# CORPORATE GOVERNANCE AND FINANCIAL SUSTAINABILITY OF LISTED INSURANCE COMPANIES IN NIGERIA

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# ACRONYMS AND ABBREVIATIONS

**BOD** - Board of Directors.

**CEO** - Chief Executive Officer **CMA** -Capital Markets Authority **GDP** - Gross Direct Premium

**IRA** - Insurance Regulatory Authority **NSE** - Nigeria Securities Exchange **ROA** - Return on Assets

# ABSTRACT

This study looked at the relationship between corporate governance and financial performance of insurance companies in Nigeria. Good corporate governance enhances ethical behavior of those that yield corporate power. Specifically, this study examined Board diversity, Board meetings, Board committee, Board size, and Board independence and their relationship with financial performance, as measured by return on assets, of insurance companies in Nigeria. The study comprised of all 43 insurance companies licensed by the Insurance Regulatory Authority during the period 2012 to 2015. The study employed multiple linear regression analysis. The data collected was from secondary sources as it was obtained from the firm’s financial reports. The data was cleaned for completeness, coded and analyzed by the use of Statistical Package for Social Sciences (SPSS) for analysis. The results also found that there exists a weak negative correlation between return on assets and board size with return on assets and board diversity was found to be strongly positive. The board frequency of meetings was found to have a minimal significant influence on the insurance company’s financial performance with board diversity, board committee and board committee found to be statistically significant. The overall multiple linear regression models was tested using ANOVA and the resulting F-stat indicated that the model was significant at 95% significance level.The study recommends that stakeholders in Nigerian insurance industry should take into account the board diversity, board committees and board meetings when forming board of directors as they are significant determinants of financial performance. That is the board should be organized in a way that will help the insurance companies improve their overall performance. According to this study board independence and board size should not be prioritized as they are insignificant when it comes to determining listed firms’ financial performance.The variables considered in the study explained 52% and 66% of the variation in firm financial performance across the four study years implying that there are other important factors not included in the model and therefore the study recommends that the management should put in to consideration such factors in order to enhance the effectiveness of corporate governance index. The study also recommends that policy makers should set an index on corporate governance to act as a reference for all insurance companies so that the efficiency of corporate governance can be enhanced

# CHAPTER ONE

# INTRODUCTION

## Background of the Study

This chapter entails the overview of the topic under study, in it, it contains the studies background, the statement of the problem, research objective and at the same time, it looks at the value of the study .Corporate governance can be defined as that set of procedures followed, customs, policies, laws and institutions which affect the way in which the corporation is directed, administered and managed. It may be defined as the businesses’ pillars which guide businesses on how to be accountable to stakeholders, fairness, adopt transparency in business activities and exhibit independence in decision making by the board.

Risk is a factor that is inherent in the quest for improvement, expansion and development in any economy. However, the fear of losses associated with risks can discourage economic activities. This makes the insurance (which is a promise of indemnity to insured economic agents in the event of losses) a very significant driver of economic growth and development. The insurance sub-sector of the financial sector aims at flattening various forms of financial tragedy in the economy hence, strengthening the financial and economic system of the country (Shawar and Siddiqui, 2019). Insurance is a vital tool through which the financial misfortunes of an individual and entity are shared by many to reduce the effects of problems. The development of insurance market has been seen to have mutual link to changes in terms of economic, social, political, technological, cultural, religious and demographic forces (Elegunde, Ajemugbohun and Azeez, 2020).

The percentage growth in the annual gross premium has not been progressively stable. However, according to Elegunde et al., (2020) the Nigerian insurance industry have performed poorly owing to poor product mix/pricing strategy; gross inefficient service delivery channels; low integrity of many insurance firms; low insurance awareness among Nigerians; poor labour practices; poor information technology infrastructure; poor regulatory mechanism, and poor enforcement mechanism. The recurring issues of exorbitant management expenses in excess of premium income, excess liabilities and inability to meet claims payments amongst others by insurance companies has given rise to doubts within the stakeholders and the insuring public as to the transparency, accountability and honesty of insurance companies with respect to financial propriety (Kuye, Sulaimon and Odiachi, 2020).

Having established the need for a stable and financially buoyant insurance industry in an economy, it is evidenced that the insurance companies play a pivotal role in the economic performance of a developing nation like Nigeria. The major concerns are the spate of corporate governance that derailed investors’ confidence and built more financial recklessness and the overwhelming incidence of corporate fraud relating to overstated accounts, have informed renewed global emphasis on the need for corporate governance (Okonkwo, Ibenta, and Nkemakolam, 2016; Balogun and Ajao, 2018). Arguably, there is great emphasis on the fact that good corporate governance has a positive link to national economic growth and development. This has made it imperative that the corporate governance code be applied in totality especially with respect to the board function so as to ensure that organizations and their finances are managed properly. To this end, adherence to good corporate governance is recognized as crucial to the success, growth and development of the corporate sector.

# Research Problem

An identified problem here is that corporate governance activities seem to have its pros and cons, making it difficult to ascertain the impact of each corporate governance decision on the performance of the insurance company. For instance, insurance company with a large board size would be able to provide more influences on sensitive matters and decisions that affect performance (Zakaria, Purhanudin and Palanimally, 2014). However, it was further argued that small sized board members accelerate decision making processes (Adejare and Aliu, 2020; Okonkwo and Ezeabasili, 2016). Similarly, the impact of board independence has been debated for so long owing to the fact that the absence of board independence usually made the board to be less effective, however, independent board members are the major source of what is referred to as the “agency problem” (Adejare and Aliu, 2020).

Contrasting results from empirical studies have not helped to settle this debate. Some scholars found that board size negatively impacts managerial efficiency while board compensation positively relates to earnings and profitability of listed insurance companies in Nigeria (Ibe, Ugwuanyi and Okanya, 2017; Adejare and Aliu, 2020; Elegunde et al., 2020; Okonwo, Azolibe, and Nwadibe 2019).

Corporate governance in such studies have often revolved around board of directors and audit committee dynamics. These issues have necessitated current research which would statistically pinpoint the impact of corporate governance on the financial performance of insurance companies in Nigeria using the most recent data available which would also include shareholders controlling interest ratio.

# Research Objective

The objective of the study was to determine the effect of cooperate governance and financial sustainability of listed insurance companies in Nigeria.

# Research Objective

1. To determine the effect of Board size on the financial sustainability of listed insurance companies in Nigeria
2. To determine the effect of Board diversity on the financial sustainability of listed insurance companies in Nigeria
3. To determine the effect of Board independence on the financial sustainability of listed insurance companies in Nigeria
4. To determine the effect of Board committee on the financial sustainability of listed insurance companies in Nigeria
5. To determine the effect of Board meetings on the financial sustainability of listed insurance companies in Nigeria

# Research Questions

1. What is the effect of Board size on the financial sustainability of listed insurance companies in Nigeria?
2. What is the effect of Board diversity on the financial sustainability of listed insurance companies in Nigeria?
3. What is the effect of Board independence on the financial sustainability of listed insurance companies in Nigeria?
4. What is the effect of Board committee on the financial sustainability of listed insurance companies in Nigeria?
5. What is the effect of Board meetings on the financial sustainability of listed insurance companies in Nigeria?

# Value of the study

This study is important for the following reasons:-

The results of this research may be useful for regulators i.e. IRA and AKI in Nigeria as they continue to deliberate the appropriate additional corporate governance requirements suitable for Insurance companies in Nigeria. This study will also be useful in providing direction to stakeholders in the insurance sector as it will form basis for critical thinking which eventually aids in decision making. This may necessitate the need for further training of insurance companies’ staff on the need to embrace, adopt and observe good corporate governance practices in their organizations.

This study will add more knowledge that exists about the relationship that exists between corporate governance and how these have an impact on the overall financial performance in the insurance industry and also fill the gap on the relationship between these variables for future reference by other researchers. Future researchers will also benefit from this research as it will enable them to have a look at what has been researched before and identify gaps that have not yet been researched on.

# CHAPTER TWO

# LITERATURE REVIEW

* 1. **Introduction**

This chapter gives a theoretical conceptual framework on what Corporate governance entails, the theories that explain more about corporate governance, an overview of board structure, board committee, the co-existing relationship between executive compensation and financial performance of organizations. It also reviews empirical literature on past studies in this area of corporate governance and how this relationship affects the performance of insurance companies as well as identifying the research gaps to be filled.

# Review of Theories

In corporate governance, there are fundamental theories which include; agency theory which has been expanded further into stewardship theory as well as stakeholder theory. These have led to development of further related theories such as resource dependency, transaction cost theory, political theory and ethics related theories. These theories mainly entail looking at the structure of the board, its size, the various committees, independent directors as well as top management’s role and their social relationships. For effective and good governance practice, a combination of various theories is advisable as opposed to theorizing corporate governance based on only one theory.

# Agency Theory

Agency theory refers to that relationship that is there between the principals who include the shareholders and their agents who include managers and executives in a company. The shareholders are usually the ones that owns the company or founders of the company who recruit managers and executives to work and oversee the operations

of their companies. The origin of this theory is from the notion that the managers and executives of an organization is working on behalf of, and in the shareholders of the firm who on most occasions are absent. (Ray W. Atchinson, II, 2007) (Berle and Means, 1932) states that the firm’s managers and executives will more often than not be required to act in their own self-interest which conflicts with the interests of the owners.

Jensen and Meckling(1976) observed that the interests between shareholders and the executive maybe misaligned resulting to agency problems such as managers engaging in activities for their own benefit rather than for the benefits of the firm’s owners. He portrays employees in agency theory as those who are self-interested, individualistic and bounded rationally where their priority is on rewards rather than punishments. To minimize the potential agency problem between shareholders and management and shareholders, management incentive compensation plans can be implemented such that firm’s value is added by aligning the management incentives with shareholders interest.

# Stewardship Theory

Davis and Donaldson (1997) define a steward as one whose aim is to shield and maximizes shareholders wealth through the efficient running of the firm. By doing so, the steward’s value are enhanced in an organization, stewards are the managers and executives working for shareholders. They guard and make profits on behalf of the shareholders and are therefore gratified and motivated with the achievement of organizational success.

Stewardship theory stresses on the top management’s role of being stewards thereby integrating these roles to be part of the organization. This theory recognizes the

structures are important in that they empower the stewards thereby giving them maximum control which builds the stewards trust and eventually minimizes monitoring costs. Executives and directors will work in such a manner as to maximize financial performance by increasing the wealth and profits of the shareholders so as to ensure their reputation is protected as organizations decision makers of (Daily et al, 2003). In doing this, they aim at being seen as stewards who are effective of their organization thereby protecting their careers (Fama, 1980).

# Stakeholder Theory

Freeman (1999) defines stakeholders as group of individuals or individuals who affect or are affected when the organization achieves its objectives. This group includes stakeholders such as employees, suppliers and partners in the business. Sundaram and Inkpen (2004), concludethe aim of this theory is to address the group of stakeholders who deserve and require the attention of the management. It focuses on decision making by the management and interests of the stakeholder assuming that no sets of interests dominates the others (Donaldson& Preston, 1995)

This theory is mainly interested in the way these relationships are in terms of both processes and outcomes from the firms and the firm’s stakeholders as these groups can affect decision making processes. Wanyama and Olweny (2003), define this theory as that person or group of people who are affected or can affect the achievement of the objectives in the organizations. Managers oftenoperate in a network of relationships which they serve that include employees, suppliers, and business partners.

# Resource Dependency Theory

According to Pfeffer (1973), this theory entails looking at the role that the board of directors’ play in ensuring there is provision of the resources that the organization needs. In this case, the directors’ role is to provide all resources required by an organization through their links to the external environments. The resources in this case include; information, skills, and access to key stakeholders who include the suppliers, buyers, makers of public policy and social groups. It provides focus in ensuring that independent organizations have representatives who are appointed to enable the firm gain access to resources that are critical to its success. For example, the B.O.D may appoint a lawyer to provide legal advice particularly during board meetings or in instances where there is private communication with the executives of the firm which may have been expensive for the firm to secure.

Daily et al, (2003), argued that by providing the required resources, the functioning and performance as well as its survival of the organization are enhanced. The directors are categorized into four different namely; insiders, support specialists, business experts and community influential. The insiders are usually selected from the current and or former executives of the firm whose role is to provide expertise in areas such as general strategy as well as direction. Business experts usually include current, former senior executives and/or directors of large profit making firms. Their role is to provide expertise on strategy of the business, assist in decision making as well as aid in solving problems. The support specialists include professionals such as bankers, lawyers, representatives from the insurance company and public relations experts. Their role is to provide support and guidance in the fields they have specialized in. The community influential includes the political leaders, members of clergy, university faculty, leaders of social or community organizations.

# Determinants of Financial Performance of the Firms

Bhoelje (1999), asserts that financial performance of firms can be measured in terms of profitability, liquidity, financial efficiency, solvency and capacity in debt repayment. In a study conducted on the Bermuda Insurance market, by Adams and Buckle (2003), it was observed that companies whose leverage is high and liquidity low and reinsurance have a better operational performance compared to companies whose lowly leverage is low and liquidity high and direct insurers.

# Age and Financial performance

According to Sorensen and Stuart (2000), company’s age may have an effect on firms’ performance. They further noted that older firms may have organizational inertia which tends to make them inflexible which may result to their inability to appreciate the changes that occurring in changing environment. However, Liargovas and Skandalis (2008), noted that older firms may have more skillsbecause they have been in operation longer thus have more experience having enjoyed the benefits that come from learning and aren’t prone easily to the liabilities that result from newness therefore they tend to have performance that is superior as compared to newer firms.

According to Loderer and Waelchli (2009), the relationship that exists between the age of a company and profitability is positive. However it has also been observed that firms performance may at times decline as companies grow older due to the fact that old age may lead to knowledge, abilities and skills being obsolete thereby resulting to decay in organizations. Agarwal and Gort, 2002) this may explain why some older companies are usually taken over.

# Level of Liquidity and Financial Performance

Liquidity is defined as the degree in which an entity is able to honor debt obligations falling due in the next twelve months through cash or cash equivalents for example assets that are short term can be quickly converted into cash. Liquidity results from the managers’ ability to fulfill their commitments that fall due to policy holders as well as other creditors without having to increase profits from activities such as underwriting and investment and as well as their ability to liquidate financial assets. (Adam and Buckle, 2003)

According to Liargovas and Skandalis (2008), liquid assets can be used by firms for purposes offinancing their activities and investments in instances where the external finance is not forthcoming.).Firms with higher liquidity are able to deal with unexpected or unforeseen contingencies as well as cope with its obligations that fall due in periods of low earnings. Almajali et al. (2012) noted that firm’s liquidity may have significant effect on financial performance of insurance companies; therefore he suggested that insurance companies should aim at increasing their current assets while decreasing their current liabilities. However, Jovanic (1982), noted that an abundance of liquidity may at times result to more harm. He therefore concludes that the effect of liquidity on financial performance of firms is ambiguous.

# Size of the firm and Financial Performance

Burca and Batrinca (2014), asserts that the relationship existing between size and financial performance is positive in the sense that more resources are available in larger firms, better risk diversification strategies, complex information systems and are able to manage expenses well compared to small firms. This may have an impact on the financial performance of insurance companies in different ways for example

large firms may be advantaged compared to smaller firms as they can be able to exploit economies of scale and scope and as such they are more efficient in their operations and as a result reap higher level of profits..

According to Almajali et al (2012), the firm’s size may have an impact on its financial performance. The relationship between performance and size is positive due to the fact that there are efficiencies in operating cost that result to increased output and economies of scale. Insurers of large companies are able to diversify their risks hence are able to quickly respond to any changes that may occur in the market. Yuqi (2007) noted that in firms that are exceptionally large, there could be a negative performance in relation to its size due to bureaucratic and other costs implications.

# Empirical Review

In a study conducted by Wanyama and Olweny (2013) on effects of Corporate Governance on Financial Performance of Insurance Firms listed at the NSE in Nigeria, He noted that a strong relationship exists between the corporate governance variables under study (board size, CEO duality, board composition, and leverage) and the firm’s financial performance. It was observed that a negative relationship existed between board size and impact on the financial performance of the insurance companies listed at the NSE. Wanyama and Olweny (2013) also noted that there exists a positive relationship that existed between board composition and financial performance of firms.

Wang *et al* (2007), did a study to establish the relationship that exists e among several elements of corporate governance and the efficiency performance of insurance firms in the Taiwan Insurance industry. In regards to the BoD, the following variables were considered: the number of outside directors, board size and CEO duality. He took a

sample that consisted of 19 life insurers and 16 non-life insurers over a period of three years. ROA was used to measure firm performance. It was noted that the board structure played a critical role in that firms that had smaller boards achieved performance that was better in terms of both ROA as well as the overall cost efficiency. He observed that on one hand, the percentage of outside directors was positively related to allocative overall cost efficiency while on the other hand CEO duality decreased allocative efficiency.

# Conceptual Framework

Number of Board Committees

Board Meetings Held

**Board diversity**

Financial Performance

Board Independence

Board Size

* 1. **Summary of Literature Review**

This chapter entails providing a review of the literature on corporate governance. The literature review reviews the theories of corporate governance which include: Agency theory (Jensen and Mackling, 1976) Stakeholder theory (Maher and Anderson, 1999), Stewardship theory (Donaldson and Davis, 1991), as well as the Resource dependence theory (Pfeiffer, 1973). This chapter has also looked at the determinants of financial performance of firms. It has also looked at the results obtained by other researchers

who studied these are of corporate governance and its impact on firm’s financial performance.

Locally, this study has been conducted by many researchers notably among them Kimosop (2011) and Makhokha (2014). The study by Kimosop (2011), relates to the relationship between corporate governance and financial performance of insurance companies listed at the NSE in Nigeria. Makhokha (2014) on the other side looked at the effect of corporate governance and how it affects the financial performance of insurance companies in Nigeria. This study looked at the outcome of corporate governance and its effect on insurance companies’ financial performance of in Nigeria where I reviewed some of the variables which were not looked at by either Kimosop (2011) or Makokha (2014) .The variables that will be different in this case include Board diversity, attended number of board meetings held annually and number of board committees existing in different companies

# CHAPTER THREE

# RESEARCH METHODOLOGY

* 1. **Introduction**

This chapter contains information about the design of the research, population and sample that will be selected for the study. Data collection, data analysis and presentation techniques that were used in the study were highlighted in this chapter.

# Research Design

Khumar (2005) defined research design as that method that is procedurally acquired by the researcher and that which enables the researcher to be able to answers questions accurately, validly, objectively, and economically. According to Wanyama & Olweny (2013), a research design aims at improving the ability of the research in conceptualizing an operational plan in order to be able to embark on the various techniques available and tasks that are required in order to complete the study while at the same time ensuring that that the procedures used are sufficient enough to acquire valid, objective and precise responses to the research questions.

This study adopted a descriptive research design. Mugenda and Mugenda (2003) defined this research design as that process of collecting data in order to test hypothesis to answer questions regarding the current status of the subjects in the study. The design was adopted as the researcher had interest in the actual state of affairs existing in the field and the variables were not expected not to be tampered or manipulated. The study was both qualitative and quantitative.

# Population

The definition of population by Mugenda and Mugenda (2003), is the whole group of events, objects or individuals having similar observable characteristics. According to Ngechu (2004), population can be defined as a set of people, households, services,

events and group of things that are under investigation. This study looked at the 43 insurance (Appendix1) companies in Nigeria who are registered members of AKI.

# Data Collection

The required data was got from financial statements of the companies for the period of 2012-2015 of the selected insurance companies. These statements shall be obtained from the websites of the selected companies or from their respective administrative offices as the case may be.

# Data Analysis

Multiple Regressions analysis was used to analyze whether there was a relationship that exists between one dependent variable and one or more independent variables. The firm performance shall be the independent variable while the dependent variables will be: board size, board diversity, and independence of the B.O.D, number of committees and number of meetings held annually. The multiple regression mode used is as represented below.

OP= α+β1X1+β2X2+β3X3+β4X4+β5X5+e

Where;

OP= The Financial performance of Insurance companies in Nigeria measured by ROA α = Constant Term (Total Assets)

βi = Beta Coefficient of variable i which measures whether there is responsiveness of Y to change in i

X1 =Board size

X2= Board diversity

X3= Board Independence X4= Number of Committees

X5=Number of meetings held annually e=Error term

# Board Size

This was calculated by the number of directors serving on the board. A favorable board size as suggested by Lipton and Lorsch (1992) should have between seven to nine directors. It has been noted that the size of the board has an impact on the performance of insurance companies. Lipton and Lorsch (1992) and Yermack (1996) argued that boards that were smaller were more productive and effective compared to larger boards. They attributed the lack of effective performance of large boards to free rider challenges that decreases the board’s capacity to monitor effectively and efficiently. Large board sizes are also prone to larger coordinate cost which decreases their capacity and ability to monitor management. Jensen (1993) noted that a small board of less than 8 members is more effective. The size of the B.O.D was calculated using the natural logarithm of the number of directors of the board of the selected insurance companies.

# Board diversity

This refers to the extent to which a board is constituted to comprise a broad range of backgrounds and interests for example, people from different cultural groups, minorities, gender, age, socio economic status, experience, connections, values as well as disability. Hyland & Marcellino (2002) asserts that board diversity is measured using observable characteristics that include a range in demographic such as age, gender, minorities or ethnic background.

Gender was measured by percentage of female representation at the board. (Carter *et* al.2003; Adams & Ferreira 2002).Age was measured by dispersion in age of the board members using coefficient of variation, which is the standard deviation divided by the mean. (Allison 1982; Bantel & Jackson 1989; Murray 1989)**.**Education Qualification of the directors includes differences in the levels of educational qualification such as PhD, masters degree, undergraduate degree ,diploma and certificates such as for professional courses and was calculated using the BLAU’s index (1977) where p is the proportionof the board of directors in each categories of educational qualifications and Ethnicity was measured by the Blau’s index (1977) of heterogeneity where p is the proportion of the directors in each of the available category of ethnic background found at the various insurance companies.

Blau’s Index is computed as 1-∑p2i

Where p is the proportion of members from each given category and I is the number of the different categories that feature across all groups.

# Board Independence

According to John and Senbert (1998), an independent board is one where the executive directors are fewer as compared to the non-executive members. The importance of the executive members in the board is that they are more conversant with the activities in the organization and as such they are in a better placed to advise the board. On the other hand the non-executive directors, monitor management performance, offer invaluable advice to shareholders as well as protect the interest of the shareholders. (Weisbach, 1998).This was measured by taking into consideration the extent of independent directors on the board to the board size i.e. calculating the

independent directors as a percentage of the non-executive directors in proportion to the total number of directors.

# Board Committees

According to Laux and Laux (2006), it’s important for boards to delegate board functions to smaller sub groups as this reduces free rider problem thereby enhancing the productivity of the board. It’s a requirement by IRA, that boards should at least have 6 committees with different roles to make it possible for the board discharge their duties and responsibilities effectively and efficiently. Such committee mays include; audit, investment, nomination, remuneration, risk management, ethics, asset liability management as well as policyholder protection committees

# Number of Board Meetings:

It’s important for board members to meet for sufficient number of times in a given year as this enables them to keep abreast of the happenings of the organization. Very few meetings would imply that the board lacks interest on the happenings in the organization while on the other side; too many meetings would indicate trouble on the organization. (Priyanka, 2013). This was measured by the total number of board meetings held during the year.

# Financial Performance

To order to analyze the financial performance of selected insurance companies, the study looked at two financial ratios, namely; Return on Equity (ROE) and Return on Assets (ROA) which are calculated as follows. Return on Equity =after tax profit/shareholders’ Equity. Return on Assets =after tax profit + Interest (Before tax)/Shareholders Equity.

# CHAPTER FOUR

# DATA ANALYSIS, FINDINGS AND DISCUSSION

* 1. **Introduction**

This chapter focused on the analysis of the collected data from the insurance company’s financial statements. The objective was to establish the effect of cooperate governance and financial sustainability of listed insurance companies in Nigeria. Descriptive statistics was used to analyze, tabulate and graphically present results as shown in the following sections.

# Data Validity

The study looked for data that would be able to meet the objectives of the study. The data collected from insurance companies’ annual financial reports was cross checked for errors to test the validity of the data sources. The research assumed a 95 percent confidence interval or 5 percent significance level (both leading to identical conclusions) for the data used. These values helped to verify the truth or the falsity of the data. Thus, the closer to 100 percent the confidence interval (and thus, the closer to 0 percent the significance level), the higher the accuracy of the data used and analyzed is assumed to be.

# Descriptive Statistics

This section presents the descriptive results of this study including measures of central tendency, the trends analysis, maximum and minimum and standard deviation. From the analysis of descriptive statistics the finding clearly reveals that return on asset has a mean of 0.0498 with a maximum of .42 and minimum of .01 and standard deviation of .062, board size has a weighed mean of 7.48 maximum of 11.0 and minimum of 6, board diversity weighed mean of 1.69 maximum of 4 and minimum of 1 and standard

deviation of 0.86 and board meetings 1.88 maximum of 3 and minimum of 1 and standard deviation of 0.762.

# Table 1: Descriptive statistics

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | N | Minimum | Maximum | Mean | Std. Deviation |
| ROA | 43 | .01 | .42 | .0498 | .06212 |
| Board size | 43 | 6.00 | 11.00 | 7.4884 | 1.31606 |
| Board diversity | 43 | 1.00 | 4.00 | 1.6977 | .86009 |
| Board independence | 43 | 2.00 | 6.00 | 3.5581 | 1.07576 |
| Board committee | 43 | 4.00 | 6.00 | 4.8605 | .83328 |
| Board meetings | 43 | 1.00 | 3.00 | 1.8837 | .76249 |
| Valid N (listwise) | 43 |  |  |  |  |

* 1. **Correlation analysis**

Correlation analysis is used to establish if there exists a relationship between two variables which lies between (-) strong negative correlation and (+) perfect positive correlation. Four variables were generated using SPSS (Board size, board diversity, board independence, Board committees and meetings).

# Table 2: Correlation analysis

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | ROA | Board  size | Board  diversity | Board  independence | Board  committee | Board  meetings |
| ROA | Pearson Correlation  Sig. (1-tailed) | 1 |  |  |  |  |  |
| Board size | Pearson Correlation | -.124 | 1 |  |  |  |  |
|  | Sig. (1-tailed) | .214 |  |
| Board | Pearson Correlation | .155 | -.039 | 1 |  |  |  |
| diversity | Sig. (1-tailed) | .160 | .403 |  |
| Board | Pearson Correlation | .014 | .239 | .003 | 1 |  |  |
| independen ce | Sig. (1-tailed) | .465 | .061 | .494 |  |
| Board committee | Pearson Correlation  Sig. (1-tailed) | -.044  .366 | -.232  .067 | -.275\*  .037 | .207  .092 | 1 |  |
| Board  meetings | Pearson Correlation  Sig. (1-tailed) | -.136  .130 | .019  .451 | -.185  .117 | .140  .185 | .015  .461 | 1 |
|  | N |  |  |  |  |  |  |

\*. Correlation is significant at the 0.05 level (1- tailed).

From the analysis of the correlation analysis, it was observed that there that there exist a weak negative correlation between return on assets and board size (p= -.124, p>0.05). This implies that the total number of directors held by insurance companies has insignificant influence on the company’s performance. The relationship between

return on assets and board diversity was found to be strongly positive (p= .455, p>0.05). The study also indicate that there exist a weak negative correlation between board meeting and return on assets (p= 0.44, p>0.05). This shows that board frequency of meetings has minimal significant influence on the insurance company’s financial performance. This study also found that there exist weak negative correlation between return on assets and committees (p= .136, p>0.05).

# Regression Analysis and Hypothesis Testing Table 3: Model summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R  Square | Std. Error of the  Estimate |
| 1 | .812a | .660 | .064 | .06409 |

a. Predictors: (Constant), Board meetings, Board committee, Board diversity, Board independence, Board size

Table 3 indicates that there is an R2 value of 66%. This value indicates that the five independent variables explain 66% of the variance in the insurance company’s financial performance. These independent variables contribute to a large extent to the company’s level of performance. It is therefore sufficiently to conclude that these variables influence financial position of insurance companies given the unexplained variance is only 34%.

# Table 4: ANOVA Analysis

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | .010 | 5 | .002 | 2.492 | .010a |
|  | Residual | .152 | 37 | .004 |  |  |
|  | Total | .162 | 42 |  |  |  |

1. Predictors: (Constant), Board meetings, Board committee, Board diversity, Board independence, Board size
2. Dependent Variable: ROA

Given 5% level of significance, the numerator df =3 and denominator df =1, critical value 2.492, table 4.41 shows computed F value as 2.492. This confirms that overall the multiple regression model is statistically significant, in that it is a suitable prediction model for explaining how the selected independent variables affects the insurance companies financial performance.

## Table 5: Regression Analysis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Un-standardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 (Constant) | .204 | .200 |  | 1.016 | .116 |
| Board size | -.699 | .820 | -.148 | -2.082 | .040 |
| Board diversity | .022 | .045 | .081 | 3.379 | .026 |
| Board independence | .033 | .080 | .071 | 0.413 | .682 |
| Board committee | -.140 | .286 | -.085 | -2.488 | .029 |
| Board meetings | -.034 | .032 | -.170 | -1.046 | .302 |

a. Dependent Variable: ROA

Using a significance level of 5%, any independent variable having a significant value greater than 5% is considered not statistically significant. This study found that board diversity, board committee and board size are statistically significant with board independence and board meetings with significance of more than 5% are not statistically significant.

# Discussion of Research Findings

A total of 43 insurance companies were selected and multiple linear regression analysis conducted. The sample regression model used was Y= α+ β1X1+β2X2+β3X3+ β4X4+ β5X5+ε which was generated to determine the effect of corporate governance on financial performance of insurance companies in Nigeria. This showed a mathematical expression of the relationship between the dependent and independent variables whereby the return on assets was considered to be responding to changes in Board meetings, Board committee, Board size, Board diversity and Board

independence. These meant that when the values were plotted on a chart, a pattern could be seen and make predictions about the financial performance of insurance companies in Nigeria. A mathematical relationship however does not mean that there is an actual relationship between the two variables.

The ROA was the dependent variable while Board meetings, Board committee, Board size, Board diversity and Board independence was the explanatory variable. The constant α explained those changes occurring in the dependent variable that are not caused by changes occurring in the explanatory variable. The coefficient of change β was the change in the dependent variable in respect to a unit change in the explanatory variable.

The research study established that board diversity; board committee and board meetings are statistically significant in determining financial performance while board independence and board size with significance value of more than 5% not statistically significant in the years 2012. In the year 2013 this study found that board diversity, board committee and board meetings are statistically significant with board independence and board size not statistically significant. The results also found that there exists a weak negative correlation between return on assets and board size with return on assets and board diversity found to be strongly positive. The board frequency of meetings was found to have a minimal significant influence on the insurance company’s financial performance with board diversity, board committee and board committee found to be statistically significant in 2013.

The coefficient of correlation, R-Squared, was used to further show the strength of this relationship between the dependent and independent variables. This degree of

association showed strong linearity between the two variables across the four study years. The R square computed for each of the four years indicated an increasing strength of this relationship from 52% in 2012 to 66% in 2015. This implies that the independent variables are significant predictors of financial performance of insurance companies in Nigeria.

The research findings showed that the deriving model is statistically significant. This is primarily showed by the statistical parameter, the F stat. The model is fit at 95% level of confidence since the F-value is more than the critical F for the four study years. The F-stat is a ratio that evaluates the explained portion of the dependent variable in relation to the unexplained portion. The higher the F value, the more significant the deriving model is. The significance F showed this as well. At 5% significance level, the significance F (0.001) was less than the significance level (0.05) for each of the four study years implying that the model was statistically significant.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

* 1. **Introduction**

The chapter provides the findings summary from chapter four as well as gives the conclusions and recommendations of the study based on the study’s objectives. The objective of the study was to determine the effect of corporate governance on financial performance of insurance companies in Nigeria. The study limitations and suggestions for further research have also been presented.

# Summary of Findings

The objective of this study was to establish the effect of corporate governance on financial performance of insurance companies in Nigeria. The findings indicate that in the year 2012 independent variables significantly explained the variance in the financial performance of insurance companies. This study also found that board diversity; board committee and board meetings are statistically significant with board committee, board independence and board size with significance of more than 5% not statistically significant in the years 2012 while in the year 2013 this study found that board diversity, board committee and board meetings are statistically significant with board committee, board independence and board size not statistically significant.

The results also found that there exists a weak negative correlation between return on assets and board size with return on assets and board diversity was found to be strongly positive. The board frequency of meetings was found to have a minimal significant influence on the insurance company’s financial performance with board diversity and board committee found to be statistically significant in 2013. This confirms that overall the multiple regression model is statistically significant, in that it

is a suitable prediction model for explaining how the selected independent variables affects the insurance companies financial performance.

# Conclusion

This study concludes that the independent variables selected for this study influence to a large extent the financial performance of insurance companies in Nigeria. It is therefore sufficient to conclude that these variables significantly influence financial performance movement given the unexplained variance is minimal. This confirms that overall the multiple regression model is statistically significant, in that it is a suitable prediction model for explaining how the selected independent variables affects the financial performance of insurance companies.

This study also found that board diversity.board committee and board meetings are statistically significant with board independence and board size not statistically significant. Wanyama and Olweny (2013) observed that board size affected the performance of listed insurance companies to a great extent.They also observed board size negatively affected the financial performance of listed insurance companies.

# Recommendations

The study recommends that stakeholders in Nigerian insurance industry should take into account the board diversity, board committees and board meetings when forming board of directors as they are significant determinants of financial performance. That is the board should be organized in a way that will help the insurance companies improve their overall performance. According to this study board independence and board size should not be prioritized as they are insignificant when it comes to determining listed firms’ financial performance.

This study concurs with Mutua (2011) that financial performance is significantly associated with board diversity. In lieu of this, it emphasizes the importance of having a diversified board especially in terms of gender, age and level of education as this will improve the financial wellbeing of insurance companies. In line with the one third rule of our current constitution, boards should be formed in such a manner that ensures women are considered for directorship positions as they have been statistically proved to have better performances while in such positions.

The variables considered in the study explained 52% and 66% of the variation in firm financial performance across the four study years implying that there are other important factors not included in the model and therefore the study recommends that the management should put in to consideration such factors in order to enhance the effectiveness of corporate governance index. The study also recommends that policy makers should set an index on corporate governance to act as a reference for all insurance companies so that the efficiency of corporate governance can be enhanced.

# Limitations of the Study

The study was based on a four year study period from the year 2012 to 2015 since this is the latest period and thus availability of data that is more applicable to the current economic situation. However, if a longer duration of the study was used, it would have captured periods of various economic significances such as booms and recessions. This would have probably given a longer time focus thus a broader dimension to the problem.

This study applied secondary data in meeting its mandate. A review of the same case using primary data sources involving the experts in the insurance industry might bring

out different outcomes. The researcher decided to use secondary data because it is information from combined effort by experts to the public and is also easily obtained compared to primary data where in some cases the required data may not be easily obtained in instances where primary data is used.

For data analysis purposes, the researcher applied multiple linear regression models. Due to the shortcomings involved when using regression models such as erroneous and misleading results when the variable values change, the researcher cannot be able to generalize the findings with certainty. If more and more data is added to the functional regression model, the hypothesized relationship between two or more variables may not hold.

# Suggestions for Further Research

The study concentrated on the last four years since it was the most recent data available. Future studies may use a range of many years e.g. from 1970 to date and this can be helpful to confirm or disapprove the findings of this study. Similar studies to this can also be carried out in future using both primary and secondary data to capture some pertinent information that this study was not able to capture due to the shortcomings associated with secondary data. Finally, due to the shortcomings of regression models, other models such as the Vector Error Correction Model (VECM) can be used to explain the various relationships between the variables while at the same time can used to compare research findings.

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# APPENDIX 1: LIST OF INSURANCE COMPANIES IN Nigeria

|  |  |
| --- | --- |
|  | **Name of Insurance Company** |

1. African Alliance Insurance Company Ltd
2. AIICO Insurance Plc. 004
3. Alliance & General Insurance Plc.
4. ALLIANZ NIGERIA INSURANCE PLC
5. Anchor Insurance Company Ltd
6. ARM Life Plc.
7. AXA Mansard Insurance plc.
8. Capital Express Assurance Limited
9. Consolidated Hallmark Insurance Plc.
10. Continental Reinsurance Company Plc.
11. Cornerstone Insurance Plc.
12. Custodian & Allied Insurance Limited
13. Custodian Life Assurance Limited
14. FBN General Insurance Limited
15. FBN Insurance Limited
16. Fin Insurance Company Limited
17. Great Nigeria Insurance Plc.
18. Guinea Insurance Plc.
19. Goldlink Insurance Plc.
20. International Energy Insurance Plc.
21. Industrial & General Insurance Plc.
22. JAIZ TAKAFUL INSURANCE PLC
23. KBL Insurance Limited
24. LASACO Assurance Plc.
25. Law Union & Rock Insurance Plc.
26. Leadway Assurance Company Limited
27. Linkage Assurance Plc.
28. Tangerine Life Insurance Ltd
29. Mutual Benefits Assurance Plc.
30. Mutual Benefits Life Assurance Ltd
31. NEM Insurance Plc.
32. NICON Insurance Plc.
33. Niger Insurance plc.
34. Nigeria Reinsurance Corporation
35. Nigerian Agricultural Insurance Corporation
36. NSIA Insurance Ltd
37. Old Mutual Nigeria General Insurance Company Limited
38. Old Mutual Nigeria Life Assurance Company Limited
39. Prestige Assurance Plc.
40. Prudential Zenith Life Assurance Company Limited
41. Regency Alliance Insurance Plc.
42. Royal Exchange Prudential Life
43. Royal Exchange Prudential Life