

# Capital Structure and Firms Financial Performance in Nigeria Quoted Insurance Companies

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**Abstract:** This study examined the capital structure and firms performance in Nigeria Quoted Insurance companies using a sample of (22) insurance firms Quoted in the insurance sub sector of the financial sector of the economy during (14) years period (2002-2016) are used as observation in this study. The data was analyzed from the annual report and account from that period. Correlation analysis was run to determine the relationship between dependent and independent variables. The study utilized E-view software to generate regression results. From the analysis it was discovered that ;there is a weak relationship between return on equity and the insurance firms capital structure whether in relation to assets or in relation to equity, also the firm's capital structure components are significant in determining variation are significant in the firms variation in the firms return on equity value. It is recommended that Quoted insurance companies should try to improve their return on equity, because any change in their gearing ratio may cause change in their return on equity either positively or negatively.

## 1.0. INTRODUCTION

Capital structure is one of the most important areas in financial decision. This is because of the relationship it has with other financial decisions variables. Capital structure is seen as the overall configuration of long term funds at the disposal of an enterprise for the pursuit of its objectives. Weston and Bringham (1981) defined capital structure as the invariable financing of an enterprise comprising stocks and common equity. Also Ong & Teh, (2011) viewed Capital structure as a mixture of a company's debts (long-term and short-term, common equity and preferred equity). The theory of corporate Debt capacity & capital structure suggest that any given combination of Debt instrument in Equity Capital employed by a business at any given point in time has significant implications for various managerial actions especially those concerning future solvency & profitability, Osazie (1985). The above implies that the realization of a firm's objectives in term of maximizing the market value depends on the financial manager, or the management ability to make the appropriate financing mix. This view was also shared by Ong & Teh, (2011) they opined that the ability an enterprise to carry out their stakeholders' needs is related to capital structure.

Myers (1984), mentioned internal fund (retained earnings) and external fund (debt and equity) as constituent or elements of capital structure. A capital structure could either be 100% equity with no debt which will make such a company an ungeared company, 100% debt with 0 equity

which is not realistic because no investor will invest in a company that has no equity financing, and or a mix proportion of equity and debt which will make the company a geared company ( Dare & Sola, 2010).

The main aim of this research, therefore, is to examine the impact of capital structure and the financial performance of Quoted Insurance Companies with a view to understanding how Capital Structure can be used to improve Financial Performance of Quoted Insurance Companies.

## 1.1 Statement of the Research Problem

For the purpose of this study, capital structure can simply be defined as a firm's financial framework, which constitute firm retain earnings, debt financing and equity financing used in maintaining and financing its assets for the benefits of its stakeholders. This definition is applied because, the ability of companies to meet their stakeholders need is firmly related to capital structure. Hence, making the capital structure theory highly relevant to the firm's profitability, Liquidity, growth and safety. Therefore, How to plan financing decision using a particular mix or proportion of funding to maintain an optimal capital structure is an important issue of concern to the financial manager and the company if they are ever going to play a leading role in the industry in fulfilling their primary objectives to their shareholders and the economy as a whole. It's on this back drop that this study is based.

Now while there have be various studies on capital structure over the world as mentioned in the literature review, like

Boodhoo (2009), Kajola & Onaolapo (2010), Kibrom (2010), Osuji & Odit (2012), Babalola (2012), Muhammad, Zaighum, Saeed & Muhammad (2012), Uwuigbe & Uadiale (2012); Tharmilla & Arulvel (2013); Lucy, Muathe & George (2014); Mubeen & Kalsoon (2014); Varian, Rahimie, Zatul & Amer (2015); Ubesie (2016); Niway (2016); Mathewos (2016) to mention a few

To the best researcher's knowledge none of the researchers conduct it specifically on the Quoted insurance companies, thus resulting in putting an obligation on the researcher to hence address this issue with a view to closing the knowledge gap. The main thrust of this research work is to examine the capital structure of quoted insurance companies in Nigeria and how this has impacted on their profitability over the years and make necessary contribution to this subject of study.

### 1.2 Objectives of the Study

The main objective of this study is to examine capital structure and the financial Performance of Quoted Insurance Companies. While specifically, the study will determine:

1. The relationship between Gearing and Return on Equity (ROE) of Quoted Insurance Companies.
2. The relationship between Gearing in relation to assets and Return on Equity (ROE) of the Quoted Insurance Companies.

### 1.3. Research Hypotheses

The hypotheses of the study are:

H0<sub>1</sub>: There is no significant relationship between Gearing and Return on Equity (ROE) in Quoted Insurance Companies.

H0<sub>2</sub>: There is no significant relationship between Gearing in relation to assets and Return on Equity (ROE) in Quoted Insurance Companies.

### 1.4 Scope of the Study

This study which is on capital structure and financial performance is limited to insurance Nigeria quoted on the Nigeria stock exchange (NSE) and covers a period of six (6) years (2010 to 2016).

## 2.0. LITERATURE REVIEW

### 2.1 The Concept of Capital Structure

Capital structure as defined by Damodaran, (2001) and Dare & Sola (2010) represents the mix of debt and equity that a company uses to finance its business. Debt could either be government or corporate bonds or medium and long term loans from bank or line credits from suppliers. While equity could either be any of the following: retained earnings, ordinary shares, preference shares. A close related definition is that given by Song (2005) they view capital structure as the mix of the different types of securities (long term debt, common stock) issued by a company / firms to finance their asset.

### 2.2 Capital Structure, financial performance and Financial Leverage /Gearing

As earlier established, Capital structure plays a major role in the fulfilment of shareholders' needs which in turn is closely linked with the firms' corporate performance (Tian & Zeitun, 2007, as cited in Ong & Teh, 2011). There are various ways in which corporate performance can be measured. But the most used variable for measurement of corporate performance are but not limited to:- return on investment (ROI), residual income (RI), earning per share (EPS), dividend yield, price earnings ratio, growth in sales, market capitalization etc. (Barbosa & Louri, 2005). As it relates to capital structure, these variables are compared to the gearing or financial leverage of a company to get their significant relationship or impact to each other. Financial gearing/ leverage according to Anderson (2000), is the mixture of long term fund provided internally by shareholders and long term fund contributed externally by lenders. A company is said to be unlevered/ ungeared if it financed solely by equity, that is it has no debt in its capital structure, while a firm with a mixture debt and equity in its capital structure is said to be geared or leveraged, Song (2005).

Olowolaju, (2013) opined that the performance of highly geared firm is dependent on the appropriate usage of debt capital, because of the various advantages debt capital has over equity such as its interest deductibility and its ability not to dilute control of the shareholders e.t.c Brennan and Schwartz (1978). However the benefits of debt to equity, the level of debt in a firms' capital structure must be appropriately determined to reach an optimum level so as to avoid the situation where debt holders take over the control of the company and determine how the business can operate just to suit their own needs, thereby leading bankruptcy (Brennan & Schwartz, 1978).

There is no universally accepted definition of leverage or gearing in the academic literatures, the choice of definition to be used will depend on the objectives of analysis. Rajan and Zingales (1995) in their research apply four alternative definitions of leverage of which one will be adopted in this study. The first definition of leverage according to them is the ratio of total (non equity) liabilities to total assets. This can be viewed as proxy of what is left for shareholders in case of liquidation. There are various short comings to this definition of which include: the measure does not provide a clear view of risk of default should in case the company is not able to meet with its debt obligations also gearing / leverage is slightly overstated since items like accounts payable which are used basically for transaction purposes are included in total liabilities and so on. The second definition of leverage employed by them is the ratio of debt (both short term and long term) to total assets. Again this definition has its short comings such as: it is a narrower measure of leverage in the sense that it only covers interest bearing debt and excludes provisions. A third definition of leverage is the ratio of total debt to net assets, where net assets are total assets less accounts payable and other current liabilities. While this measure of leverage

is not affected by non-interest bearing debt and working capital management, it is influenced by factors that have nothing to do with financing. For example, assets used as collateral against pension liabilities may decrease this measure of leverage. Lastly, the final definition of leverage is the ratio of total debt to capital, where capital is defined as total debt plus equity. This measure of leverage looks at the capital employed as such best represents the effects of past financing decisions and its most directly related according to Jensen & Meckling (1976), Myers (1977) to the agency problems associated with debt.

#### 2.4. Theoretical Framework

The theory to be adopted in this study will be static trade off theory based on the work of economists Modigliani and Miller; which is a financial theory that identifies a mix of debt and equity where the decreasing WAAC offsets the increasing financial risk to a company. It also shares the opinion about the existence of optimal capital structure and its relationship with the value of a firm and this correlates with the problem of this study.

Static trade-off theory argues that for each company there is an optimal capital structure, with an optimal level of gearing. There is a trade-off between the benefits of taking on more debt and the costs of higher indebtedness. The benefits of taking on debt (rather than equity) are mainly in the tax relief that is obtained on debt interest. Modigliani and Miller have argued that although the cost of equity rises as gearing increases, the tax relief on debt means that the company's weighted average cost of capital falls as gearing rises. It is therefore beneficial to take in more debt and increase gearing up to the point where the marginal costs of extra debt start to exceed the marginal benefits of extra debt.

The optimal gearing level for a company is reached at a point where: the marginal benefits of taking on additional debt capital equals the marginal costs of taking on the extra debt.

The optimal gearing level varies between companies, depending on their profitability. A very profitable company can take on higher gearing because the marginal costs of financial distress will not become significant until the gearing level is very high.

#### 2.6 Empirical Review

There have been some studies on capital structure and firm performance. Just to mention few, among the available research, that of Harris & Raviv (1991) which is amongst the earliest studies revealed and argued that capital structure is significantly related to the trade-off between gain from liquidation and costs of liquidation to both shareholders and managers. According to them, because of the benefits of debt to both shareholder and managers, firms may be allowed to have more debt in their capital structure than is suitable but the firm should put into consideration bankruptcy costs of liquidation, reorganisation, or the aligned interest of both managers and shareholders in

estimating the optimum level of debts in the capital structure. Rajan and Zingales (1995), in their study on the determinant factors of capital structure on G-7 countries (United States, Japan, Germany, France, Italy, Britain and Canada), with a sample size of 4,557 companies for a period of 1987 to 1991 also revealed capital structure as determined by profitability was negatively correlated with financial leverage (i.e. debt level). In another study by Gleason, Mathur & Mathur, (2000) revealed that firms capital structure has a negative and significant impact on firms performance measures return on assets, growth in sales and pre-tax income. Meaning that, greater proportion of debt in the capital structure of a firm would decrease the firm's financial performance. This findings is closely related to that of Krishnan & Moyer, (1997), which also revealed a negative and significant impact of total debt to total equity (TD/TE) on return on equity (ROE). Onaolapo and Kajola, (2010) in their study of 30 non-financial firms listed on the Nigerian Stock Exchange from 2001-2007 found a significant negative impact of Capital structure (debt ratio) on return on assets (ROA) and return on equity (ROE) which were the performance measures. Also Uwalomwa & Uadiale (2012), in their research on the relationship between Capital Structure and the Financial Performance of Firm's in Nigeria, using total sample of 31 listed firms for the period 2005-2009 using the Ordinary Least Square (OLS) technique of model estimation revealed that employing high proportion of long-term debt in firm's Capital Structure will invariably result in low financial performance of a Firm. Osuji and Odita (2012) in their study of 30 non-financial firms listed on Nigerian Stock Exchange from 2004-2010 also revealed a significant but negative impact of capital structure as represented by debt ratio on firms performance. In another study by Sheikh & Wang (2013), of 240 non-financial firms listed on Pakistan stock exchange for a period of six years (2004-2009), a negative relationship was also found between capital structure (as represented total debt ratio, long and short term debt ratio) and financial performance (as represented by ROA). Muhammad, Zaighum, Saeed & Muhammad (2012) in their research on impact of capital structure on firms' financial performance in Pakistan of top 100 consecutive companies for a period of four years from 2006 to 2009 showed that all the three variables of capital structure (Current Liabilities to Total Asset, Long Term Liabilities to Total Asset, Total Liabilities to Total Assets) negatively impacts the Earning before Interest and Taxes, Return on Assets, Earning per Share and Net Profit Margin while a negative relationship is showed between Price Earnings ratio and Current Liabilities to Total Asset and positive relationship with Long Term Liabilities to Total Asset and an insignificant relationship with Total Liabilities to Total Assets and positive relationship exists with Long Term Liabilities to Total Asset. Therefore its safe based on these results of Muhammad, Zaighum, Saeed & Muhammad (2012) to

conclude that capital structure choice is an important determinant of financial performance of firms

Also in Ghana the study done by Dadson & Jamil (2012) on the relationship between capital structure and performance of listed banks in Ghana from 2000 to 2010 revealed although the banks listed on the Ghana Stock Exchange are highly geared, the level of gearing is negatively related to the banks' performance in term of ROE and Tobin's Q.

Babalola (2014), in his study of 31 manufacturing firms with audited financial statements from 1999-2012 hitching on static trade-off theory opined that capital structure is a trade-off between the costs and benefits of debt, and it has been refuted that large firms are more inclined to retain higher performance than middle firms under the same level debt ratio. Lucy, Muathe & George (2014), in their study on the Relationship between Capital Structure and Performance of Non-Financial Companies in Kenya using a sample of 42 non-financial companies for the period of 2006-2012 using Feasible Generalized Least Square (FGLS) regression revealed that financial leverage had a significant negative association with performance as measured by return on assets (ROA) and return on equity (ROE). Niway (2016), in their study Investigated the impact of capital structure choice on Firm's Financial Performance in Ethiopia using seven (7) years data from year 2006-2012 for a sample of 15 Manufacturing firms. Panel data has been selected based on result of model specification tests. The result revealed a significantly negative relationship between capital structure ratios (short term debt, long term debt, and total debt ratios) and financial performance by (ROA) and (ROE). In the oil and Gas sector, Varien et al (2015) in their study of the relationship between capital structure and corporate performance of public listed oil and gas companies in Malaysia for a period of 2003-2013 revealed that capital structure ( as proxy by short-term to total debt (STD/TA), long-term to total debt (LTD/TA) and total debt to total asset (TTD/TA)) is negatively related to firm's return on equity, but has no effect on ROA (return on asset) and GM (Gross profit Margin) . Mathewos (2016) in its investigation on the impact of capital structure on financial performance of selected commercial banks in Ethiopia for a period of five (5) year ranging from 2011 to 2015 indicated that financial performance, which is measured by both ROA and ROE, is significantly and negatively associated with capital structure proxies such as debt to equity ratio (DER), bank's size (SIZE) and asset tangibility (TANG) whereas debt ratio (DR) have a positive and significant relationship on firm performance

While, Mubeen & Kalsoom (2014) in their study on capital structure on Firm's Financial Performance and Shareholders Wealth in Pakistan, using a sample of 155 Textile Firm's for six (6) years from 2006-2011. The result shows that there is a significant positive relationship between Capital Structure & Firm's financial performance and Shareholders wealth using ROE, ROA, EPS and stock price as proxies for financial performance in textile sector in

Pakistan and debt to equity ratio as independent variable. Ubesie (2016), Investigated the Effect of Capital Structure on the Financial Performance of Nigerian Conglomerates Quoted on the floor of the Nigerian Stock Exchange, using five (5) years data from the year 2011-2015. Descriptive statistics and the pooled ordinary least square (POLS) regression analytical method were used for data analysis. The result of the study is in agreement with most previous studies on other sectors that discovered mixed results on the effect of capital structure on the financial performance. It is therefore necessary to employ a critical analysis of the appropriate debt-equity mix suitable for the company.

Further studies also revealed that not only does firm's level of leverage or Gearing affects financial performance of firms but it also affects its debt maturity structure. This was revealed in a study by Barclay & Smith (1995), which revealed with evidence that large firms and firms with low growth rates prefer to issue long term debt than short term or medium term debt. This was also supported by Stohs & Mauer (1996), which also evidenced that larger and less risky firms usually make greater use of long term debt and that debt maturity is negatively related to corporate tax, the firm's risk and earnings. Lastly, Schiantarelli and Sembenelli (1999), who investigated the effects of firm's debt maturity structure on profitability for Italy and the United Kingdom firms. Their results revealed a positive relationship between initial debt maturity and medium term performance

### 3.0. METHODOLOGY

The design of this study is a correlational and cause – effect research design intended at examining the relationships between capital structure variables both in relation to assets and in relations to equity and the firm financial performance. The samples are drawn randomly from 22 insurance firms in the financial sector of the economy. The choice of this number is to ensure enough representation of the total firm characteristics for generalization to the sector. The periods covered for the study depends solely on the availability of data. But generally a period of 2002 to 2016 is considered in the study. Though some firms do not have complete data for that range, they are however utilized to increase representation for inferences. See appendix for the data and the name of firms and years used for which there were availability of data.

The study utilized the annual reports and accounts for the data in sourcing for the data. The audited reports were utilized published by the firm as required by the companies and allied matters act regulating the activities of companies in Nigeria. The ordinary least square method was used to examine the statistical significance of the variables, correlation analysis and descriptive statistics were also utilized in the study. The correlation analysis gives the relationships between the variables both in terms of strength and direction. The study utilized EView software to generate the regression results.

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The model for the study is based on a functional relationship between return on equity as a measure of performance and capital structure variables. Return on equity reveals the earning capacity of the firm in relation to the shareholders’ wealth. It shows how the activities of the firm translate into positive net present value for the firm. Debt, equity, total assets and profit after tax are also included in the model. The model showing this relationship is specified below:

$$ROE = f(DER, DAR, DBT, EQT, PAT, TAS).$$

Where:

- ROE = Return on Equity,
- DER = Debt Equity Ratio,
- DAR = Debt Assets Ratio,
- DBT = Total Liability,
- EQT = Total Equity,
- PAT = Profit after Tax,
- TAS = Total Assets.

The econometric expression of the model is as follows:

$$ROE_{it} = \beta_0 + \beta_1 DER_{it} + \beta_2 DAR_{it} + \beta_3 DBT_{it} + \beta_4 EQT_{it} + \beta_5 PAT_{it} + B_6 TAS_{it} + \epsilon_{it}$$

The *a priori* expectations are as follows:

$$\beta_0 > 0, \beta_1 > 0, \beta_2 < 0, \beta_3 < 0, \beta_4 > 0, \beta_5 > 0, \beta_6 > 0.$$

### 4.0. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 4.1 Presentation and Interpretation of Descriptive Statistics

The descriptive statistics describes the distribution of the data. This is to assert if the output from the data should be relied upon or not. The Jarque-Bera statistic is utilized for the normality test. While the other descriptive statistics measures such as mean, standard deviation and skewness describe the behaviour of the data in relation to magnitude and direction. The results of the descriptive statistics are presented as follows:

**Table 4.1:** Descriptive Statistics on Corporate Governance and firm Performance Data

	<i>PAT</i>	<i>TAS</i>	<i>DBT</i>	<i>EQT</i>	<i>DAR</i>	<i>DER</i>	<i>ROE</i>
<i>Mean</i>	2204.883	329032.8	172905.1	196820.2	3.147374	6.278761	0.004029
<i>Median</i>	239.6500	10364.49	3974.430	6207.330	0.420000	0.699800	0.042510
<i>Maximum</i>	485432.0	8273420.	7241484.	4765430.	488.1100	953.5421	1.130543
<i>Minimum</i>	-1337180.	6.150000	2.594200	2.766700	0.070000	0.071800	-3.784738
<i>Std. Dev.</i>	116259.2	1472930.	797081.2	885740.9	36.45234	71.20703	0.403188
<i>Skewness</i>	-7.819386	4.474319	5.763499	4.484075	13.26573	13.26250	-5.141500
<i>Kurtosis</i>	102.2598	21.23246	41.74082	21.33384	176.9884	176.9313	47.70818
<i>Jarque-Bera</i>	75307.37	3076.569	12184.85	3106.824	231028.4	230877.7	15696.52
<i>Probability</i>	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
<i>Observations</i>	179	179	179	179	179	179	179

Source: EView Output, 2018

The descriptive statistics show a high mean value PAT, TAS, DBT and EQT. This is because the values for these variables are measured as absolute values not in relation to another value. But the ratios such as DAR, DER and ROE have moderate mean values. The low mean value for DAR, DER and ROE is accompanied with low standard deviation values meaning that these variables oscillate around the mean point. While the variables with high value of standard deviation shows evidence of outliers (extreme values) on the

data stream for those variables. PAT and ROE are negatively skewed in the distribution.

For the normality test, the Jarque-Bera statistic revealed that all the variables passed the normality test both at 1% and 5% level of statistical significance. With the data normally distributed, we can rely on the output of the regression estimate for answering the hypotheses in the study.

### 4.2 Presentation and Interpretation of Correlation Results

**Table 4.2:** Correlation Results of the Relationships between Capital Structure and Firm Performance

Covariance Analysis: Ordinary							
Date: 06/04/17 Time: 15:27							
Sample: 1 179							
Included observations: 179							
Correlation							
Probability	ROE	DER	DAR	DBT	EQT	PAT	TAS
ROE	1.000000 -----						
DER	0.000350 0.9963	1.000000 -----					

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DAR	-0.001588 0.9832	0.999940 0.0000	1.000000 ----				
DBT	-0.001672 0.9823	0.666030 0.0000	0.666493 0.0000	1.000000 ----			
EQT	0.004349 0.9539	-0.016947 0.8219	-0.016225 0.8293	0.720198 0.0000	1.000000 ----		
PAT	0.086446 0.2499	-0.001673 0.9823	-0.001565 0.9834	0.042684 0.5705	0.159351 0.0331	1.000000 ----	
TAS	0.001738 0.9816	-0.016813 0.8232	-0.016160 0.8300	0.729486 0.0000	0.996862 0.0000	0.119472 0.1112	1.000000 ----

Source: EView Output, 2018.

The probability values of the correlation matrix revealed that none of the independent variables is significantly related to ROE. Judging from the correlation values, PAT is positively related to ROA though with a weak relationship, debt value in relation to assets had negative relationship with ROE. The amount of leverage of insurance firms is very weakly related to the firms return on equity. This could be because of the nature of the business of insurance firms and the structure of their Statement of Financial Position. The profitability of the firms is highly dependent on premium payment and other investment components and not on the capital structure of the insurance firms. Among the

two variables, leverage in relation to assets revealed more relationship to return on equity than debt in relation to equity. This is also because the firm capital structure has more debt component than equity components. The liability structure is such that is laden with claim payment which can occur unprecedented. This has also made regulatory agencies to specify where insurance firms can place their investment and in what percentage they will divide them among varied securities in the financial market. This is to enable them meet their obligation if the need arise to make payment in assuaging the occurrence of a particular risk insured against.

4.3 Presentation and Analysis of the Ordinary Least Square Estimation

Table 4.3: Regression Results of the Relationships between Financial Performance and Insurance Firm’s Capital Structure

Dependent Variable: ROE

Method: Least Squares

Date: 06/04/17 Time: 15:28

Sample: 1 179

Included observations: 179

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DER	0.144372	0.039054	3.696710	0.0003
DAR	-0.791904	0.163791	-4.834854	0.0000
DBT	3.44E-05	8.25E-06	4.169077	0.0000
EQT	3.42E-05	8.21E-06	4.164599	0.0000
PAT	3.64E-07	2.90E-07	1.254384	0.2114
TAS	-3.43E-05	8.22E-06	-4.168055	0.0000
C	0.191767	0.056629	3.386359	0.0009
R-squared	0.127120	Mean dependent var		0.004029
Adjusted R-squared	0.096671	S.D. dependent var		0.403188
S.E. of regression	0.383204	Akaike info criterion		0.957823
Sum squared resid	25.25742	Schwarz criterion		1.082470
Log likelihood	-78.72520	Hannan-Quinn criter.		1.008367
F-statistic	4.174824	Durbin-Watson stat		1.606792
Prob(F-statistic)	0.000605			

Source: EView Output, 2018.

The ordinary least square estimation results revealed that debt in relation to equity is statistically significant in explaining variation in changes in the firms return on equity at 1% level of statistical significance. Also, debt in relation

to assets is also significant in explaining changes in ROE. The model specifying this relationship as reflected by the R-squared accounted for 12.7120% of the systematic variation in ROE. On the overall statistical significance of the model,

the F – statistic shows that the model is statistically significant at 5% level of significance. The Durbin Watson statistic value of 1.606792 shows that there is no serial correlation in the model hence, we can rely on the estimation output as it will not generate spurious results. Debt in relation to assets shows negative relationship to the firms return on equity.

Below is the mathematical expression of the model used in the study:

$$\text{ROE} = 0.144372036834 \cdot \text{DER} - 0.791903822465 \cdot \text{DAR} + 3.43757812808 \cdot 10^{-5} \cdot \text{DBT} + 3.4178547767 \cdot 10^{-5} \cdot \text{EQT} + 3.64346214137 \cdot 10^{-7} \cdot \text{PAT} - 3.42612929902 \cdot 10^{-5} \cdot \text{TAS} + 0.191766643102$$

#### 4.4 Discussion of Findings

After analysis the results revealed that, There is a very weak relationship between return on equity and the insurance Firms capital structure whether in relation to assets or in relation to equity. Also the Firms capital structure components are significant in determining variation are significant in determining variation in the firms variation in the firms return on equity value. Debt in relation to assets is more related to the firms return on equity because of assets utilization. Lastly Debt in relation to equity has a negative relationship with return on equity of the firm in the insurance industry of the financial sector.

All these findings are in one way or the other consistent with, Uwalomwa & Uadiale (2012), which concludes in their study that employing high proportion of long –term debt in firms capital structure will invariably result in low financial performance of a firm. Lucy Muathe & George (2014) that concluded, managers of listed Non-Financial Companies should reduce the reliance on long term debt as a source of finance. Krishnan and Moyer (1997), the result concludes that there is a negative and significant impact of total equity (TD/TE) on return on equity (ROE). Niway (2016), which concludes in their study that there is a significant negative relationship between capital structure ratios (short term debt, long term debt, and total debt ratios) financial performance by (ROA) and (ROE). Gleason, Mathur & Mathur (2000), concludes in their study that firms capital structure has a negative and significant impact on firms performance measures return on assets (ROA), Growth in sales (Gsales), and pre-tax income (Ptax), therefore, high levels of debt in the capital structure would decrease the firms performance. But contrary to the views of Schiantarelli & Sembenelli (1999), which concludes in their study that there is a positive relationship between initial debt maturity and medium term performance. Mubeen & Kalsoom (2014), which concludes that there is a significant positive relationship between capital structure and firms financial performance and shareholders wealth in textile sector in Pakistan.

## 5.0. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

### 5.1 Summary of findings

The following are the findings of the study:

1. That there is a very weak relationship between return on equity and the insurance firms capital structure whether in relation to assets or in relation to equity.
2. That on a general note, the firm’s capital structure components are significant in determining variation in the firms return on equity value.
3. That debt in relation to assets is more related to the firms return on equity because of assets utilization capacity.
4. Debt in relation to equity has a negative relationship with return on equity of the firm in the insurance industry of the financial sector.

### 5.2 Conclusion

Based on the findings above, the following are the conclusions of the study:

Firstly, both empirical and statistical evidence on the impact of capital structure on the performance indicator namely return on assets and in the Nigerian Quoted insurance companies have significant effect on the quoted insurance firms’ performance.

Secondly, the study also concludes that Nigerian Quoted insurance companies have performed remarkably well within the period of the study 2010-2016. This may be because of the technological advancements globally.

Finally, the study represents a pioneering attempt in assessing the impact of capital structure on the performance of Nigerian Quoted insurance companies looking at performance from the perspective return on assets.

### 5.3 Recommendations

Based on the conclusions, the following recommendations are proffered by the study;

1. The study recommends that Quoted insurance companies should try to improve their Return on Equity, because any change in their gearing ratio may cause change in their Return on Equity, either positively or negatively due to the insignificant positive relationship existing between the two variables.
2. The study also recommends that since positive relationship exists between Return on Capital Employed and Long Term Debt to Capitalization, the management of insurance firms industry should improve their Return on Capital Employed through proper and judicious use of the capital available to them so as to have a general improvement on their performance.

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**Appendix: Insurance Companies’ Data on Capital Structure and Financial Performance**

Firm Name	Year	PAT (N'M)	Total Assets (N'M)	ROA	Total Liabilities (N'M)	Total Equity (Deficit) (N'M)	Leverage (D/A)	Leverage (D/E)	ROE
AXA Mansard Insurance plc	2002	-14.49	105.20	-0.1377	13.11	92.09	0.12	0.1424	-0.1573386
	2003	-37.64	372.51	-0.1011	26.19	346.32	0.07	0.0756	-0.1086936
	2004	-39.56	612.22	-0.0646	161.57	450.65	0.26	0.3585	-0.0877734
	2005	27.38	3361.27	0.0081	260.02	3101.26	0.08	0.0838	0.0088284
	2006	294.43	6181.64	0.0476	845.85	5335.79	0.14	0.1585	0.0551806
	2007	821.24	7975.94	0.1030	1677.29	6298.66	0.21	0.2663	0.1303837
	2008	1865.22	16474.14	0.1132	3958.78	12515.35	0.24	0.3163	0.1490346
	2009	423.83	17012.84	0.0249	4491.08	12521.77	0.26	0.3587	0.0338471
	2010	1114.88	20773.13	0.0537	6889.12	13884.01	0.33	0.4962	0.0802994
	2011	930.44	24017.12	0.0387	9956.53	14060.59	0.41	0.7081	0.0661733
	2012	1380.05	27288.05	0.0506	12870.26	14417.80	0.47	0.8927	0.0957187
	2013	959.87	28789.78	0.0333	15265.15	13524.63	0.53	1.1287	0.0709717
	2014	1236.80	34263.78	0.0361	20216.18	14047.59	0.59	1.4391	0.0880433
	2015	466.10	37920.07	0.0123	22522.91	15397.16	0.59	1.4628	0.0302718
2016	892.22	40304.76	0.0221	25604.07	14700.69	0.64	1.7417	0.0606925	
CONTINENTAL REINSURANCE PLC	2004	127.20	4900.90	0.0260	2401.70	1839	0.49	1.3058	0.0408806
	2005	155.00	5718.20	0.0271	3111.50	1882.80	0.54	1.6526	0.0823242
	2006	293.10	6345.20	0.0462	3503.90	2054.20	0.55	1.7057	0.1426833
	2007	676.69	14159.65	0.0478	2344.38	11815.27	0.17	0.1984	0.0572722
	2008	473.33	14353.59	0.0330	3219.26	11134.33	0.22	0.2891	0.0425104
	2009	905.22	15644.81	0.0579	4475.19	11169.62	0.29	0.4007	0.0810428
	2010	908.71	18791.10	0.0484	7171.65	11619.46	0.38	0.6172	0.0782057
	2011	891.85	20495.59	0.0435	8540.44	11955.15	0.42	0.7144	0.0745993
	2012	1284.78	24049.44	0.0534	10814.07	13235.37	0.45	0.8171	0.0970716
	2013	1753.40	26125.41	0.0671	11839.92	14285.49	0.45	0.8288	0.1227399
	2014	855.64	28207.64	0.0303	13431.26	14776.38	0.48	0.9090	0.0579062
2015	2142.79	26668.73	0.0803	14131.54	15537.19	0.53	0.9095	0.1379135	
AFRICAN ALLIANCE	2004	-1789.00	1059.74	-1.6881	2669.90	1059.74	2.52	2.5194	-1.6881499
	2005	-5542.00	1464.30	-3.7847	1080.82	1464.30	0.74	0.7381	-3.7847384

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INSURANCE COMPANY PLC[MRF]	2006	16.34	1510.59	0.0108	1143.45	367.14	0.76	3.1145	0.0445118
	2007	24.04	4058.49	0.0059	1113.66	2944.83	0.27	0.3782	0.0081638
	2008	8009.10	19259.03	0.4159	3747.23	15511.80	0.19	0.2416	0.5163228
	2009	-4730.67	15493.70	-0.3053	4950.25	10543.46	0.32	0.4695	-0.4486833
	2010	-2191.599	13496.521	0.0484	5144.67	8351.86	0.38	0.6160	0.1088031
	2011	-601.561	13600.332	0.0435	6055.51	7544.82	0.45	0.8026	0.1182064
	2012	36.31	14835.78	0.0024	7241484.00	7594.30	488.11	953.5421	0.0047807
	2013	-3022.87	16058.41	-0.1882	11474.03	4584.38	0.71	2.5029	-0.6593842
	2014	630.16	23127.71	0.0272	17857.49	5270.22	0.77	3.3884	0.1195703
	2015	239.65	28331.82	0.0085	22821.95	5509.87	0.81	4.1420	0.0434952
UNIVERSAL INSURANCE COMPANY PLC[MRF]	2007	209.44	10634.365	0.0202	1131.11	10634.37	0.11	0.1064	0.0196945
	2008	206.66	10474.495	0.0248	752.15	10474.50	0.07	0.0718	0.0197298
	2009	-2070.67	8320.78	-0.2303	669.10	8320.78	0.08	0.0804	-0.2488551
	2010	-108.28	8991.07	-0.0104	661.78	8991.07	0.07	0.0736	-0.0120425
	2011	-603.23	10364.49	-0.0543	2468.20	10364.49	0.24	0.2381	-0.0582012
	2012	166.41	11116.51	0.0150	2572.03	8544.48	0.23	0.3010	0.0194755
	2013	303.96	11563.22	0.0263	2694.56	8868.66	0.23	0.3038	0.0342729
	2014	-27.30	9928.85	-0.0027	1228.33	8700.52	0.12	0.1412	-0.0031381
	2015	78.04	11949.75	0.0065	2660.39	9289.36	0.22	0.2864	0.0084006
CORNERSTONE INSURANCE COMPANY PLC.	2007	324.96	8984.84	0.2651	2381.79	6603.05	0.27	0.3607	0.3607100
	2008	-419.46	8933.26	0.3637	3248.98	5684.29	0.36	0.5716	0.5715715
	2009	-442.965	9390.01	0.4035	3789.17	5600.84	0.40	0.6765	0.6765352
	2010	399.445	10423.08	0.4243	4422.79	6000.29	0.42	0.7371	0.7370967
	2011	166.503	11491.97	0.4634	5325.18	6166.79	0.46	0.8635	0.8635251
	2012	433.98	11807.69	0.0368	5787.88	6019.81	0.49	0.9615	0.0720922
	2013	931.86	13962.43	0.0667	6996.16	6966.27	0.50	1.0043	0.1337674
	2014	1282.35	14894.67	0.0861	6737.86	8156.81	0.45	0.8260	0.1572116
	2015	702.67	17919.12	0.0392	7776.64	10142.48	0.43	0.7667	0.0692802
	2016	611.64	19897.15	0.0307	10366.32	9530.84	0.52	1.0877	0.0641752
EQUITY ASSURANCE PLC.	2005	14.05	360.705	0.0421	26.48	334.22	0.07	0.0792	0.0420500
	2006	54.13	485.38	0.1310	72.29	413.10	0.15	0.1750	0.1310377
	2007	445.04	6218.191	0.0771	442.33	5775.86	0.07	0.0766	0.0770519
	2008	4.19	8045.28	0.0007	2422.78	5622.50	0.30	0.4309	0.0007445
	2009	-895.836	8464.552	-0.1058	2027	6438	0.24	0.3148	-0.1391534
	2010	-716.15	6654.10	-0.1076	3124.56	3529.54	0.47	0.8853	-0.2029013
	2011	-716.15	6928.99	-0.1034	3369.81	3559.18	0.49	0.9468	-0.2012120
	2012	59.89	7801.56	0.0077	3857.50	3944.06	0.49	0.9781	0.0151841
	2013	-773.66	8262.38	-0.0936	4923.32	3339.06	0.60	1.4745	-0.2316997
	2014	87.66	8159.08	0.0107	4732.22	3426.86	0.58	1.3809	0.0255794
	2015	-745.93	10027.72	-0.0744	4855.17	5172.55	0.48	0.9386	-0.1442093
	2016	-568.50	9318.89	-0.0610	6446.53	2872.36	0.69	2.2443	-0.1979199
UNITY KAPITAL ASSURANCE PLC	2004	-125.77	815.97	-0.1541	259.46	556.50	0.32	0.4662	-0.2259912
	2005	-125.77	904.38	-0.1391	242.86	661.52	0.27	0.3671	-0.1901146
	2006	-125.77	773.79	-0.1625	157.62	616.17	0.20	0.2558	-0.2041083
	2007	-125.77	3898.93	-0.0323	350.10	3548.83	0.09	0.0987	-0.0354385
	2008	98.46	8895.09	0.0111	739.02	8156.07	0.08	0.0906	0.0120721

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	2009	71.89	8994.75	0.0080	802.97	8191.78	0.09	0.0980	0.0087755
	2010	-216.30	8878.53	-0.0244	876.98	8001.55	0.10	0.1096	-0.0270320
	2011	331.13	9443.59	0.0351	1104.50	8415.46	0.12	0.1312	0.0393479
	2012	316.86	10545.12	0.0300	1427.20	9117.92	0.14	0.1565	0.0347517
	2013	264.02	10484.88	0.0252	1476.70	9008.18	0.14	0.1639	0.0293089
	2014	141.48	10546.12	0.0134	1351.47	9194.65	0.13	0.1470	0.0153868
	2015	340.50	10728.22	0.0317	1344.36	9383.86	0.13	0.1433	0.0362860
	2016	171.74	10916.40	0.0157	1569.85	9346.56	0.14	0.1680	0.0183745
WAPIC INSURANCE PLC	2011	1871.34	9576.02	0.1954	2077.98	7498.04	0.22	0.2771	0.2495775
	2012	240.83	9935.56	0.0242	2205.78	7729.78	0.22	0.2854	0.0311565
	2013	31.48	19679.89	0.0016	5132.28	14547.61	0.26	0.3528	0.0021637
	2014	-5.21	19815.16	-0.0003	5424.09	14391.08	0.27	0.3769	-0.0003623
	2015	642.19	20163.86	0.0318	5590.18	14573.68	0.28	0.3836	0.0440647
	2016	701.26	21346.54	0.0329	6394.98	14951.56	0.30	0.4277	0.0469020
STANDARD ALLIANCE INSURANCE PLC.	2009	-5,956	18742.47	-0.3178	2309.90	16432.57	0.12	0.1406	-0.3624684
	2010	-8,716	9344.17	-0.9328	3151.64	6192.53	0.34	0.5089	-1.4075014
	2011	6,823	9,454	0.7217	3419	6035	0.36	0.5665	1.1305428
	2012	781.18	8932.07	0.0875	4059.23	4872.85	0.45	0.8330	0.1603132
	2013	-880.94	8788.88	-0.1002	4011.31	4777.57	0.46	0.8396	-0.1843912
	2014	-2196.65	7605.48	-0.2888	4303.91	3301.58	0.57	1.3036	-0.6653316
	2015	810.24	8435.17	0.0961	4203.42	4231.75	0.50	0.9933	0.1914664
	2016	369.97	9045.81	0.0409	4526.23	4519.59	0.50	1.0015	0.0818582
N.E.M INSURANCE CO (NIG) PLC.	2012	434.08	7580.14	0.0573	3268.72	4316.43	0.43	0.7573	0.1005635
	2013	368.91	8821.73	0.0418	4942.55	4685.32	0.56	1.0549	0.0787369
	2014	1507.18	10977.31	0.1373	5076.60	5900.71	0.46	0.8603	0.2554231
	2015	2106.66	12087.67	0.1743	5880.33	6207.33	0.49	0.9473	0.3393829
	2016	1249.31	13705.20	0.0912	6565.38	7139.82	0.48	0.9195	0.1749778
STANDARD TRUST ASSURANCE PLC	2011	1862.27	7166.24	0.2599	5107.59	2058.65	0.71	2.4810	0.9046070
	2012	247.33	7487.48	0.0330	5449.35	7787.48	0.73	0.6998	0.0317602
	2013	481.33	8363.38	0.0576	5354.26	8363.38	0.64	0.6402	0.0575526
	2014	95.98	9766.32	0.0098	6568.81	9766.32	0.67	0.6726	0.0098277
	2015	14.39	10485.10	0.0014	7075.50	10485.10	0.67	0.6748	0.0013727
	2016	-1389.87	9847.20	-0.1411	6221.05	3626.15	0.63	1.7156	-0.3832913
SOVEREIGN TRUST INSURANCE PLC	2009	-129.01	5272.76	-0.0245	1832.87	3439.89	0.35	0.5328	-0.0375047
	2010	308.76	4838.38	0.0638	2938.58	1899.80	0.61	1.5468	0.1625245
	2011	-513.85	6105.51	-0.0842	4126.83	1978.68	0.68	2.0857	-0.2596925
	2012	1585.11	7113.23	0.2228	3974.43	3138.81	0.56	1.2662	0.5050052
	2013	346.93	8649.30	0.0401	5165.80	3483.50	0.60	1.4829	0.0995924
	2014	294.94	8492.85	0.0347	4331.99	4170.85	0.51	1.0386	0.0707153
	2015	582.21	9264.87	0.0628	4239.68	5025.20	0.46	0.8437	0.1158580
	2016	147.72	8900.04	0.0166	3727.13	5172.91	0.42	0.7205	0.0285559
AIICO INSURANCE PLC.	2010	-11.68	28187.24	-0.0004	13647.20	14540.04	0.48	0.9386	-0.0008036
	2011	-11.68	28554.86	-0.0004	18610.14	9944.72	0.65	1.8714	-0.0011749
	2012	1320.66	34868.09	0.0379	23278.21	11589.88	0.67	2.0085	0.1139497
	2013	2131.89	41718.94	0.0511	31076.78	10642.16	0.74	2.9202	0.2003251
	2014	966.46	57857.13	0.0167	46222.40	11634.73	0.80	3.9728	0.0830669
	2015	2693.63	79385.27	0.0339	69940.49	9444.78	0.88	7.4052	0.2851976

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	2016	3043.23	85095.88	0.0358	74881.57	9866.32	0.88	7.5896	0.3084462
MUTUAL BENEFITS ASSURANCE PLC.[AWR]	2010	-2729.37	8751.09	-0.3119	5465.497 0	3285.59	0.62	1.6635	-0.8307086
	2011	-2729.37	11470.16	-0.2380	7299.092 0	4171.06	0.64	1.7499	-0.6543577
	2012	-2729.37	13893.81	-0.1964	8909.47	4984.34	0.64	1.7875	-0.5475892
	2013	574.87	14448.21	0.0398	11143.33	3304.88	0.77	3.3718	0.1739458
	2014	2243.77	14488.60	0.1549	8939.95	5548.65	0.62	1.6112	0.4043810
	2015	652.61	15798.73	0.0413	9597.47	6201.26	0.61	1.5477	0.1052387
	2016	-1203.86	17436.43	-0.0690	12439.03	4997.40	0.71	2.4891	-0.2408967
LINKAGE ASSURANCE PLC	2011	220.69	10515.02	0.0210	2280.86	8234.16	0.22	0.2770	0.0268019
	2012	47.32	16823.86	0.0028	2100.11	14723.75	0.12	0.1426	0.0032139
	2013	414.28	17738.50	0.0234	2370.54	15367.96	0.13	0.1543	0.0269575
	2014	325.00	17976.22	0.0181	2388.53	15587.69	0.13	0.1532	0.0208496
	2015	512.25	19492.24	0.0263	3182.84	16309.39	0.16	0.1952	0.0314081
	2016	616.10	21264.78	0.0290	4339.29	16925.49	0.20	0.2564	0.0364006
NIGER INSURANCE CO. PLC.[MRF]	2012	470.17	21732.48	0.0216	14161.66	7086.97	0.65	1.9983	0.0663435
	2013	599.47	24181.64	0.0248	15466.96	7881.59	0.64	1.9624	0.0760598
	2014	538.78	22214.61	0.0243	15756.69	7945.65	0.71	1.9831	0.0678076
	2015	569.19	20386.50	0.0279	16128.59	8225.28	0.79	1.9609	0.0692001
	2016	-435.34	20713.83	-0.0210	12925.84	7788.00	0.62	1.6597	-0.0558992
LASACO ASSURANCE PLC.	2012	-198.70	11838.26	-0.0168	6240.90	5597.36	0.53	1.1150	-0.0354993
	2013	275.34	13412.74	0.0205	7536.82	5875.92	0.56	1.2827	0.0468591
	2014	445.75	14240.34	0.0313	7822.25	6418.09	0.55	1.2188	0.0694513
	2015	283.32	16133.43	0.0176	9554.65	6578.80	0.59	1.4523	0.0430656
	2016	715.39	17455.59	0.0410	10127.69	7327.90	0.58	1.3821	0.0976257
REGENCY ALLIANCE INSURANCE COMPANY PLC	2011	-21.02	4504.43	-0.0047	870.07	3634.36	0.19	0.2394	-0.0057823
	2012	386.79	5162.89	0.0749	1452.40	3710.49	0.28	0.3914	0.1042412
	2013	403.60	5976.55	0.0675	1862.45	4114.10	0.31	0.4527	0.0981025
	2014	294.91	6319.86	0.0467	1976.21	4343.65	0.31	0.4550	0.0678941
	2015	333.33	6726.54	0.0496	2053.02	4673.52	0.31	0.4393	0.0713229
	2016	470.33	6798.83	0.0692	1855.04	4943.79	0.27	0.3752	0.0951364
GUINEA INSURANCE PLC.	2011	-438.59	3738.69	-0.1173	1246.45	2492.24	0.33	0.5001	-0.1759831
	2012	52.76	3958.15	0.0133	1396.14	2562.01	0.35	0.5449	0.0205940
	2013	39.84	4213.96	0.0095	1231.01	2982.95	0.29	0.4127	0.0133542
	2014	81.90	4564.73	0.0179	1668.30	2896.43	0.37	0.5760	0.0282755
	2015	7.23	4116.10	0.0018	1216.15	2899.95	0.30	0.4194	0.0024921
	2016	43.45	3969.88	0.0109	1026.47	2943.40	0.26	0.3487	0.0147615
CONSOLIDATED HALLMARK INSURANCE PLC	2012	239.50	6664.33	0.0359	2647.47	4016.86	0.40	0.6591	0.0596231
	2013	200.56	6130.36	0.0327	2500.61	3629.75	0.41	0.6889	0.0552532
	2014	193.08	6111.85	0.0316	2297.05	3814.80	0.38	0.6021	0.0506126
	2015	545.81	6964.21	0.0784	2735.13	4229.08	0.39	0.6467	0.1290615
	2016	176.41	7865.79	0.0224	3461.95	4403.84	0.44	0.7861	0.0400572
PRESTIGE ASSURANCE CO. PLC.	2009	0.58	6.94	0.0842	2.5942	4.3437	0.37	0.5972	0.1345448
	2010	0.48	6.43	0.0746	3.3902	3.0359	0.53	1.1167	0.1579327
	2011	-0.03	6.15	-0.0056	3.3868	2.7667	0.55	1.2241	-0.0125381
	2012	0.61	9.72	0.0631	5.83	3.89	0.60	1.4996	0.1576413

“Capital Structure and Firms Financial Performance in Nigeria Quoted Insurance Companies”

	2013	-0.09	10.13	-0.0090	5.72	4.41	0.56	1.2963	-0.0205821
	2014	0.01	11.89	0.0012	7.32	4.58	0.62	1.5991	0.0031002
	2015	-0.15	10.37	-0.0140	4.38	5.99	0.42	0.7303	-0.0242489
	2016	0.10	9.83	0.0101	3.55	9.83	0.36	0.3613	0.0101366
LAW UNION AND ROCK INSURANCE PLC	2008	-93040.00	5816114.00	-0.0160	2169150. 00	3656964.0 0	0.37	0.5932	-0.0254419
	2009	294549.00	6866703.00	0.0429	2328881. 00	4537822.0 0	0.34	0.5132	0.0649098
	2010	360922.00	7367038.00	0.0490	2601608. 00	4765430.0 0	0.35	0.5459	0.0757376
	2011	249620.00	7555543.00	0.0330	2790225. 00	4765318.0 0	0.37	0.5855	0.0523827
	2012	- 1337180.0 0	6617479.00	-0.2021	3094979. 00	3522500.0 0	0.47	0.8786	-0.3796111
	2013	485432.00	6908473.00	0.0703	2736273	4172200.0 0	0.40	0.6558	0.1163492
	2014	125435.00	7,293,571	0.0172	3111152. 00	4182419.0 0	0.43	0.7439	0.0299910
	2015	280919.00	8273420.00	0.0340	3814755. 00	4458665.0 0	0.46	0.8556	0.0630052

SOURCE: ANNUAL REPORTS AND ACCOUNTS OF VARIOUS YEARS FOR VARIOUS