# Effect of Capital Structure on Financial Performance of Quoted Composite Insurance Companies in Nigeria

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**Abstract**

*This study evaluated the effect of capital structure on financial performance of quoted composite insurance companies in Nigeria for the period 2015- 2019.The study data which was collected by secondary means was analyzed using STATA 13 to test the relationship between the independent variable (capital structure) and the dependent variable (financial performance). Findings from the study indicate that there is a negative relationship between debt to asset ratio and return on equity of the companies during the study period, i.e. increase in debt to asset ratio lead to decrease in return on equity. And that there is a positive relationship between return on equity and Debt to equity ratio, i.e. increase in debt to equity ratio leads to increase in return on equity. The study therefore recommends that insurance companies in Nigeria deploy more debt in their capital structure mix, but should endervour to minimize their debt to assets ratio.*

Keywords: Capital Structure, Financial Performance, Insurance Companies, Debt to Equity ratio, Return on Equity.

## INTRODUCTION

Capital structure refers to the mix of funding sources for an organization's financing. It is the proportionate relationship between debt and equity financing by a company. Organizations sources of funding can be internal in the form of equity which includes paid up share capital, share premium and reserves or external in the form of debts or both. According to Aziz and Abbas, (2019) in Nelson, Johnny, Peter and Ayunku (2019), it is the debt and equity mixture that organizations use to finance their business operations. Equity capital is typically provided or supplied by owners of the organization or firms and is usually in the form of ordinary shares. Whilst this form of financing is relatively cheap, continued use of it may result to dilution or loss of control by the original owners. Debt financing on the other hand ensures maintenance of control but comes at a cost to the organization. According to Abor (2016) in Mukumbi et al (2020), there is a relationship between the choice of capital structure by a company and its overall market value  because this choice determines  how the operating cash flows are shared between owners(shareholders) and debt holders. They posited that increased leverage by a company increases its value up to a point, beyond which any further increase raises overall cost of capital and decreases its market value. Capital structure is considered a very important financial variable because it has a close relationship with the ability of a company to meet its obligations to various stakeholders: shareholders, employees etc (Mukumbi et al; 2020)

Discussions about capital structure of companies became well pronounced following the work of Modigliani and Miller known as (M & M) in 1958.  According to them capital structure has no relevance for a company. That under certain circumstances, the option between equity and debt does not impact an entity's worth hence, the capital structure decision is irrelevant. Some of the circumstances that can make the M & M submission hold are no taxes, no transaction cost, no bankruptcy cost, perfect contrasting assumptions, and complete and perfect market assumption. According to M&M a company can have wholly debt as an optimal capital structure under certain circumstances. That neither capital structure not dividend policy has any impact on the market value of a company in a perfect market. However, this theory has been a subject of controversy and several other researches because, in the real-world scenarios, their central assumptions never held, as there is no perfect market. Financial performance is a measure of how well a company utilizes assets from its principal course of operation to create revenues. It reflects what management has achieved over a given period of time in monetary terms. It also enables comparison between similar companies and between different periods of the same company aside from being an

objective way of evaluating business activities Mukumbi et al (2020). Financial performance measures such as profitability or liquidity among others assist stakeholders to assess a company's past financial performance as well as its current position. This assessment provides a basis for determining a company's strength, weaknesses, opportunities, and threats. Evaluation of financial performance provides answers to multiple important questions which may include whether the company has sufficient cash to meet all its financial obligations when they fall due, whether it is generating enough sales to justify current investment. Through ratio analysis, financial performance measure how much value has accrued to shareholders at the end of an accounting period in comparison to the beginning Zeitun& Tian (2007).

Parameters that show profitability, productivity, growth or even satisfaction for customers are used to measure financial performance. Some of the most frequently used parameters are, return on assets (ROA) and return on equity (ROE). Other parameters include residual income (RI), return on investment (ROI), earning per share (EPS), dividend yield, growth in sales, etc. total debt to total assets, short term debt to total assets, total debt to total equity and long term debt to total assets. The total debt as a ratio to total assets measures the amount of debt utilized to finance the company assets and other capital expenditures that can advance company's performance.  Following the irrelevancy of capital structure theory propagated by M&M in 1958, there has been several researches into the other assumptions like no taxes, and the other imperfect market issues they enumerated and whether the choice of capital structure has any effect on a company's market value. It has been shown that capital structure choice decisions are important since there is no perfect market. But the extent to which this decision affects a company's market value is still a subject of debate. In this paper an attempt is made to determine if capital structure has any effect on the financial performance of quoted composite insurance companies in Nigeria for the period 2015 to 2019. Studies found on this subject matter in Nigeria have not covered the entirety of the period in question. The hypothesis underlying this study is:

**Ho₁**: Capital structure does not affect financial performance of composite insurance companies in Nigeria

## LITERATURE REVIEW

### Conceptual Framework
The conceptual framework for this study will be on the following concepts: capital structure, financial performance, link between capital structure and financial performance, insurance companies in Nigeria, ratio analysis.

### Concept of Capital structure

Capital structure has been defined by different authors and writers. But in summary all the definitions point to the fact that it is proportionate mix of equity and debt to finance a company's operations. According to Subramanian (2009) in Aljamaan 2018, capital structure is a long term financing of a companies operations as represented primarily by long term debts and equity and that one of the crucial decisions of management is to decide on a more suitable capital structure, because it has a close relationship with the value of a company. Gitman and Zutter (2012) in Aljamaan (2018) posit that capital structure is a "mix of long-term debt and equity maintained by a firm." Capital structure refers to the combination of different financing sources for starting and running a business, Rafiu et al (2018).

Capital structure of a company determines the ownership structure of the company. That is, it shows how much of the company's sources of funding is provided by the owners who have last claim in the event of a liquidation versus how much of it is provided or covered by debts or creditors who have first claim in the event of a liquidation.  There are different rewards and incentives to the two major components of the capital structure. Whereas equity shareholders exert control over the company, their earning is not fixed and secured, they are only paid where a company makes profit and declares dividend. All other funds provided have to be paid first before equity shareholders are. Debt holders on the other hand have fixed earnings in form of interest whether the company makes profit or not as stipulated by the contract. They

do not share in the risk of the business and are settled first in the event of a liquidation. Therefore, the question of finding a balance or an optimal capital structure for a company is an important one for management. When a company is financed entirely by equity, all its resultant profit orcash flows will go to the equity shareholders. When its financing is a mixture of debt and equity, its profits or cash flows are shared between equity stockholders and the debt holders, with the debt holders getting a fixed amount, while the equity stockholders get the residual amount depending on the overall performance of the business.

## Concept of Financial Performance

Financial performance as a concept describes how best a company puts resources at its disposal to use in generating revenue. Using financial performance measures such as profitability and liquidity, company stakeholders can evaluate a company's financial performance over time as well as its current position. Financial performance measurement provides a means by which the result of a company can be measured in terms of monetary value. It is a good gauge to measure the success of a company and to compare it with others or with its past performance. A firm's financial performance is critical to its existence as it shows how effective and efficient a company has been able to manage its resources to finance operations and for investing activities. Commonly used measures of financial performance include profitability, liquidity/solvency, efficiency, and capital structure Lodewyckx et al (2007) in Matsoso and Benedict (2016). Profitability shows whether an organization is making profits or losses. Liquidity measures how easily a company can convert assets to cash within its normal operating circle and its ability to meeting its short-term obligations with available resources.  Efficiency shows how well resources of the company are being managed and utilized. Capital structure shows what source of funding is being utilized whether equity share capital or borrowed funds.

## Capital Structure and Financial Performance

The relationship between capital structure and financial performance of organizations has been a subject of debate for a long time following the irrelevance of capital theory as propounded by M&M in 1958. So many researches have been undertaken in this area with vary diverse findings. Much of the controversy around this area started with M&M capital structure irrelevance theory. According to M& M publication of 1958, under certain conditions, the market value of a company is not influenced by or dependent on it capital structure. This theory assumes the existence of a perfect market where there are no taxes, transactions costs or bankruptcy costs. It also works with the assumption that abundant information exists for all persons who need information about a company (Ahmeti & Prenaj; 2015). The M&M theory suggests the existence of a fully efficient or perfect market. In reality however, there is no perfect market in the world and transactions have a cost. The controversies around the irrelevance of capital structure theorem of Modigliani and Miller (1958) has led to the development of several other theories of capital structure some of which focus on the cost and others on the benefits of different finance sources. Some of these theories are: the trade-off theory, the pecking order theory, market timing theory and agency cost theory Iqbal et al (2012).Tian and Zeitun (2007)however,argue that capital structure of companies and corporate performance are closely related or interlinked.By and large studies have shown that the relationship between a company's capital structure and its financial performance is a mixture of positive and negative depending on the place, size, and industry Aljamaan (2018).

## Insurance Industry in Nigeria Conceptualized

The main idea behind insurance is the provision of cover by the insurer for an unsure future event or occurrence of negative consequenceto another party, the insured or the policyholder, for a specified premium. The insured pays a premium to the insurer in return for security on that uncertain future occurrence (Business Day 2020). Because the event for which an insurance is taken cannot be predicted with any certainty and the fact that the insured needs to be protected from any economic jolt arising from the occurrence of the insured event, insurance companies usually wait until end of the year with fingers crossed to know if they have made any profit or not. In Nigeria, the insurance industry is regulated by the

National Insurance Commission (NAICOM) which was established by the National Insurance Commission Act of 1997. Apart from regulating and controlling the insurance business in Nigeria, NAICOM protects insurance policy holders, beneficiaries and third parties to an insurance contract. As at March 2021 there are 66 insurance companies in Nigeria grouped into 5 categories 13 Composite insurance (life and non-life business), 29 general insurance businesses, 17 life insurance businesses, 3 reinsurance businesses and 4 companies transacting Takaful business (NAICOM website). By the end of 2016 fiscal year, the investment portfolio controlled by the insurance industry was N723 billion (Business Day 2020). As part of its activities to control and regulate insurance activities in Nigeria NAICOM by its circular of May 20 2019 increased the minimum paid up share capital for insurance companies to the following: N8billion for life business, N10billion for general insurance, N18 billion for composite insurance and N20billion for reinsurance business. In 2018 it had issued guidelines to review minimum paid up capital for micro-insurance companies as follows: ₦40million (₦15million for life business, and ₦25 million for general insurance business) for companies that will do business in the community, ₦100million (₦40million for life business, and ₦60million for general insurance business) for State business, and ₦600million (₦200million for life business, and ₦400million for general insurance business) for National business.

## Concept of Ratio Analysis

In measuring the financial performance of companies, ratio analysis is used. Ratio analysis is a tool used to compare line items in a financial statement against one another. Information derived from ratio analysis is used for various purposes. Ratios are generally group into two depending on how they are constructed or their general characteristics. By construction there are four groups of ratios: coverage ratio which measure ability to meet certain obligations, returns ratio which assesses net benefits compared to resources expended, turnover ratio which assesses gross benefits compared to resources expended and component percentage which compares one item to another for various purposes. The operating and financial condition of a company can be assessed using financial ratios. Ratios such as liquidity, profitability, active ratio, financial leverage ratio, shareholder ratio, return on investment, return on assets, return on equity and the like are used in assessing a company's financial and operating health.

## Empirical Framework

Several studies have been carried out to establish the relationship between capital structure and financial performance of companies; some in the insurance industry, others in other industries. Habimana (2014) examined the relationship between capital structure and financial performance with focus on firms in emerging markets. Data from this research was obtained from firms in Africa, Middle East, Asia, Eastern Europe, Russia, and China. Findings from this study which employed the use of ordinary least squares technique for data analysis shows that, capital structure has an impact on financial performance of firms. It established that leverage has a negative significance in relation to returns and positive relationship to systemic risk. The findings of this study support the static trade-off theory of capital structure which says there is an optimal level of debt to equity to equity ratio beyond which the marginal benefit of financial capital with debt is not beneficial. In their study of capital structure and the performance of quoted insurance industry in Nigeria, Rafiu et al (2018) posited that there is a significant negative effect by capital structure on the performance of insurance companies in Nigeria. Their study which sourced data from 29 insurance companies in Nigeria between 2006 and 2014 examined the pattern of debt and equity on the financial performance of these companies. Using graphs, percentages, trend analysis and random effect model based on the outcome of LM-test and Hausman test for their data analysis, they concluded in agreement with the pecking order and static trade-off theories of capital structure. They noticed that higher debt in relation to equity led to lower financial performance of the insurance companies. They therefore recommend that insurance companies increase their retained earnings so as not to depend much on debt as a source of finance.

Mukumbi et al (2020) on the other hand concluded that debt financing increase positively the financial performance of firms operating on the Nairobi Securities Exchanges(NSE). They therefore recommended

that firms should increase debt financing compared to equity. In their study, Mukumbi et al (2020) made use of secondary data sourced from company websites and the NSE handbook for 16 non-financial firms the period 2013-2017. Financial performance was proxied by return of assets and return on equity ratios while capital structure was proxied by change in debt and debt to equity ratios. They analyzed their data usingcorrelation and regression analysis using STATA version 15 as an aid. A study by Mauwa et al (2016) of the effect of capital structure on the financial performance of 6 firms listed on the Rwanda Stock Exchange(RSE) arrived at the conclusion that capital structure has a significantly negative relationship with Financial performance, that the association between both ROA and ROE and capital structure is negative and significant. This study used both primary and secondary data and used descriptive research design. Data obtained was analyzed using descriptive statistics, correlation analysis and regression analysis using SPSS version 20. Studying the effect of capital structure on profitability of listed insurance firms in Nigeria between 2013 to 2017, Karim, Alaji & Innocent (2019) applying correlation research design analyzed data for 15 insurance firms in Nigeria using ordinary least square regression technique and 75 firm year paneled observations with the aid of OLS multiple regression technique. The result showed that short term debt has significant negative effect on profitability. That premium growth has significant positive effect on profitability. They recommend that insurance companies depend less on debts as a source of financing and increase equity level as optimum capital structure.

## Theoretical Framework

Following the Modilgiani & Miller 1958 proposition on capital structure a lot of controversy has trailed their assertions leading to the development of many other capital structure theories Xhaferi & Xhaferi (2015). Some of the most popular alternative capital structure theories are discussed below

## Trade-off Theory

This theory suggests that to choose between the two modes of company financing: debt or equity, companies do or must do a cost benefit analysis to arrive at the option that best suits its situation. In choosing debt financing a company is to compare the benefits derived from this choice to the cost of bankruptcy and financial distress. If the tax relief from debt financing offsets the cost of bankruptcy and financial distress, the company should use debt financing Xhaferi & Xhaferi (2015). Deciding on an optimal capital structure is still a challenge because there is no agreement as to what constitute the benefits and costs Abeywardhana (2017). According to Myers (1977) in Abeywardhana (2017), using debts up to a certain level offsets the cost of financial distress and interest shield from tax. Also, Fama and French (2002) in Abeywardhana (2017) opine that "optimal capital structure can be identified through the benefits of debt tax deductibility of interest and cost of bankruptcy and agency cost." Also, the Miller model suggests that the optimal debt assets ratio is that point where marginal tax benefit and marginal bankruptcy costs equals Abeywardhana (2017).

## Pecking Order Theory

According to this theory, companies have a hierarchy of financing, preferring first internal financing, then debt, then equity due to asymmetrical and signaling problems. That companies prefer financing following an order from safer to riskier therefore preferring internal financing compared to external financing Xhaferi & Xhaferi (2015). According to Myers and Majluf (1984) investors outside a company would usually discount a company's stock price when a company issues equity instead of taking riskless debts. This is the reason why company managers would as much as possible avoid equity offers. That managers would normally follow the pecking order going first for internal funds, followed by less risky debts then equity. Going by the pecking order theory, Harris and Raviv (1991) suggest that decisions about capital structure are intended to do away with the inefficiencies caused by information asymmetry. Information asymmetry and separation of ownership according to Myers (2001) in Abeywardhana (2017), is a reason why companies avoid the capital market. Also, Frydenberg (2004) in Abeywardhana (2017) explains that

debt issues by a company provide a signal to the market that the firm is confident and outstanding and that its management is not afraid of debt financing.

## Market Timing Theory

This theory suggests that managers time when to issue equity shares in the market. Managers issue shares when they perceive that their share price is overrated and buy them back when they perceive their share prices are underrated Baker & Wurgler (2002) in Abeywardhana (2017). These fluctuations in shares prices affect financing decision of companies and ultimately their capital structure. Aljamaan (2018) see the practice of issuing shares at high prices and repurchasing them at low prices by companies as a temporary exploitation of the fluctuations in the cost of equity compared to other forms of financing. According to a study by Al-tally (2004), see Aljamaan (2018), low leverage firms take advantage of when their market valuation is high to raise funds while high leveraged firms do same when their market valuation is low.

## Agency Cost or Free Cash flow Theory

Agency costs arise when there is a conflict of interest between shareholders and managers where both have different objectives. According to Ehrhardt & Brigham (2011) in Aljamaan (2018) conflicts arise between shareholders and managers where they have different objectives and the managers have cash at their disposal. That managers tend to use cash to finance projects that do not have much to do with maximizing stock prices. According to Niu (2008), two types of conflicts exist; first between shareholders and managerswhen managers hold less than 10% of the residual claim and second between equity holders and debt holders where the debt contracts allows for suboptimal investment by equity holders. There are many suggestions on how to mitigate these conflicts and so minimize agency cost. According to the agency cost theory, choosing an optimal capital structure helps a company mitigate conflicts and decrease agency cost. Therefore high leverage/debt ratio helps a company to reduce its agency cost, Aljamaan (2018). The debt ratio makes managers to act more in the interest of shareholders as a result of which the company's value is increased Gansuwan & Onel (2012).

## METHODOLOGY

This research employed the descriptive survey design methodology for the study. The study population consists of seven composite insurance companies listed on the Nigeria Stock Exchange and on the Nigeria insurance Commission website. Secondary data sourced from 2015 to 2019 audited financial statements of the target population as obtained from the companies' websites and Africafinancials.com was used. Data collected was analyzed using STATA 13 to test the relationship between the independent variable (capital structure proxied by total debt to equity ratio and total debt to total assets ratio) and the dependent variable Financial performance proxied by return on equity ratio).

## RESULT AND DISCUSSION

**Table 1 Descriptive Statistics**

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| Return on Equity (ROE) | 35 | -0.0571 | 0.3403 | -1.2 | 1.23 |
| Total Debt to Equity ratio (DER) | 35 | 2.0394 | 2.4253 | -1.44 | 8.25 |
| Total Debt to Total Asset ratio(DTR) | 35 | 3.474 | 3.7233 | 0.42 | 0.82 |

**Source:Stata 13 Output Results based on study data**

Table1 presents the descriptive statistics for the dependent and independent variables (Return on Equity (ROE), Debt to Equity ratio (DER), and Debt to Total Asset ratio (DTR). The standard deviation of the variables ranges from 0.3403 to 3.7233. Return on asset have the lowest standard deviation of 0.3403 followed by debt to equity ratio, Total debt to Total asset ratio has the highest standard deviation of 3.7233. The relatively low standard deviation for all the study variables may be an indication that the

sampled data for the study is normally distributed. The table also indicated an average value of 0.0571 for return on equity. The minimum and maximum values of return on equity during the study period are -1.2 and 1.23 respectively. These values implied that all the sampled companies actually have values for return on equity during the study period. The table further reveals an average value of 2.0394 for total debt to shareholders fund ratio. The minimum and maximum values of total debt to equity ratio during the study period were -1.44 and 8.25 respectively. Similarly, the table shows that Total debt to total asset ratio had a mean value of 3.474, with minimum and maximum value of 0.42 and 082.

**Table 2 Correlation Matrix of Dependent and Independent Variables**

| Variable | ROE | DER | DTR |
|---|---|---|---|
| Return on Equity (ROE) | 1.0000 | | |
| Debt to Equity (DER) | 0.1584 | 1.0000 | |
| Total debt to total asset ratio | -0.6319 | 0.1282 | 1.0000 |

**Source:Stata 13 Output Results based on study data**

From table2, it is observed that the independent variables of the study correlates well around 12.82%. There is no relationship among the independent variables that is large enough (greater than 0.7) to pose the problem of singularity of data. The extent of relationship among all the independent variables is therefore minimal and negligible. The table revealed a positive correlation coefficient (of 0.1584) between return on equity and debt to equity ratio of the companies during the period under study. The positive correlation coefficient is an indication that debt to equity ratio is associated with increase in return on equity of the sampled companies during the study period. Similarly, debt to asset ratio is negatively associated with return on equity of the sampled companies (-0.6319). The negative relationship showed that debt to asset ratio is associated with decrease in return on equity of the companies. The Variance Inflation Factor (VIF) was conducted to ascertain the existence or otherwise of multicollinearity between and among the independent variables. The results of the VIF test are shown in table 3 below:

**Table 3 Results of VIF Test**

| Variable | VIF | Tolerance (1/VIF) |
|---|---|---|
| Debt to Equity (DER) | 1.02 | 0.9835 |
| Total debt to total asset ratio | 1.02 | 0.9835 |
| Mean VIF | 1.02 | |

**Source: STATA 13 output Results based on study data**

Table 3 shows that Debt to Equity (DER) has a VIF of 1.02 and a tolerance value 0.9835, indicating that the data for Debt to Equity (DER) was not highly collinear with the data for debt asset ratio; ABNCF has a VIF of 1.11 and a tolerance of 0.902074, signifying that there was no multi- collinearity between and other independent variables. In each case, VIF is less than 10 and tolerance level is less than 1 respectively, showing that there was absence of perfect multicollinearity among the independent variables. The mean VIF of 1.02 also attests to this fact.

**Table 4 Breusch- Pagan/ Cook- Weisberg test for heteroskedasticity**

| Variable | Chi$^2$ | Prob.$>$ chi$^2$ |
|---|---|---|
| Return on equity (ROE) | 4.23 | 0.0398 |

**Source: STATA 13 output Results based on study data**

Heteroskedasticity Test– A pooled –OLS regression result was generated based on the dataset. After the OLS regression result, this test was conducted using Breusch–Pagan/Cook- Weisberg test of heteroskedasticity to check if the variability of error terms is constant. The presence of heteroskedasticity indicates that the variation of the residuals or error terms may not be constant and

could affect inferences made from beta coefficients, coefficient of determination ($R^2$) and F-statistics of the study model. The result of the test as shown in table 4 above shows that the presence of heteroskedasticity as the probability chisquare value of 0.0398 is less than 0.05. This was corrected by running a panel corrected standard error regression

**Table 5 Fixed effect, Random effect regression, Hausman test and Lanrangian multiplier test.**

|  | Chibar $^2$ | Prob.> chi$^2$ |
|---|---|---|
| Fixed effect | 10.25 | 0.0005 |
| Random effect | 25.00 | 0.000 |
| Hausman test | 0.06 | 0.9705 |
| Breusch and Pagan Lanrangian multiplier | 0.95 | 0.1647 |

Source: STATA 13 output Results based on study data

Hausman Specification Test – Due to the panel nature of the data set, both fixed effect and random effect regressions were ran. Hausman specification test was then conducted to choose the preferred model between the fixed effect and random effect regression models. The result of the tests howed a chi square value of 0.06 and probability value of 0.9705 indicating that random effect regression model is most appropriate for the sampled data. However, The Breusch and Pagan Lanrangian multiplier test for random effect was conducted to determine between the pooled OLS and random effect regression which is most appropriate. The results in table 5 above shows a chi bars$^2$ of 0.95 with a corresponding prob > chibar of 0.1647 therefore the study rejected the alternative hypothesis and conclude that pooled OLS is the most appropriate model. As a result, pooled OLS should be used. The post diagnostic analysis shows that there is a problem of heteroskedasticity; consequently, the pooled OLS regression result presented in Table 6 were analyzed based on the robust standard error test and not random effect regression.

**Table 6 Pooled OLS Regression Results**

| ROE | Coef. | Std. Err. | t-value | P-value |
|---|---|---|---|---|
| -Cons | 0.0446 | 0.0578 | 0.77 | 0.446 |
| Debt to Equity (DER) | 0.0342 | 0.0814 | 1.85 | 0.073 |
| Total debt to total asset ratio (DTR) | -0.0164 | 0.0033 | -5.05 | 0.000 |
| R2 |  |  |  | 0.4576 |
| Prob > chi2 |  |  |  | 0.0001 |
| F- statistics |  |  |  | 13.50 |

Source: STATA 13 Output Results based on study data

The F-statistics value of 13.50 and a corresponding Prob.>Fof 0.0001indicated that the model is fit to explain the relationship expressed in the study and further suggests that the explanatory variable are properly selected, combined and used. The nature and extent of relationship between the dependent variable and each of the independent variables of the study in terms of coefficients, z- values and p-values are explained further: The regression result for the sampled companies as presented in table 6 above showed that there is a positive relationship between return on equity (ROE) and Debt to equity ratio (DER) as explained by a coefficient value of 0.0342 and a t- value of 1.85 with a corresponding P value of 0.073 This revealed that a one unit rise in debt to equity ratio lead to 0.0342 unit increase in return on equity. The p-value of 0.073 is greater than 0.05, therefore the study rejects the alternative hypothesis and accept the null hypothesis that capital structure (proxy by debt equity ratio) has no significant effect on financial performance (proxy by return on equity). This is at variance with the findings of Nelson et al (2019) that debt to equity ratio and return of equity have a negative and

insignificant relationship. Similarly, the results revealed that there is a negative relationship between debt to asset ratio (DTR) and return on equity of the companies during the study period. This is explained by a coefficient value of -0.0164 and t-value of -5.05 with a corresponding P-Value of 0.000. This showed that a unit increase in debt to asset ratio (DTR), lead to 0.0164 unit decrease in return on equity. The p-value of 0.000 is less than 0.05, therefore the study rejects the null hypothesis and accept the alternative hypothesis that capital structure (proxy by debt to asset ratio) has significant effect on financial performance (proxy by return on equity).This is in alignment with the findings of Habimana, O. (2014) in his study of the relationship between capital structure and financial performance with focus on firms in emerging markets which showed that leverage is negatively and significantly related to returns.

## CONCLUSION AND RECOMMENDATIONS

Based on findings of this study, it has arrived at a conclusion that components of the capital structure have varying degree of effect on financial performance, some positive, others negative, some significant and others not significant. The results reveals that there is a negative relationship between debt to asset ratio (DTR) and return on equity of the companies during the study period, i.e. increase in debt to asset ratio (DTR), lead to decrease in return on equity. And that there is a positive relationship between return on equity (ROE) and Debt to equity ratio (DER), i.e. increase in debt to equity ratio leads to increase in return on equity. In view of these findings, it is recommended that insurance companies in Nigeria while employing a capital mix that has higher debt than equity so as to boost its return on equity, should stive to minimize their debt to assets ratio.

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