

Effect of Liquidity Management on Financial Performance of Insurance Companies in Nigeria (2011-2020)

Allan Olufade and Oladunni Opeyemi Emmanuel

¹Leadway Assurance Company Limited. E-mail: Allanpozer@gmail.com

²Actuarial Science and Insurance Department, Abmadu Bello University, Zaria Kaduna State, Nigeria. E-mail: profopeemma@yahoo.com

Article History

Received : 09 March 2023; Revised : 19 April 2023; Accepted : 26 April 2023; Published : 27 June 2023

Abstract: The study investigates the effect of liquidity management on financial performance of companies in Nigeria. Liquidity management was measured and proxied with current ratio and quick ratio, however financial performance was proxied with return on assets.. Secondary data source was utilized and it was extracted from the national Insurance Commission Statistical Bulletin via 51 insurance companies in operation as at 31st December, 2020. The time scope of the study was between 2011 and 2020. Panel multiple regression technique was adopted as the technique of data analysis, while E-View 10.0 was used as the tool for analysis of data. Robustness tests which include heteroscedasticity, multicollinearity and normality test of standard error were conducted. Findings revealed that current and quick ratios have positive and significant effect on financial performance of insurance companies in Nigeria. It is therefore recommended, among others that the management of insurance companies should guarantee that most inactive cash are invested into short term portfolios to attract higher returns because it will eventually increase the performance of the companies and Insurance regulators in Nigeria should formulate policies where any insurance companies that go below liquidity ratio and refuse to meet up with their claims obligations are adequately penalized.

Keywords: Financial Performance, Liquidity, Return on Assets, Current Ratio, Quick Ratio

To cite this paper:

Allan Olufade and Oladunni Opeyemi Emmanuel (2023). Effect of Liquidity Management on Financial Performance of Insurance Companies in Nigeria (2011-2020). *Journal of Risk and Financial Studies*. 4(1), 27-44. <https://DOI:10.47509/JRFS.2023.v04i01.02>

INTRODUCTION

An important component of business survival is efficient management of current assets and current liabilities. It ensures maximum utilization of firm's resources, which enhances the overall performance of an organization. The principal short-term assets are cash, accounts receivable, short term securities and inventories. As such, the principal short term liabilities are accounts payable, bills payable and outstanding expenses. Firm's investment in short-term assets is the gross working capital while net working capital is the surplus of current assets over the short term liabilities, which represents firm's liquidity margin or buffer for maturing obligations and to meet recurrent cash expenditure in order to maintain smooth operations (Usman, 2019).

Insurance is a legal contract that promises financial obligations against occurrence of certain insured risks resulting to loss of life, property and/other pecuniary valued subject matter. Some of the problems faced by insurance companies in discharging their claims settlement mandate in Nigeria are caused by internal factors known as specific factors which are within the control of organizations. Effective liquidity management avails insurance companies' smooth and sound claims management process which in turn affects their financial performance (Oladunni and Okonkwo, 2022).

Firm's financial performance is linked with firm's effective and efficient management of its working capital such that risk of inability to meet short term obligations is eradicated and unwarranted investment in the working capital are avoided. The proportion of current assets to current liabilities should be sufficient enough to meet payment of short term creditors as and when due to avoid insolvency and subsequent effect of bankruptcy (Ajayi, Abogun, & Odediran, 2017). Firm's primary objective is to maximize profit so as to achieve increase in share price and dividends but this cannot be achieved without preserving liquidity of the company. Therefore, increasing profitability at the expense of liquidity may defeat going concern of the business and same goes for liquidity at the expense of profit. Hence, there should be a trade-off between profitability and liquidity of the firm. The statement of comprehensive income in the annual reports of the firm revealed either loss suffered by the company in its operation or profit generated during the year. If profit is generated, investors are paid from the profit and this measure is of paramount interest to investors. However, profit is

not only the measurement of shareholders' interest as shareholders are also concerned about the cash flows of the firms. Nigerian insurance industries are facing crucial problems that persistently led to their winding-up (Ogbuji & Ogunyomi, 2014). A lot of industries in Nigeria have closed down, some relocated while others are operating far below installation capacity. Achieving optimum level is not an easy task. It involves the ability of an insurance company to pay obligation as at when due as well as maintaining not too much and too little assets (Brigham & Houston, 2007).

For the purpose of this study, firm liquidity is measured by current ratio and quick ratio. Current ratio is a ratio which indicates the ability of a firm to pay its short term financial obligations as at when due. The ratio should be reasonable enough because higher ratio is an indication of poor assets management (Kung'u, 2015). Quick ratio indicates the ability of a firm to pay its short term debts without relying on future sales (Pandey, 2015). Unlike current ratio, which takes into consideration all current assets, quick ratio considers only quick assets. Quick assets are assets convertible into cash quickly; they include account receivables, cash and marketable securities. It is important to note that the objective of working capital management is to achieve liquidity and profitability and the ratio that determine liquidity are the current and quick ratios. Current and quick ratios are used to determine the liquidity of organizations.

Return on assets (ROA) measures the profitability of all financial resources invested in a firm regardless of the sources of the fund. It is imperative to state that the return on assets is an effective measure of fundamental business operations, it takes into account income statement as well as assets required to run the organization. ROA is very useful to investors as it gives insight on how a particular insurance company can convert its resources (money) into net income. It is also significant as it tells the extent to which a company uses the resources at its disposal to earn income (Kabiru, 2019).

In assessing the performance of insurance companies in Nigeria, the rise in disposable income, digitalization and automation of insurance services, a growing middle class, better adherence to operational guidelines by market players and innovative service delivery will enable the industry to achieve increased profitability and market penetration. A breakdown of the data

sourced by Leadership (2021) from the National Insurance Commission (NAICOM) showed that insurance sector made N372.4 billion premium income in 2017, went up by 14.5 per cent in 2018 to N426.2 billion. In 2019, it was N508.2 billion, grew to N514.6 billion in 2020 and jumped to N616.6 billion in 2021 financial year. According to the industry bulletin report for 2022 financial period released by NAICOM, the industry paid claims totaling N318.2bn to its customers in the period under review. A claim of N336.8bn was recorded in 2021, from N247bn in 2020 and N225bn in 2019. The claims paid in 2018 and 2017 were N252bn and N186bn respectively. Consequently, this profitability is hampered by weak investment returns, rising maintenance and acquisition expenses as well as increasing claims as evidences of unsatisfactory financial performance resulting poor liquidity management strategies.

Based on the foregoing statement, it is important to investigate the effect of working capital management on insurance companies' financial performance in Nigeria. Therefore, it is against this background that this study intends to assess the effect of liquidity management on financial performance of Nigerian insurance industry.

The main objective of this work is to examine the effect of liquidity management on financial performance of insurance companies in Nigeria. Specifically, the study seeks to achieve the following objectives:

- (i) to examine the effect of current ratio on return on assets of insurance companies in Nigeria;
- (ii) to investigate the impact of quick ratio on return on assets of insurance companies in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Review

This section takes a look into the meaning of various concepts in this study alongside empirical review and various theories anchoring the study.

Financial Performance

Financial performance has been defined by various scholars. Trivedi (2010) defines it as the process of measuring the results of a firm's policies

and operation in monetary terms. He further explained that financial performance is a way of measuring the overall health of an organization over a period of time and is used in making comparison across industry or to compare industries or sectors. Mwangi and Murigu (2015) defined financial performance as a measure of an organization's earning, profits, appreciation evidenced by the rise in entity's share price. Financial performance is defined as an outcome of organization activities in monetary terms (Henri, 2013).

Financial performance may be stated as the process of creating revenue through employment of the assets that belong to the firm (Margaret, 2019). Financial performance as a gauge of organizational performance can only be important if the results are compared and contrasted with those of related firms. Brealey et al., (2011) stated that there are a number of measures that may be relevant in gauging the performance of an organization and they mention items such as potential to make profit; the ability of a firm to meet its current cash requirements; the ability to service debts and optimization of costs. Profitability of an organization focuses on how much income a firm is able to make using available assets; liquidity on the other hand measures how effectively a firm can be able to meet its long-term and current credit obligations; solvency focuses on dissolution and whether a firm's assets are able to cover existing liabilities in case winding up occurs.

Return on assets (ROA) shows percentage of profit a company earns to its total assets. ROA gives an idea as to how efficient management is at using its assets. This, ROA is considered as a measure of efficiency (Kabiru, 2019). A firm with high ROA means that the company is good at translating assets into profit. ROA is generally seen as a stable financial performance ratio, an increasing ROA is evidence that a firm generate more profitability while decreasing ROA is an evidence that a firm generates less profitability (Zubair, 2015). ROA is obtained by dividing net income with total assets. Total asset is the summation of both current and non-current assets as indicate in the financial statement of an organization.

Current Ratio

Current ratio is the total current assets to total current liabilities. According to Brigham and Houston (2007) current ratio is the primary liquidity ratio indicating the extent to which current liabilities are fully covered

by those assets expected to be converted into cash in the near future. If current liabilities are growing faster than current assets, current ratio will fall and this is a sign of financial trouble to insurance company. This study operationalizes current ratio as a ratio of current assets to current liabilities.

Quick Ratio

Unlike current ratio, quick ratio provides more refined measures of a firm liquidity. Quick ratio establishes the relationship between quick/liquid assets and current liabilities. An asset is said to be liquid if it can be converted into cash without a loss of value. Therefore, stock of goods is not part of quick ratio, quick ratio is calculated by deducting inventory from current assets and then dividing the remainder by current liabilities. Inventories are really and least liquid of a firm's current assets, hence they are the assets on which losses are more likely to occur in the event of liquidating (Kabiru, 2019). This measure of a firm's ability to pay its short-term maturing obligations without relying on inventory is very important (Brigham and Houston, 2007).

Theoretical Review

A number of theories have been found in the literature to describe the liquidity management and its relationship with financial performance which are not limited to irrelevance Modigliani- Miller theory, static trade-off theory in the 1960s -1970s, Agency theory in the mid-1970s but also include among others, pecking order and transaction cost theories in the 1980s. The study evaluates two theories; these are pecking order theory and transaction cost theory.

Pecking Order Theory

The pecking order theory is a capital structure theory developed by Myer and Majluf (1984). The theory states that companies prioritize their sources of financing (from internal financing to equity) and consider equity financing as a last resort. Internal funds are used first, and when they are depleted, debt is issued. When it is not prudent to issue more debt, equity is issued. This theory maintains that businesses adhere to a hierarchy of financing sources and prefer internal financing when available, and debt is

preferred over equity if external financing is required (Pandachi, 2006). The hierarchy depends on the firm's size and level of development, because there is a particular level of information asymmetry and financial need for every phase of growth. This is also known as the "financial growth cycle."

According to this theory, private equity operators and venture capitalists revolutionized the pecking order system, because equity finance comes before debt financing in some cases. This occurs because of the need for more transparency and the reduction of information asymmetry among traditional financiers, such as banks and firms where the need for financial sources is just a part of the whole problem to be solved.

The pecking order theory explains the role of the private equity industry and, more important, highlights the reasons why it operates regardless of the level of development or size of a company. Different from traditional financiers that usually support firms only with money, the private equity industry brings management capabilities to the firms and information to the whole financial system. Wu, et al (2015) assert that the possibility of achieving an optimum working capital management position of a firm is assumed to be the reason for adhering to pecking order theory.

In this study, it is assumed that firms can use aggressive financing policy by using more current liabilities than using long term liabilities. Mbithi, Mairuri & Kingi (2015) argued that organizations should prefer current liabilities, because current liabilities refer to trade credit which has no cost compared to long term liabilities which carries fixed interest rate. The variables captured by this theory are current ratio and quick ratio.

Transaction Cost Theory

This theory was developed by Williamson (1975). Transaction cost theory is an alternative variant of the agency understanding of governance assumptions. It describes governance frameworks as being based on the net effects of internal and external transactions, rather than as contractual relationships outside the firm (i.e. with shareholders). The way in which a company is organized can determine its control over transactions, and hence costs. It is in the interests of management to internalize transactions as much as possible, to remove these costs and the resulting risks and uncertainties about prices and quality.

The significance and impact of these criteria will allow the company to decide whether to expand internally (possibly through vertical integration) or deal with external parties. The variables that dictate the impact on the transaction costs are frequency, uncertainty and asset specificity. The degree of impact of the three variables leads to a precise determination of the degree of monitoring and control needed by senior management.

Transaction costs still occur within a company, transacting between departments or business units. The same concepts of bounded rationality and opportunism on the part of directors or managers can be used to view the motivation behind any decision. Transaction cost theory provides that opportunistic behavior could have dire consequences on financing and strategy of businesses, hence discouraging potential investors. Businesses therefore organize themselves to minimize the impact of bounded rationality and opportunism as much as possible. Governance costs build up including internal controls to monitor management and also managers become more risk averse seeking the safe ground of easily governed markets. Therefore, the variable captured by this theory is return on assets.

Empirical Review

Mwambui and Koori (2019) assessed the effect of liquidity management and financial performance of microfinance banks in Nairobi City County for the period 2011 to 2017. Thirteen microfinance banks made up the population of the study. For the secondary and primary data, a descriptive survey research design was employed for them. Data analysis for the study was carried out with the use of SPSS version 22.0. The it was discovered in the study that there is no reasonable but weak and positive relationship between capital sufficiency and financial performance, whereas the relationship between loan repayments and cash management is significant and positive with microfinance banks financial performance.

A study on the impact of liquidity on profitability in textile sector in Pakistan by Sattar (2020) whose result from the simple regression using Stata 12 showed that current ratio has a significant and positive impact on return on equity and return on capital deployed in 2014. So also in 2015, current ratio has reasonable but positive effect on return on capital employed and return on equity.

Kitere, Namusonge and Makokha (2019) analyzed the effect of Liquidity management on performance of commercial banks in Kenya where a mixed research design was adopted for the study. The population of the study was made up by the 6913 employees in management and supervisory cadres in commercial banks in Kenya. The sampling approach used was stratified and unstructured and structured questionnaires were the tool for data collection and the source of data were both secondary and primary. The SPSS version 21 was used for analyzing of the data. The significant levels of the variables were tested using regression analysis and hypotheses were tested by ANOVA to test the significant levels of one variable to the other in the study. The results showed that the effect of liquidity management on the performance of commercial banks in Kenya is positive and significant.

There was an attempt by Satyakama and Bhusan (2019) to analyze the impact the liquidity management on the profitability of private sector banks in India where they use ten (10) banks privately owned by individuals from 2013 to 2017. It was showed in the study that there exists a significant negative effect of cash to deposit ratio and investment to deposit ratio on return on assets, while the relationship between liquidity and profitability of the variables under study was significant in the case of return on equity.

Otekunrin et al (2019) studied the performance of selected deposit banks in Nigeria and liquidity management where he used secondary data source obtained from the annual reports of fifteen deposit money banks from the total of 17 deposit money banks in Nigeria that are listed in Nigerian Stock Exchange from 2012 to 2017. According to the study, it was discovered that liquidity management measured with capital ratio, and current ratio and cash ratio has a positive relationship performance measure with return on assets. Therefore, the study revealed that liquidity management is vital to profitability of any business.

The study conducted by Sanyaolu, Aloa and Ojunrongbe (2019) examined the effect of liquidity management on profitability of ten (10) Nigerian deposit banks from 2008 to 2017. The study's random effects generalized least square estimate showed that a positive and statistically significant relationship exists between the two indicators liquidity management proxies (current ratio and liquidity ratio) and return on asset, however the study did not find empirical evidence in support of loan to

deposit ratio ($t = 1.0650$, $p = 0.2896$) and deposit to asset ratio ($t = -6507$, $p = 0.5168$) as having influence on profitability of the selected banks, as results produced insignificant relationship with profitability.

Waswa, Mukras and Oima (2018) examined the effects of liquidity management on the performance of firm, sampling five (5) sugar companies from 2005 – 2016 in Kenya. The estimation from the random effect regression showed there is negative association between liquidity management and financial performance of the firms being studied. The research also suggests that when liquidity is funded carefully, will lead to a good financial performance.

Adhikari (2020) studied the impact of liquidity on profitability in Nepalese commercial banks. 27 out of 28 commercial banks in Nepal were used for the analysis. A cross-sectional secondary data of the banks was employed. For data analysis, causal comparative and descriptive approaches for research were used. Furthermore, to determine the relationship between the variable's multiple general linear regression and correlation analysis were used. Findings from the study showed that statically the association between the driver's liquidity and profitability of Nepal commercial banks is insignificant. This study carried out in regard to the commercial banks in Nepal, however the current study is centered on the Nigerian insurance industry.

Terseer et al., (2020) examined the effect of liquidity management on financial performance of banks in Nigeria from 2010-2018. Secondary source of data was employed for 5 banks that were listed on the Nigerian Stock Exchange. Estimation of model and Hausman test is done using panel regression analysis whilst determining to choose between the random and fixed effect model. It revealed that the effect of liquidity ratio on drivers of profitability of deposit money banks is significant and positive. This study was limited or used little number of banks for its study. Therefore, it can't generalize its finding to all the deposit money banks in Nigeria.

Dadepo and Afolabi (2020) assessed the impact of the liquidity management on the performance of ten manufacturing companies from 2012 to 2016 which covered the period of 5 years. Findings of the study showed that the effect of current ratio on profitability measured by return on assets is negative and significant while, the relationship between cash

and quick ratio on return on assets of the selected companies is negligible but positive. Also, Emmanuel and Stephen (2020) conducted a study on liquidity management and performance of deposit money banks in Nigeria with six (6) banks that are part of an international association. Secondary data were obtained from the bank's annual books from 2013 to 2019. The findings showed that there is positive relationship between capital adequacy and return on equity likewise; liquidity and current ratio showed very low negative relationship with return on equity and bank size had a strong positive relationship with return on equity. Hence, the need for broader study on the field.

Chinweoda et al., (2020) studied the effect of liquidity management on the performance of banks in Nigeria. The population sample for the study was eighteen (18) banks that are listed on Nigeria's stock exchange between 2011 to 2017. The study revealed that liquidity management has a positive and serious impact on profitability of those banks being studied. Also, the study showed that capital adequacy has a significant effect on return on assets, return of equity, and return on capital being employed. Similarly, asset quality was found to have a positive and high effect on the drivers of performance. The main shortcoming of Chiwendo's work was the scope which involved banks in Nigeria and limited its findings on deposit money banks while ignoring development banks like Bank of Industry, Bank of Agriculture and Mortgage banks therefore his findings cannot be generalized due its broad scope and limited sample size.

Anandasayanan and Subramaniam (2020) assessed the effect of liquidity management on banks profitability in Sri Lanka. The research work used 26 commercial banks in Sri Lanka from 1998 to 2017, making it a period of 20 years. The findings of the research showed that there is positive association between return on asset and capitalization ratio, whilst a negative relationship was found between capital adequacy ratio and return on asset and the results from the regression analysis also identified that liquidity has a very high impact on profitability.

A study on the impact of liquidity on profitability in textile sector in Pakistan by Sattar (2020) whose result from the simple regression using Stata 12 showed that current ratio has a significant and positive impact on return on equity and return on capital deployed in 2014. So also in

2015, current ratio has reasonable but positive effect on return on capital employed and return on equity.

Kitere, Namusonge and Makokha (2019) analyzed the effect of Liquidity management on performance of commercial banks in Kenya where a mixed research design was adopted for the study. The population of the study was made up by the 6913 employees in management and supervisory cadres in commercial banks in Kenya. The sampling approach used was stratified and unstructured and structured questionnaires were the tool for data collection and the source of data were both secondary and primary. The SPSS version 21 was used for analyzing of the data. The significant levels of the variables were tested using regression analysis and hypotheses were tested by ANOVA to test the significant levels of one variable to the other in the study. The results showed that the effect of liquidity management on the performance of commercial banks in Kenya is positive and significant.

Literature Gap

From the reviewed literature, no existing work on liquidity management has been done in the Nigerian insurance industry. Also, the existing literature limited their scope to 2017. This work seeks to fill the gap by examining how liquidity management affects financial performance of insurance companies in Nigeria from 2011 to 2020.

METHODOLOGY

This study has adopted the ex-post facto research design. The ex-post facto research design was chosen for this study because it helps in ascertaining the effect of independent variable on the dependent variable to be able to make predictions. Secondary source of data was used, and the data were obtained from the Nigeria Insurance Digest. It covered period from 2011 to 2020. There were fifty-five insurance companies in Nigeria which consists fourteen (14) composite companies, twenty-six general insurance companies, eleven (11) life insurance companies, two (2) Takarful insurance and two (2) reinsurance companies but only fifty-one (51) companies comprising life, general and composite companies were used for this study.

Multiple regression technique was adopted, and E-View 10.0 was used for the analysis of data. Also, a post estimation test such as multicollinearity,

normality of standard error and long-range multiplier tests were conducted to validate the results.

For the purpose of analysis, the study anchored on this model:

$$ROAt = \beta_0 + \beta_1CRt + \beta_2QRt + \varepsilon$$

Where:

ROA = Return on assets,

CUR = Current ratio

QUR = Quick ratio

β_0 = Model constant,

ε = Error term

t = Year

Table 1: Variable Measurement

S/N	Variable	Proxy	Type	Definition	Source
1	Return on Assets	ROA	Dependent Variable	Profit After Tax divided by Total Assets	Chinweoda et al., (2020), Oladunni (2021), Sanyaolu, Aloa and Ojunrongbe (2019)
2	Current Ratio	CUR	Independent Variable	Total current assets to total current liabilities.	Sattar (2020)Waswa, Mukras and Oima (2018)
3	Quick Ratio	QUR	Independent Variable	Relationship between quick/liquid assets and current liabilities	Dadepo and Afolabi (2020), Otekunrin et al (2019)

Source: Authors' Compilation (2023)

DATA PRESENTATION AND ANALYSIS

This section discussed presentation, interpretation, analyses and discussion of the descriptive statistics, correlation result and the summary of the regression results.

Table 2: Descriptive Statistics

Variables	Min	Max	Mean	Std. Dev.	Sktest
ROA	0.54	2.32	0.78	0.23	0.0031
CUR	2.35	72.5	12.19	8.92	0.0001
QUR	1.62	33.31	12.51	8.02	0.0025

Source: Authors' compilation from E-View (2023)

Table 2 shows the minimum and maximum values of ROA to be 0.54 and 2.32 respectively. This implies that some of the insurance companies were not generating more income when utilizing their accepts while some ade effective use of the accepts with income of over 200%. The current ratio had a minimum value of 2.35 and a maximum value of 72.5. This implies that the insurance companies even with low current ratio had 2 times what is required in terms of meeting their short term financial obligations in claims payment. On average, majority of the insurance companies had 12 times what is required by law to be kept as liquidity.

Quick ratio recorded a minimum value of 1.62 and maximum value of 33.21. This shows that the lowest quick ratio for insurance companies during the study period was 1.57 percent, while the highest percentage of liquidity ratio was 33.21%. Also, on average the quick ratio for all insurance companies was about 12.51.

Table 3: Correlation Analysis

	<i>ROA</i>	<i>CUR</i>	<i>QUR</i>
<i>ROA</i>	1		
<i>CUR</i>	0.2832*	1	
<i>QUR</i>	0.3635*	0.2045*	1

Source: E-View Output (2023)

*. Correlation significance is at 0.01 or 0.05 level

Table 3 shows that financial performance is positively and significantly correlated with current ratio to the level of 28%. This implies that financial performance of insurance companies is directly correlated with current ratio. Quick ratio ratio is found to have a positive and significant relationship with financial performance to the tune of about 36% level implying that there is an direct correlation between the two variables. Current ratio recorded a positive significant relationship with quick ratio at a magnitude of 20%. This shows that there is correlation between the two variables moves in same direction. For the association between the independent variables, multicollinearity test was used to determine whether the level of association was grievous. However, a mean VIF Value of 1.21 is an indication that presence of multicollinearity is not a problem.

Post Estimation Tests

This section includes heteroscedasticity, multicollinearity and normality test of error term. Heteroscedasticity test result showed that the chi-square value of 0.28 which is considered small and the probability value of 0.3521 was greater than 5%. This implies that the absence of heteroscedasticity. Therefore, the use of Ordinary Least Square (OLS) is advisable due to the non-violation of the classical assumptions of OLS. Multicollinearity test results for VIF and tolerance values were found to be consistently less than ten and one respectively (see appendix). Normality of error term revealed that most residual of the error term was mild and tolerable. Hence, the low level of abnormality of error term was achieved.

Table 4: Summary of Regression Result

<i>Variables</i>	<i>Coefficient</i>	<i>T-Statistics</i>	<i>Prob. Value</i>	<i>Cumulative</i>
Constant	0.1831	2.57	0.011	
CUR	0.0011	2.03	0.035	
QUR	0.0210	7.40	0.010	
R ²				0.41252
Adjusted R ²				0.40115
Fisher Exact Statistics				119.28.
Prob. F-statist.				0.0000
Heteroscedasticity (Chi ²)				1.21
Hettest Probability (Chi ²)				0.2356
Mean VIF				1.16

Source: Authors Compilation from E-View Output (2023)

Table 4 shows that the cumulative R² of 0.41252 signifies that 41.25% of total variation in financial performance of insurance companies in Nigeria is driven by its current ratio and quick ratio used in this study. The Fisher Exact Statistics value of 119.28 with a significant value of 1% shows that the model of the study is appropriate and well fitted. It further implies that there is 99.9% probability that the association between the variables was not due to mere chance and as such the inferences drawn from the research could be relied upon.

Current ratio and quick ratio had coefficient values of 0.0011 and 0.0210, t-values of 2.03 and 7.40 respectively that are significant at 5% level. This means that current ratio and quick ratio have significant and

positive effect on the financial performance of insurance companies in Nigeria which further implies that an increase in current and quick ratios will significantly increase the financial performance of insurance companies. This may be as a result of the fact that when most insurance companies are faced with any many claims reports, having enough liquid will enable them to absorb the shocks due to adequate funds. This is in line with the findings of Dadepo and Afolabi (2020), Otekunrin et al (2019), Chinweoda et al., (2020), Oladunni (2021), and Sanyaolu, Aloa and Ojunrongbe (2019).

CONCLUSION AND RECOMMENDATIONS

The study concludes that liquidity management is one of the major drivers to achieving high financial performance in insurance industry. Insurance companies that want their presence to be appreciated require proper management of their liquidity. It also concludes that based on the variables in the study, current ratio and quick ratio are the main drivers of high value in insurance sector, especially in the area of claims settlement.

This study therefore recommends that:

- (i) insurance companies management board should pursue increased capital with the National Insurance Commission and NICOM should as well make sure that insurance companies continually meet the requirements with respect to liquidity management before giving them license to operate.
- (ii) the management of insurance companies should guarantee that most inactive cash are invested into short term portfolios to attract higher returns because it will eventually increase the performance of the companies.
- (iii) Insurance regulators in Nigeria should formulate policies where any insurance companies that go below liquidity ratio and refuse to meet up with their claims obligations are adequately penalized.

References

Ajayi, M. A, Abogun, S and Odediran, T.H (2017). Impact of working capital management on financial performance of quoted consumer goods manufacturing firms in Nigeria. *Covenant Journal of Business & Social Sciences (CJBSS)*, 8(2), 1-22.

- Al-Eitan, N. G and Bani-Khalid, O. T. (2019). Credit risk and financial performance of the Jordanian commercial banks: a panel data analysis. *Academy of Accounting and Financial Studies Journal*, 1-13.
- Brealey, R. A., Myers, S. C and Allen, F. (2011). Principles of corporate finance (10th ed.). New York: McGraw-Hill Irwin.
- Brigham, E. F and Houston, J.F. (2007). *Fundamental of Financial Management*. USA: South-western.
- Brigham, E. F., and Houston, J.F. (2007). *Fundamental of Financial Management*. USA: South-western.
- Gambo, H., Bambale, J. A., Ibrahim, A. M and Sulaiman, A. S. (2019). Credit risk management and financial performance of quoted deposit money banks in Nigeria. *Journal of Finance, Accounting and Management*, 26-42.
- Henri, J.F. (2013). Performance measurement and organizational effectiveness. Retrieved February 29, 2020 from http://www.researchgate.net/publication/228988658_performance_measurement_and_organization_effectiveness_bridging_the_gap
- Kabiru, A.I. (2019). Effects of working capital management on financial performance of food and beverage companies in Nigeria. Published PhD Thesis, Ahmadu Bello University, Zaria.
- Kung'u J.N. (2015). Effect of Working Capital Management on Profitability of Manufacturing Firm in Kenya. PhD Thesis, Jomo Kenyatta University of Agriculture and Technology, Kenya.
- Margaret, A. M. (2019). Effect of Capital Adequacy on the financial performance of insurance companies in Kenya. *International Academic Journal of Economics and Finance*, 3(4), 172-185.
- Mwangi, L.W., Makau, M.S and Kosimbe, G. (2014). Effect of working capital management on profitability of manufacturing companies firms in Nakuru Town, Kenya. *International Journal of Economics, Commerce and Management*, IV(4), 1082-1105.
- Mwangi, M. and Murigu, J.W. (2015). The Determinants of financial performance in general insurance companies in Kenya. *European Scientific Journal*, 11(1).288-297.
- Myer, S and Majluf, N. (1984). corporate financing and investment decisions when firms have information that investors do not have. *Journal of Investment Economics*, 13,187-221.
- Pandey, I.M. (2015). *Financial Management*. Mumbai: UBS Publishers Distributions PVT Ltd.

- Trivedi, S.M. (2010). Financial Performance Areas. <http://etheses.saurashtrauniversity.edu/97/1/%288%29%20trivedi%20shilpa%20m..pdf>
- Usman, A. (2019). Impact of Working Capital Management On Financial Performance of Listed Agricultural Firms in Nigeria. *M.Sc. Dissertation*, Abubakar Tafawa Balewa University, Bauchi.
- Zubair, A.I. (2015). Evaluation of the Impact of Audit Committee on Performance of Deposit Money Banks in Nigeria. *PhD Thesis*, Ahmadu Bello University, Zaria.