into effect on May 4, 1967. The office of the registrar of insurance was created by the provisions of

the Act to supervise insurance practice. Other provisions of the Act included minimum capital requirement and other conditions for registration, monitoring and control of insurance operations generally. This was followed by a series of legislation which sought to further the course of insurance regulation in the country.

The next major attempt at regulating insurance in the country was the promulgation of the Nigerian Insurance Decree, 1976. The Insurance Act 2003 Section 86 provides that NAICOM shall be responsible for the administration and enforcement of the Act setting the criteria and standards for registration, policy provision, rates, expenses, limitations, valuation of assets and liabilities, investment of funds, the qualification of sales representatives et cetera. Recapitalization Section 9(4) of Insurance Act 2003 provides for recapitalization for the various categories of insurance which include Life, General, Composite and Reinsurance. In 2003, capital base requirements were as follows: Life insurance was N150 m, General insurance was N200 m, Composite insurance was N350 m and Reinsurance was N350 m respectively. In 2005/2006 after recapitalization exercise, capital base was raised as follows: Life insurance N2billion, Non-life insurance N3billion and Reinsurance N10billion. The recapitalization was done through the use of merger and acquisition which resulted to the reduction of insurance companies from 104 to 49 and from 4 reinsurance companies to 2 (Fatula, 2007).

During the last decades, there has been faster growth in insurance market activity in both developing and transition economies given the process of financial libration and financial integration (Brainard, 2008 in Philip, 2011), which raises questions about its impact on economic growth. Philip (2011) citing Favara (2003) and Levin (2004) observes that research efforts so far have not examined the impacts of other financial markets or instruments on economic growth in similar depth. Compared to the vast literature focusing on bank, stock and bond markets and their respective environment, the insurance sector has hardly been investigated in its role regarding the economic growth. As noted by Oke (2012) and Shittu (2012) insurance companies affect economic growth by providing protection for the insured through the channels of marginal productivity of capital, technological innovation and savings rate. Through this process, insurance industry contributes to the growth of Nigerian economy and in view of the gap in the literature we intend to embark on the assessment of contribution of insurance industry to Nigeria's economic growth.

2.1.3 Determinants of Capital Structure

As Harris and Raviv (1991) stated "Several studies shed light on the specific characteristics of firms and industries that determine leverage ratios. These studies generally agree that leverage increases with fixed assets, non-debt tax shields, growth

opportunities, and firm size and decreases with volatility, advertising expenditures, research and development expenditures, bankruptcy probability, profitability and uniqueness of the product." However, the results of both theoretical and empirical studies are not always unambiguous.

Based on the data availability, the following determinants of capital structure are analyzed below: size, profitability, tangibility, growth opportunities, tax, non-debt tax shields, volatility, and industry classification.

Size of Leverage

From the theoretical point of view, the effect of size on leverage is ambiguous. As Rajan and Zingales (1995) claim: "Larger firms tend to be more diversified and fail less often, so size (computed as the logarithm of net sales) may be an inverse proxy for the probability of bankruptcy. If so, size should have a positive impact on the supply debt. However, size may also be a proxy for the information outside investors have, which should increase their preference for equity relative to debt."Also empirical studies do not provide us with clear information. Some authors find a positive relation between size and leverage, for example Rajan and Zingales (1995) and Friend and Lang (1988).

Profitability of the Firm

There are no consistent theoretical predictions on the effects of profitability on leverage. From the point of view of the trade-off

theory, more profitable companies should have higher leverage because they have more income to shield from taxes. The free cash-flow theory would suggest that more profitable companies should use more debt in order to discipline managers, to induce them to pay out cash instead of spending money on inefficient projects. However, from the point of view of the pecking-order theory, firms prefer internal financing to external. So more profitable companies have a lower need for external financing and therefore should have lower leverage. Most empirical studies observe a negative relationship between leverage and profitability. In this study, profitability is proxied by return on assets (defined as earnings before interest and taxes divided by total assets).

Tangibility

It is assumed, from the theoretical point of view that tangible assets can be used as collateral. Therefore higher tangibility lowers the risk of a creditor and increases the value of the assets in the case of bankruptcy. As Booth, Aivazian, Demirguc-Kunt,and Maksimovic (2001) stated that "The more tangible the firm's assets, the greater its ability to issue secured debt and the less information revealed about future profits." Thus a positive relation between tangibility and leverage is predicted.

Several empirical studies confirm this suggestion, such as (Rajan – Zingales, 1995) , and (Titman – Wessels, 1988) find. On the other hand, for example Booth et al. (2001experience a negative relation

between tangibility and leverage. In this study, tangibility is defined as tangible assets divided by total assets.

Growth Opportunities

According to Myers (1984), firms with high future growth opportunities should use more equity financing, because a higher leveraged company is more likely to pass up profitable investment opportunities. As Huang and Song (2002) claim: "Such an investment effectively transfers wealth from stockholders to debt holders." Therefore a negative relation between growth opportunities and leverage is predicted. As market-to-book ratio is used in order to proxy for growth opportunities, there is one more reason to expect a negative relation – as Rajan and Zingales (1995) point out: "The theory predicts that firms with high market-to-book ratios have higher costs of financial distress, which is why we expect a negative correlation." Some empirical studies confirmed the theoretical prediction, such as (Rajan – Zingales, 1995), (Kim – Sorensen, 1986) or (Titman – Wessels, 1988) report.

However, for example, Kester (1986) demonstrate a positive relation between growth opportunities and leverage.

In this study, the P/B ratio (market-to-book ratio) is used as a proxy for growth opportunities.

Tax

According to the trade-off theory, a company with a higher tax rate should use more debt and therefore should have higher leverage, because it has more income to shield from taxes.

However, for example Fama and French (1998) declare that debt has no net tax benefits. As Mackie-Mason (1990) claims: "Nearly everyone believes taxes must be important to financing decision, but little support has been found in empirical analysis." As he also points out Mackie-Mason, (1990): "This research provides clear evidence of substantial tax effects on the choice between issuing debt or equity; most studies fail to find significant effects. Other papers miss the fact that most tax shields have a negligible effect on the marginal tax rate for most firms. New predictions are strongly supported by an empirical analysis; the method is to study incremental financing decisions using discrete choice analysis. Previous researchers examined debt-equity ratios, but tests based on incremental decisions should have greater power." As he adds, debt-equity ratios "are the cumulative result of years of separate decisions. Tests based on a single aggregate of different decisions are likely to have

low power for effects at the margin." (Mackie-Mason, 1990).

However, as data to perform similar analysis as (Mackie-Mason, 1990) is not available in the Czech Republic, the average tax rate defined as the difference between earnings before taxes and

earnings after taxes, scaled by earnings before taxes, is used as a proxy variable to analyze the tax effects on leverage in this study.

Non-debt Tax Shields Other items apart from interest expenses, which contribute to a decrease in tax payments, are labeled as non-debt tax shields (for example the tax deduction for depreciation). According to Angelo – Masulis(1980): "Ceteris paribus, decreases in allowable investment-related tax shields (e.g., depreciation deductions or investment tax credits) due to changes in the corporate tax code or due to changes in inflation which reduce the real value of tax shields will increase the amount of debt that firms employ. In cross sectional analysis, firms with lower investment related tax shields (holding before-tax earnings constant) will employ greater debt in their capital structures." So they argue that non-debt tax shields are substitutes for a debt-related tax shield and therefore the relation between non-debt tax shields and leverage should be negative.

Some empirical studies confirm the theoretical prediction, for example Kim and Sorensen (1986) declare: "DEPR9 has a significantly negative coefficient. This is consistent with the notion that depreciation is an effective tax shield, and thus offsets the tax shield benefits of leverage." A negative relation between non-debt tax shields and leverage is also found by (Titman – Wessels, 1988). However, for example Bradley, Michael, Gregg Jarrell &. Han Kim (1984) observe a positive relationship between non-debt tax shields

and leverage. Depreciation divided by total assets is used in order to proxy for non-debt tax shields in this study.

2.1.4 Performance of insurance companies in Nigeria

In the previous literature of factors affecting the insurance companies' performance, many studies argue that external firm factors play a very important role in dictating the influence of firm performance (Hawawini, Subramanian & Verdin, 2003). Peart, (2001) also identified environmental regulation as a strong motivating force behind the improved environmental performance of firms. On the other hand, other studies suggest that firm internal factors seem to be the major determinants of their operating performance (Opler & Titman, 1994).

Hofstead (1995) points out that the level of insurance within an economy depends on the national culture and the willingness of individuals to use insurance as a means of dealing with risk. Another social aspect analyzed by Zelizer (1979) is religion. He noted that historically, religion has provided a strong source of cultural opposition to life insurance with some religious groups believing that a reliance on insurance represents a distrust of God's protective care.

A number of studies used firm/organization performance as a dependent variable and have treated the external factors as independent variables (Kim and Lim, 1988; Venkatraman and

Prescott, 1990; Tukur, 2014; among others). Therefore, studies that have exclusively linked external environment and corporate performance are rare or may not exist, yet performance is contingent upon organizations' appropriate alignment with environmental changes. The emergence of environmental concern as one of the critical factors in strategic business planning indicates the growth of environmental movement in the market place (Menon, Menon, Chowdhury, & Jankovich, 1999).

A study by Kotha and Nair (1995) on strategy and environment as determinants of performance in the Japanese machine tool industry indicated that profitability and growth of performance were influenced significantly by the environment. Besides that, only environmental variables were related with firm growth or firm performance. Hussels, (2005) in his study titled; stimulating the Demand for Insurance identified the factors that encourage insurance demand as economic, political and social factors; he concluded that these factors affect the demand for life insurance as well as property and casualty insurance. He concluded that this environmental factor is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations.

Aazir and Qazi (2012) investigated the impact of external environmental forces on Pizza fast food industry in Islamabad and

suggestions for improvement in their performance. The study was a survey in nature via the use of reliability, correlation and regression as tools for analysis. In this study they found that the four factors; political, economic, social, and technological were the key factors that can determine the performance of the fast food industry. The result of the study, showed that the political factor was somewhat insignificant but other three factors were the major contributing factors; which show the significant results. Adeoye & Elegunde, (2012) examined the impact of external business environment on organizational performance in the food and beverage industry in Nigeria. A questionnaire was developed and data were collected data from the respondents based on a sample of 3 companies with 150 sample size of questionnaires. Survey data collected for the study were analyzed using multiple regression analysis. The finding of the analysis shows that the external business environments which include political, economic, sociocultural and technological factors have impact on organizational performance.

Abdalelah and Zaid (2011) investigated critical factors responsible for issues and problems faced by Saudi Insurance industry. During their investigation they administered 980 questionnaires to assess political, economical, social, technological, environmental and legal factors by conducting percentage analysis, mean, factor analysis and cluster analysis. The result of their study shows that the social and regulatory factors played crucial role in the consumer‘s decision

in purchasing insurance. However it was also found that the public at large was unaware about the benefits of insurance, and various types of insurance products.

Furthermore, Garba and Abdulsalam (2011) investigated the Factors affecting the patronage of insurance services in Borno state, Nigeria. They administered 400 questionnaires to the respondents and used percentage and mean as basis for their analysis. Based on the findings of the study it was discovered that there were numerous factors affecting the patronage of insurance services in Borno State. These factors range from social to economic factors. Insurance can also be seen as a product that is valued subjectively by its customer. In a society in which the economic activities, namely private sector activities are underestimated and the role of government is overestimated, the insurance cannot find its good position in such an economy structure (Shojaei, Jahanifar & Tehrani, 2012).

Ogenyi (2007) assesses the Consumers‘ Attitudes on the retailing of Life Insurance in Nigeria. The result from the analysis of questionnaire shows that lack of trust and confidence in the insurance companies was the foremost reasons for not buying a life insurance policy in Nigeria. Relatively, less influential reasons for not buying a life insurance was lack of knowledge about insurance products. Almost 40 percent of the respondents do not have any

protection against the financial loss that can result from death, disability or critical illness.

The existing literature shows that the demand for various types of insurance is affected by number of factors such as income and consumption. There is a relation between national income and spending on property–liability insurance, between legal environment and demand for insurance, national culture and the willingness of individuals to use insurance. Besides, risk aversion has significant impact on the demand for property casualty insurance. Education promotes an understanding of risk and hence aids insurance demand.

Literatures so far reviewed, emphasize that the best measure of a company‘s performance is its profitability, without it, it cannot grow, and if it doesn‘t grow, then its stock will trend downward. Furthermore, increasing profit is the best indication that a company can pay dividends and that the share price will trend upward. Creditors will loan money at a cheaper rate to a profitable company than to an unprofitable one; consequently, profitable companies can use leverage to increase stockholders‘ equity even more.

The common profitability measures compare profits with sales, assets, or equity: net profit margin, return on assets, and return on equity. But two indicators that are the most 36 commonly used to judge the profitability of a company are ROA and ROE. Furthermore,

ROE and ROA are two indicators of the financial performance of a company. There are many indicators to help find a company‘s financial health as well as its profitability. How profitable a company is, is always relative to its assets. The financial statement of a company is a picture of its financial position and operating performance. Return on equity and returns on asset are both measures of return. At first glance, these two metrics seem pretty similar. This is because both gauge a company's ability to generate earnings from its investments. But do not exactly represent the same thing. Together, however, they provide a clearer representation of a company's performance and clear picture of management's effectiveness. If ROA is sound and debt levels are reasonable, a strong ROE is a solid signal that managers are doing a good job of generating returns from shareholders' investments. ROE is certainly a "hint" that management is giving shareholders more for their money. On the other hand, if ROA is low or the company is carrying a lot of debt, a high ROE can give investors a false impression about the company's fortunes.

2.2 Theoretical Framework

This section explains the theoretical underpinning the development of hypotheses tested in the study. The theories that form the basis of this study include agency theory and stakeholder theory.

2.2.1 Agency theory

This theory is rooted in the works of Berle and Means (1932) on the separation of firm ownership for management and often credited to the landmark work of Jensen and Meckling (1976) and Fama and Jensen (1983). They suggested that Agency problems will always arise in circumstances where the principal (shareholders) employs the Agent (Professional Managers) to undertake some duties on their behalf for a reward. Thus, management acting in the capacity of an agent to the principal owes the principal a fiduciary duty of care to run the business in the best interest of the shareholders for a given reward (Berle & Means, 1992; Jensen & Meckling, 1976).

The theory suggests that shareholders who are less informed are likely to demand information that would help them to monitor the behaviour of the professional managers who are better informed. Shlefer and Vishny (1997) highlighted the issue of information asymmetry and agency problem from the agent perspective. They argued that the professional manager whose compensation is associated with the effective management of capital provided by the shareholders reflected by the company's performance might likely influence the misstatement of the financial statements to their advantage. From the Agency theory perspective the key function of auditing is to mitigate against information asymmetry among related parties. Agency problems could also arise due to adverse

selections and moral hazards (Jensen & Meckling 1976). Moral hazard refers to a situation where due to imperfections in the contract between the professional manager and the shareholders, management may take sub-optimal decisions and may be opportunistic while adverse selection refers to the possibility of shareholders hiring agents who do not have the right kind of skills that may enable them to deliver expected returns (Adelopo, 2010). While moral hazards tend to happen after the contract, adverse selection may occur both before and after the contract between the shareholders and professional managers.

Watts and Zimmerman (1978) argued that the provision of audit services appear to mark a significant reduction of the information asymmetry between the agents and the principals as the audited financial statements thus serve as one of the means of providing an independent assurance or information to stakeholders as regards the current financial activities of the company. This theory is fundamental to the demand of auditing services considering the contributions of Jensen and Meckling (1976). They argued that a component of the agency costs supported by shareholders for the monitoring of the professional managers action. Since it is mandated by laws that public limited companies are required to engage the services of an independent auditor that needs to review and approve the financial statements prepared by the directors of the company then the independent auditors effort is a relevant

component of monitory costs, as long as auditors have to make sure that professional managers act according to the shareholders interest, while also independent auditors will spend more time inspecting the manager's activity. And therefore, inverse the audit delay period if the agency problems are big, hence the agency theory is fundamental in considering factors audit report lag.

2.2.2 Stakeholder theory

In recent years, the debate over whether the corporation should be designed and held accountable for shareholder wealth maximisation or for meeting the goals of multiple stakeholder's as intensified. The shareholder perspective has come under scrutiny as supporters of stakeholders theory often views such a perspective as restrictive, not least, as it focuses only on shareholders and ignores or mistreats other stakeholders. The actual operation of market efficiently in real world has been questioned and argued for wider business responsibilities (Clarkson, 1995). The recent corporate collapses have further fuelled such debate where each group has put forward its own arguments on organisational objectives and governance structure.

Stakeholders are group of persons who have interest in organisation actions. According to Freeman (1984), stakeholders are individual or group who posses vested interest in an organisations and can be affected or affect the organisation operations. The theory suggests

that firm activities should be projected on longer and broader perspectives (Freeman, 1984). The theory posits that the importance of corporate activity is not only for the benefit of the shareholders but also for the benefits of all relevant stakeholders and it is all these relevant stakeholders who should be the main nexus of the modern firm (Cadbury, 1992). Cadbury (1992) argued that firms should be managed in such a way that they coordinate the diverging interests of their numerous stakeholders, including employees, shareholders, customers, supplies, the government, trade unions and the society in general. This consideration should thus impact upon the formulation of corporate strategy of the organisation as a whole (Marcoux, 2003).

Stakeholder theory is very relevant in the context of a spectrum of discussion on audit delay determinants. The core of stakeholder theory encourages the value created by different stakeholders who voluntarily come together and support organisations' activities to be observer. The stakeholder model approach have been criticised by Argenti (1993) on the grounds that such a theory would lead to inefficiency and sub-optimality generally because of conflicts among stakeholders. Instead he suggested that all such multi-purpose organisations and all stakeholders apart from shareholder should be categorised into interest group who may have interest in an organisation but have no claim other than specified under the law.

The recent corporate scandals 2001 and 2002 involving some leading companies such as Enron, WorldCom, has fuelled the debate concerning different models of corporate governance. It is evident that the existing model of corporate governance can lead to serious consequences. Soon after these corporate collapse, authorities were quick to blame the deficiencies of existing shareholders based corporate governance and opted for quick solutions inform of better regulations and restrictions on managers (Alam, 2005).

Given that this study examines the determinants of audit delay viz the firm size, women in audit committee, audit type, firm operational complexity and firm financial performance, corporate governance is viewed as a monitoring system of checks and balances that ensure the interests of shareholders are safeguarded. Such view can be expressed in agency theory. The focus of the current study is related to audit delay that involves different users of the audited financial statements to make economic decisions rather than a single user of the audited financial statements. Stakeholder theory becomes relevant to the current study. The Enron case suggests that we need a better corporate governance structure to ensure that the managers act not only in the shareholders but also other stakeholders as each of the stakeholders, has a legitimate or moral right to claim on the value created by the firm. The stakeholder theory suggests that managers should promote multi-fiduciary roles to protect the interests of

shareholders, thus, the auditor will spend more time performing his/her audit assignment since he must protect the multi-fiduciary interest available in the firm. Therefore, a longer time is required by the auditor to carry out his audit assignment to prevent a repeat of Enron case.

2.3 Empirical Review

Naveed, Zulfqar and Ishfaq (2019) studied the life insurance sector of Pakistan and the result of OLS regression model indicates that size, profitability, risk, liquidity and age are important determinants of capital structure of life insurance companies.

Akinlo (2019) examined the determinants of capital of 66 firms listed on the NSE during the period 1999-2017 using panel data. The results showed that there is a negative relationship between leverage and growth opportunities, leverage and tangibility, but positively related to liquidity as well as size. It also shows that size and leverage are positively related.

In the same way, Sheik and Wang (2017) explored the factors that affect capital structure of manufacturing firms in Pakistani firms. The results revealed that there is a negative relationship between debt ratio and profitability, liquidity, earnings volatility, and tangibility; while firm size has a positive relationship with debt ratio. There was no significant relationship identified between the dependent variable of debt ratio and the independent variables of non-debt tax shields and growth opportunities.

Zabri (2016) surveyed the determinants of capital structure among small and medium scale enterprises in Malaysia. Profitability, size, tangibility of assets, growth of firm, age of firm, non-debt tax shield and liquidity were considered in the analysis. The results of the study revealed in overall that three out of seven selected firms characteristics such as liquidity, tangibility of assets and non-debts tax shield were found to have statistically significant relationship with firm's capital structure. Furthermore, all the three variables of liquidity, tangibility of assets and non debts tax shield were also found to have ability in explaining variations in the firm's capital structure.

Sharif, Naeem and Khan (2012) investigated factors that determine capital structure of insurance companies in Pakistan. The outcomes of study affirm that, profitability, age and earnings volatility has indirect relationship with leverage and was significant. Liquidity also maintain inverse relationship with debt ratio but insignificant.

Alternatively, size and growth opportunities have direct relationship with leverage but only size is significant. In addition, Shehu (2011) investigated the determinants of capital structure in Nigerian listed insurance firms using data obtained from annual report of the sampled firms for the period of 2001-2010. It used five explanatory variables to measure their effects on debt ratio. The determinants

of capital structure is examined with five variables, namely age, growth rate, tangibility, profitability, and size of the 15 Nigerian listed insurance firms on December 31, 2010. The result revealed that all the explanatory variables have statistically and significantly influenced the explained variable. The results approve the prediction of pecking order theory in the case of profitability and trade-off theory in case of tangibility variables.

Abor (2005) conducted a research on SMEs in Ghana and used 160 SMEs with OLS method. The results were consist with pecking order hypothesis the coefficients for performance measured by profitability were negative and significant to this was in relation to capital structure proxies measured by long term debt and short term debt. This implied that internal financing increases profits hence SMEs tend to avoid using debt to finance their activities. Though profitable firms tend to have better access to debt finance the need for debt finance may be lower if retained earnings are sufficient to satisfy the need.

Abor (2008) researched on determinants of the capital structure of Ghanaian firms listed on the Ghana Stock Exchange (GSE) during six-year period, 1998-2003 using longitudinal data. The results also reveal that both long-term and short-term debt ratios were negatively correlated with profitability in all the sample groups. The results of this study clearly supported the pecking order hypothesis,

in that profitable firms initially rely on less costly internal generated funds and subsequently look for external resources if additional funds are needed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research design adopted in this study was the descriptive survey method. The design was adopted because the study involves the use of a represented sample from the population and drawing of conclusion based on the analysis of available data.

3.2 Population of the Study

The population of the entire insurance companies in Nigerian economy. The study covers a period of eight (8) years from (2011– 2018).

3.3 Sampling/Sample Size

The sampling size for this study was determined using a purposive sampling technique. For the purpose of this study, debt, total equity, Short-term debts to Total assets (STDTA) vis-à-vis performance of insurance company is chosen as the sample size for this study for the period of 2014- 2021.

3.3 Sources of Data Collection

The research applied on secondary data in form of financial statements extracted from the annual reports of insurance

companies. These annual reports were gotten from the library of the Nigerian Stock Exchange and from websites of companies used.

3.4 Method of Data Presentation

The researcher present the piece of information collected and acquired in a well structured and interpreted charts and tables. This is to aid easy understanding of the computed results.

3.5 Method of Data Analysis

For the analysis of this study, the multivariate analysis comprises of ordinary least square (OLS) regression was used. The regression will be run using e – view software, there is a need for the researcher to ensure that all assumptions of multiple regression are obeyed we proceed to run the regression.

3.6 Model Specification

The model of the study which will be used in testing the hypotheses is presented below:

PAT = f(DEBT, TEQ, STDTA*)* Transforming the above function to linear equation gives:

$PAT = \beta_0 + \beta_1 DEBT + \beta_2 TEQ + Et$

Where:

PAT = Profit after tax

DEBT = Debt (Total liability)

TEQ = Total Equity

STDTA= Short-term debts to Total assets

Et = error term

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND TEST OF HYPOTHESES

4.1 Data Presentation

The table below shows the figure for Profit after tax (PAT), Debt (DEBT) and Total Equity (TEQ).

YEARS	PAT (₦)	DEBT (₦)	TEQ (₦)	STDTA
2014	(28,381)	18,655,054	28,344,314	42847.3
2015	1,320,663	23,541,995	35,054,680	38281.1
2016	(739,226)	31,527,696	42,100,835	25128.6
2017	2,232,871	46,640,986	58,338,095	29391.8
2018	1,195,606	70,411,981	80,126,161	27260.2
2019	10,238,411	68,799,211	77,502,199	29860.2
2020	1,283,277	81,454,599	92,413,127	30386.1
2021	3,151,589	94,717,967	109,988,570	32123.21

Source: AIICO Insurance Annual Report of various issues

4.2 Data Analysis

Dependent variable: PAT

Method: least squares

Date: 09/23/22 Time: 11:04

Sample: 8

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	3.3566	0.35604	5.453856	0.0000
DEBT	--2.5282	0.15177	- 3.019798	0.0031
TEQ	2.7848	0.06653	= 4.163783	0.0011
STDTA	-2.8721	0.03491	- 5.123235	0.0041

R –squared	0.783699	mean dependent var	0.792000
Adjusted R-squared	0.733182	S.D dependent var	0.407510
S.E of regression	0.454515	Akaike info criterion	0.810675
Sum squared resid	14.95599	Schwarz criterion	0.946434
Log likelihood	-44.66718	Hannan – Quinn criter.	0.865827
F –statistic	66.968793	Durbin-Watson stat	2.020922
Prob (F-statistic)	0.00000		

Source: e-view 9, 2022.

4.3 Interpretation of Result

PAT = 3.3566 - 2.5282DEBT - 2.7848TEQ-2.8721STDTA + μt

t-stat = (-5.4538) (-3.0197) (-4.1637) (- 5.12323)

R^2 = 0.7837

Adj. R^2 = 0.7331

Durbin - Watson = 2.0209

F- Statistic = 6.9687

From the result above, the estimate of β_o is 3.3566. This shows that if the independent variable is zero, the dependent variable would be

3.3566. It also shows that there is a direct relationship between the dependent and independent variables.

The estimate of a β_1 is -2.5282. This implies that there is an inverse relationship between the profit after tax (PAT) and debt of insurance companies in Nigeria. A unit change in Insurance debt (DEBT) would course =2.5282 changes in profit after tax of the company. It further implies that debt and insurance company profitability move in opposite direction.

The estimate of a β_2 is -2.7284. This implies that there is an inverse relationship between the total equity (TEQ) and profit after Tax (PAT). A unit change in total equity would bring about -2.7848 changes in profit after tax. This implies that profit after tax (TAX) and Total Equity are moving in the same opposite direction.

The estimate of a β_3 is -2.8721. This implies that there is an inverse relationship between the Short-term debts to Total assets (STDTA) and profit after Tax (PAT). A unit change in total equity would bring about -2.8721 changes in profit after tax. This implies that profit after tax (TAX) and Short-term debts to Total assets are moving in the same opposite direction.

The co-efficient of determination (R^2) is 0.7837. This implies that the dependent variable Profit after tax (PAT) was able to explain 78.37% of the total variation while the remaining 21.63% was captured by the stochastic variable (u).

4.3 Test of Hypotheses

Hypothesis one

Ho: Total debt has no significant effect on the performance of insurance company in Nigeria

Variable	Coefficient	Standard Error	T statistic (Cal)	T–statistic (table value)	p-value
DEBT	-2.5282	0.15177	-3.019798	0.05	0.031

Source: Researcher's compilation 2022.

Decision Rule: Reject the null hypothesis if the f-calculated is greater than the f –critical (table value) at 5% level of significance.

Decision: A comparative analysis of both the F-calculated value of F– Statistics in model one shows that the F-Statistic = 66.968 and f- tabulated of 0.5300 shows that the f- calculated is higher than the f-tabulated. We therefore reject the null hypothesis and conclude otherwise that total debt has negative significant effect on the performance of insurance company in Nigeria.

Hypothesis Two

Ho: Total equity has no significant effect on the performance of insurance company in Nigeria

Variable	Coefficient	Standard Error	T-statistic (Cal)	T-statistic (table value)	p-value
TEQ	-2.7848	0.06653	-4. 16378	0.05	0.0011

Source: Researcher's compilation 2012.

Decision Rule: Reject the null hypothesis if the f-calculated is greater than the f –critical (table value) at 5% level of significance.

Decision: A comparative analysis of both the F-calculated value of F– Statistics in model one shows that the F-Statistic = 66.968 and f- tabulated of 0.5300 shows that the f- calculated is higher than the f-tabulated. We therefore reject the null hypothesis and conclude otherwise that total equity has negative significant effect on the performance of insurance company in Nigeria.

Hypothesis Two

Ho: Short-term debts to Total assets (STDTA) has no significant effect on the performance of insurance company in Nigeria

Variable	Coefficient	Standard Error	T-statistic (Cal)	T-statistic (table value)	p-value
TEQ	-2.8721	0.03491	-12.3235	0.05	0.0041

Source: Researcher's compilation 2021.

Decision Rule: Reject the null hypothesis if the f-calculated is greater than the f –critical (table value) at 5% level of significance.

Decision: A comparative analysis of both the F-calculated value of F– Statistics in model one shows that the F-Statistic = 66.968 and f- tabulated of 0.5300 shows that the f- calculated is higher than the f-tabulated. We therefore reject the null hypothesis and conclude otherwise that Short-term debts to Total assets (STDTA) has negative significant effect on the performance of insurance company in Nigeria.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The followings were revealed from the test of hypothesis above;

i. Total debt has negative significant effect on the performance of insurance company in Nigeria

ii. Total equity has negative significant effect on the performance of insurance company in Nigeria

iii. Short-term debts to total assets (STDTA) has negative significant effect on the performance of insurance company in Nigeria

5.2 Conclusion

This study investigates the impact of capital structure insurance companies in Nigeria, Our results suggest that insurance companies capital structure is negatively and significantly associated with financial performance. That mean using a high level of debt negatively affects a firm's return on assets, earnings per share, and return on equity.

5.3 Recommendations

The followings recommendations are made;

i. Concessional rate of interest should be considered for small insurance firms in order to enhance their growth and stimulate the rapid development programme so that the potential could be fully tapped.

ii. Low tax rate or tax waiver should be granted those firms that experience volatility in their earnings over certain period of time in order to cushion the effects of such volatility on their earnings, since risk (volatility of earnings) was revealed to have inverse effect on capital structure of both composite and general insurance firms.

iii. Insurance firms should pay attention to those significant characteristics that are peculiar to them in determining optimal capital structure. For instance, firm size, tangibility, growth, firm age and institutional environment.

References

Aazir, W. & Qazi, M. (2012). "The effect of Banking and Insurance On the growth of Capital and Output". Centre for risk Management and Insurance Working paper, 02-1, Robinson College of business, Georgia State University, Atlanta.

Abdalelah, A. & Zaid, H. (2011). Fitting Autoregressive Models for regression. Annals of the Institute of Statistical Mathematics, 21, 243-247.

Abor, S. (2007). Determinants of Capital Structure Evidence of quoted manufacturing companies in Ghana. *International journal for business and financial research* vol6 No.5. pp24-35.

Adedokun, J. F., (2013). The Economic Significance of insurance markets in developing countries, *The Journal of Risk and Insurance*, 57(3): 487-498.

Adelopo, A. (2010). "International Property-liability insurance consumption". *Journal of Risk Insurance, 67*(1): 73-90.

Adeoye, Z. & Elegunde, K. (2012). Insurance Sector Development and Economic Growth: An Empirical Analysis from China Portfolio Management, University of Manhnheimer.

Akinwumi, C. (2013). Capital Structures of Food And Beverage Companies in Nigeria. *Business journal for academic,* paper presented in Ekiti State University.

Akinlo (2019). "The Economic significance of Insurance Market in Developing Countries". *Journal of Risk Insurance., 57*(3): 487-498.

Badejo, R.J., (1998). "A Cross-Country Study of Growth, Saving, and Government," NBERChapters, in: National Saving and Economic Performance, pages 271-304 National Bureau of Economic Research, Inc.

Berle. A & Means, S. (1932).The Modern Corporation and Private Property.

Booth, L. – Aivazian, V. – Demirguc-Kunt, A. –& Maksimovic, V. (2001): Capital Structure in Developing Countries. Journal of Finance, vol. 56, 2001, pp. 87–130.

Brainard, L., & Schwartz B. L (2008), What is the role of insurance in economic development? Zurich, Zurich Financial Services.

Bradley, Michael, Gregg A. Jarrell,& E. Han Kim (1984). On the Existence of an Optimal Capital Structure: Theory and Evidence,‖ *Journal of Finance* 39, 857-878.

Cadbury, C. (1992). Foreign Insurers in Emerging Markets: Issues and Concerns. Center for Risk Management and Insurance, Occasional Paper 97-2.

Chechet, I. L., & Olayiwola, A. B. (2013). Capital Structure and Profitability of Nigerian Quoted Firms: The Agency Cost Theory Perspective. Retrieved from http://www.aiissnet.com/iournalsfVol 3 No 1 January 2014/1 3.pdf.

Clarkson, J. D. (1995). "We aim for Trillion naira income with compulsory insurance: An interview with Nike Popoola on the NAICOM's plan to move the sector Forward, Sunday punch, January 9.

Damodaran, (2001). *Corporate Finance*: Theory and Practice (2nd edition). New York: Wiley.

Fama E. F. & French K. R. (2002). Testing Trade-Off and Pecking Order Predictions About Dividends and Debt, *The Review of Financial Studies*,. 15, (1), 1-33.

Fatula, O., (2007) 'The Imperative of Recapitalization and Consolidation in the Nigerian Insurance Industry' 1 (I&II) Ikeja Bar Review 128

Freeman, A. (1984). Insurance Sector Development and Economic Growth: An Empirical Analysis from China Portfolio Management, University of Manhnheimer.

Hawawini, H.; Subramanian, J. & Verdin, H. (2003). "Repositioning of the Insurance Industry in the financial sector and its Economic role", *Geneva Pap. Risk Insur., 24*(3): 243-290.

Garba, M. & Abdulsalam, J. (2011). Does Insurance Market Activity Promote Economic Growth? World Bank Policy Research Working Paper, http://www.econ.worldbank.org, 4098.

Harris, M & Raviv A. (1991). The Theory of Capital Structure, *Journal of Finance,* Vol. 46, No. 1, March, 297-355.

Hofstead, R. (1995). "Financial development and Economic Growth: views and agenda". *Journal of Economics. Literature 35*(2): 688-726.

Hussel, R. H. (2005). "The relationship of insurance and economic growth, A theoretical and Empirical analysis". A paper for presentation at the 2006 EcoMod Conference, Hongkong. June 28- 30.

Inanga, E. L., & Ajayi, C. A. (1999). Capital Structure and Profitability of Nigerian Quoted Firms. Lagos: The CIBN Press Limited.

Jensen, M. & Meckling, W. H. (2014). Theory of the firm: Managerial behaviour, agency costs and ownership structure. Journal of Financial Economics, 3, .305 – 360.

Kester, C. W. (1986): Capital and Ownership Structure: A Comparison of United States and Japanese Manufacturing Corporations. Financial Management, 15, pp. 5–16.

Kim, L. & Lime, P. (1988). "Insurance Sector development and Economic growth in Transition countries". International Resources Journal Financial Economy., issue 35..

Kim, W. S. – Sorensen, E. H. (1986): Evidence on the Impact of the Agency Costs of Debt in Corporate Debt Policy. Journal of Financial and Quantitative Analysis, vol. 21, 1986, pp. 131–144.

Kotha, R. C. & Nair, Z. (1995). "A conceptual framework for analyzing the financial environment". Eds. Crane et al DB The global financial system, a Functional perspective, Harvard Business School press. pp. 3-31.

Mackie-Mason, J. K. (1990): Do Taxes Affect Corporate Financing Decisions? Journal of Finance, vol. 45, 1990, pp. 1471–1493.

Marcoux, F. (2003). "The Economic significance of Insurance Market in Developing Countries". *Journal of Risk Insurance 57*(3): 487-498.

Menon, W.; Menon, D.; Chowdhury, J. & Jankovich, Z. R. (1999). "Does Insurance Promote Economic Growth? Evidence from OECD Countries". J. Risk Insur., 67(4): 487- 506.

Modigliani F. & Miller M. (1963). Corporate Income Taxes and Cost of Capital: A Correction. American Economic Review 53, 433-443.

Myers, S. C. (1984). The Capital Structure Puzzle. *Journal of Financial Economics* 39(3), 375-592.

Naveed, A., Zulfquar, A., & Ishfaq, A. (2019).Determinants of capital structure: A case of Life Insurance Sector of Pakistan. *European Journal of Economics, Finance and Administrative Sciences. 10(24). 7-12.*

Nwankwo, 0. (2014). Effect of Capital Structure of Nigeria Firms on Economic Growth. *Mediterranean Journal of Social Sciences.* http://doi.org/10.590l/ mjss.2014.v5n1p515.

Ogenyi, M. (2007). Does Insurance Market Promote Economic Growth? A Cross-Country Study for Industrialized and Developing Countries. *Journal of Risk and Insurance, 75*(4), 921- 946.

Oke, N., (2012), Policies, Challenges, Reforms and Nigerian Disposition to Insurance Contracts. *The Fronteira Post*, Pp.1-6.

Opler, K. & Titman, R. (1994). "Does insurance promote economic growth?. Evidence from the UK", Working Paper, division of Economic, University of Southampton.

OsunKule, O., (2013). Insurance and Nigeria Economy, Abiola Press Limited, Lagos.

Peart, M. I. (2001). "A Comprehensive Analysis of the Insurance Act 2001 and Its Implications on the Insurance Business Environment" Issues In Merger and Acquisition for the Insurance Industry. A Proceeding of the NIA Workshop on Insurance ACT 2003. (ED).

Philip, R., (2011). Does Insurance Promote Growth? Evidence from the UK, Working paper, University of Southampton.

Riahi-Belkaonui, A. (1999). Capital Structure: Determination, Evaluation and Accounting . Westport: *Quorum Books Publisher.*

Rajan, R. G. – Zingales, L. (1995): What Do We Know about Capital Structure? Some Evidence from International Data.Journal of Finance, vol. 50, 1995, pp. 1421–1460.

Shaver, D. (2015). Characteristics of corporate boards in single industry and conglomerate media companies: International Journal of Media Management 7(3 and 4), 112 – 120.

Sharif, B., Naeem, A. M.& Khan, A.J. (2012), "Firm's characteristics and capital structure: A panel data analysis of Pakistan's insurance sector", *African Journal of Business Management,*. 6 (14), pp 4939 – 4947.

.Shehu, B. (2011). "The historical Relation between Banking, Insurance And Economic Growth in Sweden: 1830 to1998", Department of Economic Discussion Paper. SAM, 26.

Shitu, M.S., (2012). "Contemporary Reinsurance Arbitrations – Issues and Insights," West Legal works Web Cast.

Shiefer, A. & Vishny, H. (1997). "The effect of Banking and Insurance On the growth of Capital and Output". Centre for risk Management and Insurance Working paper, 02-1, Robinson College of business, Georgia State University, Atlanta.

Sheik, H. & Wang, U. (2017). The relationship between insurance and economic growth in Europe: a theoretical and empirical analysis. *Empirica, 35*(4): 405-431.

Titman, S., and Wessels, R. (1988). The determinants of capital structure, *Journal of Finance* 43, 1—19.

Tukur, K. C. (2014). "Do Insurance Sector Growth and Reforms affect Economic Development? Empirical evidence from India". J. Appl. Econom. Res., 2(1): 43-86.

Ubesie, M. C. (2016). Effects of Capital Structure on the financial performance of Nigerian quoted conglomerates, *European Journal of accounting, Auditing and Finance research*: 4,(6), 61-69.

Watts, I. & Zimmerman, H. (1978). "The effect of Banking and Insurance on the growth of Capital and Output". J. Financial issues, 2(2): 1-32.

Venkatraman, R. & Prescott, C. (1990). "Financial Innovation and Economic growth". Harvard China review. p. 5.

Zabri, Y. (2017). Effects of the Agency Cost of Debt and Managerial Risk Aversion on Capital Structure: What can We Learn from All-Equity Firms? Working Paper.

Zelizer, L. (1979). “Macroeconomic variables and the demand for life Insurance in Malaysia”. Faculty of Actuarial Science and Statistics, FASS Business School, City University, London.

Appendix

YEARS	PAT (₦)	DEBT (₦)	TEQ (₦)	STDTA
2014	(28,381)	18,655,054	28,344,314	42847.3
2015	1,320,663	23,541,995	35,054,680	38281.1
2016	(739,226)	31,527,696	42,100,835	25128.6
2017	2,232,871	46,640,986	58,338,095	29391.8
2018	1,195,606	70,411,981	80,126,161	27260.2
2019	10,238,411	68,799,211	77,502,199	29860.2
2020	1,283,277	81,454,599	92,413,127	30386.1
2021	3,151,589	94,717,967	109,988,570	32123.21

Source: AIICO Insurance Annual Report of various issues

Appendix II

Dependent variable: PAT

Method: least squares

Date: 09/23/22 Time: 11:04

Sample: 8

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	3.3566	0.35604	5.453856	0.0000
DEBT	--2.5282	0.15177	- 3.019798	0.0031
TEQ	2.7848	0.06653	= 4.163783	0.0011
STDTA	-2.8721	0.03491	- 5.123235	0.0041

R –squared	0.783699	mean dependent var	0.792000
Adjusted R-squared	0.733182	S.D dependent var	0.407510
S.E of regression	0.454515	Akaike info criterion	0.810675
Sum squared resid	14.95599	Schwarz criterion	0.946434
Log likelihood	-44.66718	Hannan – Quinn criter.	0.865827
F –statistic	66.968793	Durbin-Watson stat	2.020922
Prob (F-statistic)	0.00000		

Source: e-view 9, 2022.Dependent variable: PAT

ATIKU THOMAS
MAT NO: SBS/2282070344

DEPARTMENT OF BANKING AND FINANCE
SCHOOL OF BUSINESS STUDIES,
AUCHI POLYTECHNIC AUCHI,
EDO STATE

NOVEMBER, 2022

ANALYSIS OF CAPITAL STRUCTURE OF INSURANCE COMPANIES IN NIGERIA

ATIKU THOMAS
MAT NO: SBS/2282070344

PROJECT SUBMITTED TO THE DEPARTMENT OF BANKING AND FINANCE
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF HIGHER NATIONAL DIPLOMA (HND)
IN BANKING AND FINANCE
SCHOOL OF BUSINESS STUDIES,
AUCHI POLYTECHNIC AUCHI, EDO STATE

CERTIFICATION

We, the undersigned certify that this research work titled

ANALYSIS OF CAPITAL STRUCTURE OF INSURANCE COMPANIES

IN NIGERIA was carried out by **ATIKU THOMAS** with **Mat No./SBS/2282070344** in the Department of Banking and Finance, School of Business Studies, Auchi Polytechnic, Auchi.

We also certify that the work is adequate in scope and content in partial fulfillment of the requirements for the award of Higher National Diploma (HND) in Banking and Finance.

.....	.....
Mr. Isah Muhammad	**Date**
Project Supervisor	

.....	.....
Mr. Musa Abdulai	**Date**
Head of Department	

DEDICATION

I dedicate this project to God Almighty my creator, my strong pillar, my source of inspiration, wisdom, knowledge and understanding. I also dedicate this project to my wonderful parents and siblings who has helped me both in prayers and in finances.

ACKNOWLEDGEMENTS

First and foremost, praises and thanks to God Almighty for His showers of blessings, love throughout my research work to a successful completion.

I would like to express my deep and sincere gratitude to my project supervisor Mr. Isah Muhammad for giving me the opportunity to do this research and providing invaluable guidance throughout this research.

I am extending heartfelt thanks to the HOD Dr. Musa A.A and other lecturers in the department of Banking and Finance for their encouragement and advisory role.

I am extremely grateful to my parents Mr. and Mrs. Atiku for their love, prayers, care and sacrifices for educating and preparing me for my future.

I want to specially thank my

I am very much thankful to my siblings, friends and well-wishers for their unending love, understanding, prayers and financial support to complete this research work.

Abstract

The study examined capital structure of insurance companies in Nigeria within the period 2014-2021. The objectives of the study were to examine the effect of total debt; total equity and Short-term debts to Total assets on the performance of insurance companies in Nigeria. The study made use of secondary data. Using data sourced from AIICO Insurance annual reports, the study employed the ordinary least square regression method to carry out the analysis. The findings reveals that total debt; total equity and Short-term debts to Total assets have negative effects on the performance of insurance companies in Nigeria. It is recommended among others that Concessional rate of interest should be considered for small insurance firms in order to enhance their growth and stimulate the rapid development programme so that the potential could be fully tapped.

TABLE OF CONTENTS