

# Assessment Of The Effect Of Capital Structure On The Profitability Of Listed Insurance Companies In Nigeria

SULE Abdulkarim

*Department Of Accounting, Federal University Lokoja*

Emmanuel Eneche Onoja

*Department Of Accounting, Federal University Lokoja*

---

## **Abstract**

*The study assesses the effect of capital combination on the profitability of selected listed insurance industries in Nigeria between 2016- 2025. The data were collected from the published financial reports of selected firms. The panel data analysis was employed in the study. The dependent variable is capital combination proxy by equity and debt which includes long-term and short-term debt financing and premium growth while independent variables is Profitability proxy ROE. The findings revealed that: Total debt ratio and debt-to-equity ratio had insignificant positive impact to n return on asset of selected listed insurance industries in Nigeria; The combined effect of total debt ratio and debt-to-equity ratio is statistically insignificant on return on asset of selected listed insurance industries in Nigeria; Total debt ratio and debt-to-equity ratio had insignificant positive impact on return on equity of selected listed insurance industries in Nigeria; The merging effect of total debt ratio and debt-to-equity ratio is statistically insignificant on return on equity of selected listed insurance industries in Nigeria; Total debt ratio had insignificant positive impact on net profit margin while debt to equity ratio had significant positive impact on the net profit margin of selected listed insurance industries in Nigeria; The combined effect of total debt ratio and debt-to-equity ratio is statistically insignificant on net profit margin of selected listed insurance firms in Nigeria. The study concludes that capital combination in the form of debt financing and equity financing contributes to the profitability of selected listed insurance firms in Nigeria, but its influence on profitability is negligible. The study recommends; Insurance industries should introduce more debt, especially long-term debt, into their capital structure combination as this will have an automatic effect of reducing the overall cost of capital as a result of its tax advantage that accrue to the organization when this decision is taken, and this often could lead to enhanced profitability of the industries.*

**Keywords:** *Insurance Industries, Capital combination, Profitability, Total Debt ratio, Debt-to-equity Ratio, Short-term debt financing.*

---

Date of Submission: 21-06-2026

Date of Acceptance: 01-07-2026

---

## **I. Introduction**

The objective of every firm's depends on the strategies which the management use to structure its capital to effectively determine the optimal capital mix which is necessary to ensure that they remain profitable and shareholders get to see that their aims of investment is fulfilled and that is wealth maximization. Capital combination decision is very important to any business organizations, it is very difficult for any business to survive without good capital structure, that is why the manner at which it being structured cannot be underestimated if the business must grow. Capital combination decision is very important for any business organization in any sector or economy because it can help to shape the businesses to greater height if properly managed by the organization. According to Chechet and Olayiwola (2014) organizations have two means of raising funds for business purposes which are internal and external means, the internal means through Equity while the external means through debt financing. +

It is usually difficult for businesses to identify the right combination of the two sources of capital in an organization which are equity and debt capital, Equity in form of what the firm has in terms of both tangible and intangible asset and retained earnings for reinvestment purposes and debt deal with external fund to business through issuance of debenture, preference shares and credit such as long-term debt and short-term debt. It is also important because of the impact such a decision has on a firm's ability to deal with its competitive environment and gain market strength. A firm can choose either to issue a large amount of debt or very little debt or it can arrange for lease financing, use warrants, issue convertible bonds, sign forward contracts, or trade bond and it can also issue many distinct securities in countless combinations. However, management attempts

to find the particular combination of capital structure that can maximizes its overall market value and also increases its profitability.

According to Adams (2014) insurance is a process of providing economic protection against the losses that may occur due to chance events such as death, disability, medical expenses, home or automobile. It is a form of risk management in which the insured transfers the cost of potential loss to another entity called an insurance company in return for monetary compensation called premium. It is a social and economic means of payment by providing financial compensations of all parties participating in the scheme. It could involve individuals, companies or government. Insurance is both a system of risk transfer and risk combination. By combination, it means a large number of exposure units into a group, the insurer can predict the probability of loss relating to uncertainty events with a reasonable degree of accuracy for the group is reduced. But combining the risk in a group does nothing to change the uncertainty for the individual.

The major purpose of an insurance firm's is to transfer risk from the policyholders to the insurance company and it does this by accepting premium from policyholders and paying claims. There is a possibility that premium collected is less than the total amount paid for claims but if this is the case, the insurer (insurance company) is expected to pay for the claims from the capital of the insurance company. The owners of (or investors in) the insurance company are concerned with the return and the safety of their investment. The capital they invest in the insurance firms must be competitive with respect to the return and safety of other investments. The insurance regulator has a vital interest in this question. The concern is that the insurance company have enough money to fulfill its obligations to the policyholders.

Capital combination shows the firm's financing strategy which is the optimal capital structure of the firm is said to exist when the debt and equity can be combined to reduce the cost of capital and enhance the business profitability (Mohammed & Khalifa, 2014). Modigliani and Miller (1958) illustrated the irrelevance of capital structure in firm value, though the assumption is valuable only in a perfect market situation, where all investors have free access to market information, there are no transaction costs and tax is the same in both dividends and capital gains.

However, perfect market conditions do not work in real economics because the Modigliani-Miller theorem is studied in finance, taxes, loan risk, cost of transactions and inefficient markets, are the challenges of real firms which makes the mix of debt and equity financing important (Adam, 2022). This led to the development of many financing decisions theories over time in order to demonstrate the purpose of capital mix and its role in company value. According to Brigham (2004) many theories have explained the relationship between profitability and value of firm. Zeituna and Tian (2007) argued that banks with high growth rate have high debt to equity ratio and it has been observed that bankruptcy has an effect on capital structure. According to Kochhar (1997) poor capital structure may lead to a possible loss or reduction in the value derived from strategic assets. Therefore, the capability of a bank in managing its financial policies is important if the firm is to realize gain from its specialized resources (Olokoyo, 2013). The raising of appropriate funds in an organization will aid the firm in its operation hence, it is important for banks to know the debt equity mix that gives effective performance after a good analysis of business operation and obligation (Olokoyo, 2013).

The cost of capital is having higher influence on the Earnings before interest and tax level of the firm, which will directly affect the amount of earnings available to the shareholders of the insurance company and finally shows on the value of the firm. If the management of the insurance company decides not to maintain the capital structure of the firm it will affect the growth and profitability negatively which will later have financial distress on the profitability of the insurance company. Firms can also issue dozens of distinct securities in a countless combination to maximize their overall market value (Abor, 2005). Profit has relevance in comparing the efficiency of a business organization.

The primary aim of every business is to make profit and maximize the wealth of its shareholders. Businesses that lack the ability to make profit can never survive. Some ratios used to measure profitability are Return on Assets (ROA), Return on Investment (ROI), Earnings per share (EPS), Return on Capital Employed (ROCE), Gross Profit Margin, Net Profit Margin (NPM), Return on Equity (ROE), Dividend Per Share (DPS) etc. In this study return on equity (ROE) will be adopted as the dependent variable.

Cheng and et al. (2020) claim that return on equity is one of the most important measures that is used to evaluate the firm's performance. Return on equity basically reveals the return that is generated on total equity. If the return on equity is high, it is assumed that the firm is giving a good performance. Capital structure strongly affects the return on equity. This is because capital structure is the merger of debt and equity. The higher the level of equity in the firm's capital structure, the less will be the return on equity. Moreover, if there will be less amount of equity in the capital structure, then, in that case, there will be a high degree of return on equity. Thus, it can be said that capital structure affects the return on equity.

Financial performance referred to the extent to which financial objectives have been achieved and it is the process of measuring the outcome of organizational policies and operations in monetary terms (Eshna, 2020). Firm performance reflects how effectively companies manage their resources. Sales growth means the

company has effectively and efficiently sold its products or offer services because it has been able to provide a return on investments made. The increase in sales growth has an impact on investors because it will increase the profitability of the firm's and maximize shareholder wealth. There are multitude of capital structure indicators that influence the organization performance and profitability (Sorana, 2015). Firm performance and capital structure have succeeded in attracting a good deal of public interest because they are tools for socio-economic development Ayad and Mustafa (2015), financial performance measures like liquidity and profitability among others provide available tools to shareholders to evaluate past financial performance and current position of a company (Erasmus, 2008). Financial performance plays a role in measuring the success of business firms. Measuring the firm's performance has three dimensions, the firm's productivity, profitability, continuity assessment of the company so that it can increase the firm value.

Theory of Capital structure and leverages is one of the areas of finance that have attracted greatest attention and caused the highest controversy and how they affect business performance because choice of capital combination has however been subject to several argument and investigations. The capital combination and firms' value has been subject to lots of debate for many years and its till represented one of the most unresolved issues incorporate finance literature. Only a few people have developed theories that have been tested by empirical studies and theories. Morri and Beretta (2008) explained that numerous theoretical studies and much empirical research have addressed those issues, but there is no generally accepted theory and the debates on the significance of the determinant of factors of capital and profitability are still open for research.

The main objective of the study is to assess the impact of capital structure on the profitability listed insurance company in Nigeria.

## **II. Literature Review**

### *Conceptual Review*

#### *Concept of Capital Structure*

The Capital structure is the merging of external and internal funds in which an organization utilizes in its vital operations and different securities (Alwalid,2020). According to Chong-Chuo (2019), explained that the amalgamation of debt and equity that an organization uses to finance its operation is capital structure. An organization capital structure is extremely important since it is related to the ability of the business to meet the requirements of its stakeholders (Sivalingam & Kengatharan, 2018). Capital structure referred to as firm financial Structure, is the means by which an organization is financed. It is the mix of borrowed and equity capital maintained by all firm (Modigliani & Miller, 2018). Revathy and Santhi (2016) defined capital structure as the combination of equity and debt or any other sources of fund that are long term in nature which can be used to finance the operating activities and investment of the firm. One of the most vital and essential theories referenced in financing policy of companies is the capital structure theory, which is the merging of both debt capital and equity capital that makes up the finance used for assets of a firm (Assad, 2014). According to Sorana (2015), Capital structure is the way in which an organization finances its operation which can either be through equity or debt or the combination of both. Meanwhile, Mohamed (2014) said capital structure is explained as the mix of debt and equity in which a firm utilizes during its operation. Ishaya and Abduljeleel (2014) explained that capital structure is the composition of debt and equity and debt in a in the capital of an organization. Touseef (2014) explained that capital structure made an essential part of the statement of financial position, which is the mix of total equity shares, preference shares and long-term debt of an organization. Inanga and Ajayi (2014) exclusive of short-term credit, but means the combination of a firm's long-term funds raised from various sources. Therefore, capital structure is described as the capital mix of both equity and debt capital of a business, in financing its assets. According to Sorana (2015), Capital structure Is the way in which an organization finances its operation which can either be through equity or debt or the combination of both. One of the most important and complex issues in corporate finance. According to Kennon (2015) capital structure is refers to as the percentage of capital (Fund) at work in a business by type. According to Akintoye (2014), explained that in practice, business tend to use capital structure, preferred stock and common equity with which the enterprise plans to raise needed capital. The theory of wealth maximization rule is that there exists an optimal capital structure level for a firm which is the level where risk of venturing into external funding through all owing for sharing of earnings commensurate with the return on equity which varies constantly hence the need to identify the effects of the potential determinants of capital structure on firm's performance (Oladeji and Olokoye, 2014). Samuel (2013) said the capital structure of a firm is the combination of its financial resources ready for moving the organization and the organizational operation major dependency determinant.

The firm's capital structure means the proportion of equity and debt in the total capital of the firm (Alfred, 2013). According to Azhagaiah and Gavoury, (2011) and Shubita & Alsawalhah (2012) the capital structure is the merger of equity and debt that a firm used to finance its operations. Pandey (2012) distinguish between capital structure and financial structure of a firm by confirming that the various means used to raise funds represent the firm's financial structure, while the capital structure represents the proportionate

relationship between long-term debt and equity. Structure of an organization in terms of capital structure include the way the organization finances its operation through the merge of debt and equity (Aftab et al., 2012) and (Dare & Sola, 2010).

### **Concept of return on equity (ROE)**

Cheng et al. (2020) claim that return on equity is one of the most important measures that is used to evaluate the firm's performance. Return on equity basically reveals the return that is generated on overall equity. If the return on equity is high, it is assumed that the firm is giving a good performance. Capital structure strongly affects the return on equity. This is because capital structure is the combination of debt and equity. The higher the proportion of equity in the firm's capital structure, the less will be the return on equity. Moreover, if there will be less amount of equity in the capital structure, then, in that case, there will be a high percentage of return on equity. Thus, it can be said that capital structure affects the return on equity.

Positive results: Margaritas and Psillaki (2020) found in their study, a significant positive relation between debt (leverage) and a corporations' performance. They studied the French firms for the period of 2015 to 2018, and the authors used some samples of companies that have low and high growth.

Samuel, (2019) examined the relationship between capital structure and firm performance. The result of this study suggests there is a significant positive relation. In this study, the GMM Regression approach was used to examine the relationship. In another study, conducted in the Tehran Stock Exchange, by Seyed and Pejman (2019), a similar result was found.

Negative link: Shubita and Alsawalhah (2022) studied 39 industrial companies in Amman. They applied correlations and multiple regression analysis to examine the effect of capital structure on profitability during the period of 2004 to 2019. The result shows a negative relation between debt and profitability. Nor and Fatihah (2022) used multiple regression analysis to determine the impact of capital structure on the performance of firms listed in Bursa Malaysia. They found a statistically significant relation between capital structure and firms' performance. Khairul (2019) found the same result in their study in Bangladesh.

**Mixed result:** Salim and Yadav (2022) employed a sample of 237 companies from Malaysia from 1995 to 2021 to examine the relationship between the capital structure and the firms' performance. The researchers used more than one analysis method to examine the relationship. A negative relationship was found when the ROA, ROE, and EPS were used to measure the firms' performance. However, when the authors used Tobin's Q, the result was a significant positive relationship with STD and LTD.

Abdul (2022) conducted a study to explore the relationship between capital structure and firms' performance in Pakistan. The result was a negative relationship; the study used ROA, ROE, and Tobin's Q to measure the firms' performance.

### *Concept of net profit margin (NPM)*

*As per views of Almajali et al. (2025) finance costs are the non-operating expenses because they are not related to the production process or manufacturing activity of the business activity. Due to this reason, the finance cost is included in the category of non-operating expenses. It can be said that there is an impact of operating expenses on the business firm operating profit margin earning capacity. Due to the less amount of finance, the firm produces fewer units and earns less profit in business. At the same time, operating expenses increase in the business. Due to this reason, operating profit margin reduces in the business because of an imbalanced capital structure. Thus, a business firm must focus on its capital structure because it is affecting the operating profit margin. Capital structure affects the overall profitability of the business firm. This is because it generates finance cost in the business due to which profits get declined in the business. It can be said that capital structure has an impact on the operating profit; it negatively affects the overall profitability of the business firm.*

*Inoue and Lee (2021) claim that business firms must try to develop a balanced capital structure. This is because by doing so, the finance cost can be minimized by the firm in the business. Fifty proportions can be given to debt in the capital structure, and fifty percentage shares can be given to equity in the capital structure. By doing this, balance can be maintained in the capital structure, and finance cost is kept under control. Thus, it can be said that capital structure has due importance for the business firms*

### **Concept of the return on assets (ROA)**

According to Chowdhury and Chowdhury (2024), return on assets is one of the most important ratios used by managers to evaluate business performance in terms of the extent to which assets should be used. A higher value of return on asset reflects that, to a large extent, the asset is efficiently used by the firm in its business. On the other hand, a low value of return on asset indicates that the asset is not used efficiently by the company. Capital structure affects the return on assets because, in the relevant ratio, net profit is compared with assets.

### **Concept of return on capital employed (ROCE)**

According to Welch, (2021), return on capital employed is one of the most important tools used to evaluate the business performance. Return on capital employed refers to the percent return that is obtained on the capital amount that is invested in the business. If there is a higher value of return on capital employed, then it is assumed that the firm is earning a good amount of return on the invested capital. Contrary to this, if a low return on capital employed is observed, then it means that the firm is earning a low amount of percent return on the specific amount. Thus, the return on capital employed will be low in the business. There is a very close connection between capital structure and return on capital employed. This is because for computing return on capital employed, the amount of net profit is taken in to consideration. While computing net profit, all sorts of non-operating expenses are considered; finance cost is one of them. If there is a high amount of debt in the capital structure, relative to equity, then in that case, there will be a high amount of interest in the income statement and the higher value of interest profit of the firm will decline. Likewise, if the net profit return is lower, then the percentage of capital employed will be less. Hence, it can be said that capital structure heavily puts an impact on the return on capital employed.

### **Concept of gross profit margin (GPM)**

According to Berger and Bouwman (2019), capital structure has an impact on the gross profit margin of the business firm. Usually, when any firm approaches a bank for obtaining finance, the financial institution reviews the current capital structure. If a heavy debt burden in the balance sheet has already been identified, and the firm is not able to pay its debt on time, it will make less profit. This results in improper funding of the business operations and fewer units produced and sold in the market. Due to this, the firm earns less gross profit. Thus, it can be said that capital structure has a direct impact on the firm's performance in terms of gross profit margin.

### **Concept of operating profit margin (OPM):**

According to Muzir (2021), capital structure and operating profit margin are interlinked with each other; thus, with a change in the capital structure, the operating profit margin also gets changed. Capital structure leads to the development of finance cost in the business and, because of this, the finance cost and amount of profit earned on business declined. Finance cost is included in the non-operating expenses and, due to this reason, it does not have any impact on the operating expenses of the business firm. It can be said that finance cost has no impact on the operating profit margin of the business firm.

As per views of Almajali et al. (2022) finance costs are the non-operating expenses because they are not related to the production process or manufacturing activity of the business activity. Due to this reason, the finance cost is included in the category of non-operating expenses. It can be said that there is an impact of operating expenses on the business firm operating profit margin earning capacity. Due to the less amount of finance, the firm produces fewer units and earns less profit in business. At the same time, operating expenses increase in the business. Due to this reason, operating profit margin reduces in the business because of an imbalanced capital structure. Thus, a business firm must focus on its capital structure because it is affecting the operating profit margin. Capital structure affects the overall profitability of the business firm. This is because it generates finance cost in the business due to which profits get declined in the business. It can be said that capital structure has an impact on the operating profit; it negatively affects the overall profitability of the business firm.

### **Profitability**

Profitability can be an indicator to financial performance of an organization and it is closely related to the capital structure of the firm. Based on previous studies, debt financing was found to help firms to enhance their performance (Ahmad and Abdul-Rahim, 2013; Amran and Che Ahmad, 2011; Ting and Lean,2011). Profitability is the means of a given investment to earn a return from its use (Kaguri, 2013). However, previous studies had also found that the profitability and debt financing have notable and negative effect which related with the pecking order theory of finance. Moreover, any profitable firms that chooses to commit debt as their capital structure for their future profits, would be subject to the terms and conditions of the creditors. Nadaraja et al. (2011) the result it will raise the opposite relation between profitability and leverage Whether the family firm is an effective business model remains an issue of ambiguity especially in relation to the firm performance.

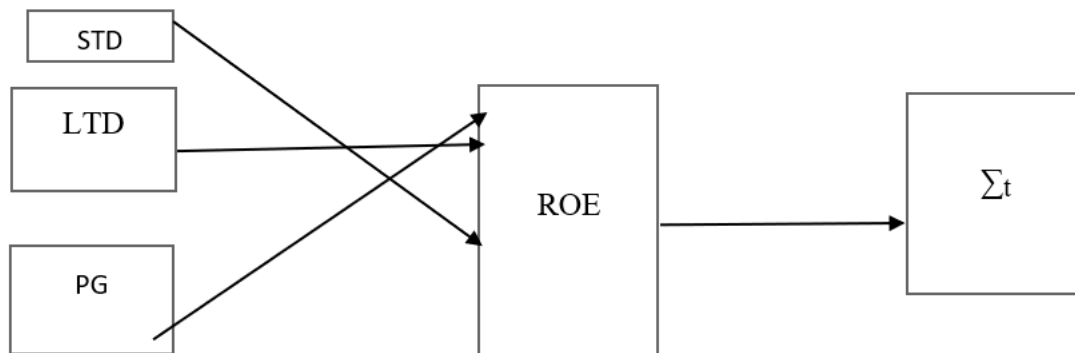
Firm's profitability is usually determined by two factor which consist of internal and external factors. These studies specify return on asset (ROA), return on equity (ROE), return on capital employed (ROCE) and net interest margin (NIM) as the dependent variables and considering the internal and external factors as independent variables.

### Determinants of the capital structure of an organization

According to Ahmad and Roslan (2022), profit is not a single factor that plays a lead role in determining the capital structure for the business firm. Managers have their own business expansion plans. If any firm is planning to expand its business, then it needs a heavy amount of cash. In such a situation, business firms raise capital through issuing equity in the primary market. Thus, the expansion policy of the business firm is one of the main determinants of the capital structure. The relationship and impact of capital structure on the financial performance of the business firms need to be evaluated.

Contrary to this, Salim and Yadav (2022) state that there is no relationship between capital structure and firm performance. This is because to what extent will the firm perform (well or poor) depends on the market conditions and the firms' business strategy. If market conditions are suitable and strategy is appropriate, then in that case, in every condition, the firm earns a profit in its business. In such kinds of situations, capital structure does not matter; thus, instead of giving due importance to the capital structure, prime significance must be given to business strategy and the surrounding environment. Only by doing this can any firm improve its business performance overnight.

### Conceptual Framework



Source: Auditor's Configuration (2026)

The study is anchored on the pecking order theory of capital structure was postulated by Donaldson (1961) is one of the most influential theories of corporate leverage. This theory tries to capture the costs of asymmetric information which states that organizations prioritize their sources of financing (from internal financing to equity) according to the principle of least effort, or of least resistance, preferring to raise equity as a financing means of last resort. Hence, internal funds is used first, and when that is exhausted, debt is issued, and when it is not sensible to issue any more debt, equity is issued.

### Empirical Review

Awunyo-vitor and Badu (2024), who used panel regression to investigate the relationship between leverage and performance of the listed bank from 2000 to 2020 in Nigeria found that the result showed a negative relation. A similar result was also noticed in Jordan after studying 39 industrial companies that were listed on the Amman Stock Exchange during the period of 2004 to 2019. Another study conducted by Saeed et al. (2023) investigated the relationship between the capital structure and firm performance on twenty-five banks between 2017 and 2021 in Pakistan. The authors used return on assets (ROA) and return on equity (ROE) to measure the firms' performance and also total debt to capital ratio, long-term debt to capital ratio, and short-term debt to capital ratio to indicate capital structure. The results of this study illustrate a positive relationship between capital structure and the firms' performance. Njeri (2022) dealt with the banking sector in the Nairobi Stock Exchange in Kenya. The authors found a significant effect of capital structure on financial performance. Akhtar et al. (2016) examined the impact of capital structure on five banks' performance in Pakistan during the period 2010 - 2015; the result of this study shows that there is a significant positive relation between them. The same result was found by a study conducted in the same country (Pakistan) (Siddqui and Shoaib, 2021). Furthermore, a research study performed in Nigeria shows that there is a significant positive relationship between the capital structure and financial performance of Nigerian banks. Another study was conducted on ten banks listed on the Nigerian stock exchange between 2015 and 2021. The authors used the ordinary least square regression analysis of secondary data (Adesina et al., 2015).

Ishaya and Abduljeleel. (2025), examined capital structure and profitability of the Nigerian listed firms from the Agency Cost Theory perspective with a sample of seventy (70) out of population of two hundred and forty-five firms listed on the Nigerian change (NSE) for a period of ten (10) years: 2000 - 2009 with the aid of the NSE Fact Book covering the period under review. Panel data for the firms are generated and analyzed using

fixed-effects, random-effects and Hausman Chi Square estimations. Two independent variables which served as surrogate for capital structure were used in the study: debt ratio, DR and EQT while profitability as the only dependent variable. The result show that DR is negatively related with PROF, the only dependent variable but EQT is directly related with PROF. The study by these findings, indicate consistency with prior empirical studies and provide evidence against the Agency Cost Theory.

Cyril (2016), investigated the effect of Nigerian banks' capital structure on the performance of conglomerates quoted on the floor of the Nigerian stock exchange from 2011 to 2015. The paper identified four levels of dependent variables such as return on assets, ratio (ROA), return on equity ratio (ROE), assets turnover ratio (AT) and earnings per share whereas the independent variable is financial leverage. Essentially the paper sets out to determine the effect of capital structure on the above dependable variables hence return on assets of quoted conglomerates, return on equity of quoted conglomerates, asset turnover of the quoted conglomerates and on the earnings per share of quoted conglomerates. Descriptive statistics and the pooled ordinary least square (OLS) regression analytical method were used for data analysis. The study finds that capital structure has effect on both return on assets and asset turnover of the conglomerates but no effect on return on equity and earnings per share of the conglomerate. It is then concluded that an in-depth analysis of business factors which affect a particular industry should be considered so as to obtain the benefits of the debt-equity mix. The result of the study agrees with most previous studies on other sectors that discovered mixed results on the effect of capital structure on financial performance. It is therefore necessary to employ a critical analysis of the appropriate debt-equity mix suitable for the company.

### **III. Methodology**

This study makes use of a correlation research design, employing secondary quantitative. Longitudinal study is referred to a study that is carried out repeatedly over an extended period of time (Cooper and Schindler, 2003). The study will be using purely on accounting data of listed insurance companies for the period of 2016 to 2025 financial year. The study population comprises of all the twenty-three (23) insurance industries listed on Nigeria exchange Group from the period of 2016- 2025 financial year. The size of this study consist of fifteen (15) listed insurance firms in Nigeria between the period of 2016 - 2025, a period of 5years.

### **IV. Discussions**

From the analysis, the capital structure of listed insurance firms in Nigeria consists more of debt financing than equity financing. Excessive debts in the firm could discourage potential shareholders who are risk averse. This is justified by the facts that when insurance firms are insolvent, debts providers whose securities are mortgaged by the firm's assets would be settled first. Thus, making risk averse shareholders to look for firms with less debt. As debts providers continue to demand for increase in interest, it raises fixed interest expenses, thus, shifting insurance firm's break-even point upward toward the expected sales level; it boosts the volatility of earnings and by extension, the share price. It increases the level of risk and could cause loss of confidence obtaining additional financing from lenders; it may also result in violating debt covenants.

Excessive equity on the other hand, could make insurance firms not to grow fast. This implication provides some support for the entrenchment hypothesis which states that; debt finance is cheaper than equity and when creditors are satisfied with the gearing level of a firm, they would continue to finance such firm toward meeting stakeholder's interest. Firms with excessive equity could lose the growth in revenue or profit as debt could make their supply flowing, meeting demand and gaining goodwill among its stakeholders. When a firm goes for more equity, it forfeits the interest on debt been treated as allowable expenses for tax purpose leading to lower tax. As part of steps toward tax planning, managers usually consider debt finance more than equity finance for specific transactions to add value to the firm's operations. A low debt/equity ratio provides less risk to the lenders as the firm would appear to have a reasonable ability to repay debt.

### **V. Conclusion And Recommendations**

#### **Conclusion**

The major issue in financing economic transactions ever since is Capital Structure which according to Modigliani and Miller (1958) stated that given frictionless markets, homogeneous expectations; capital structure decision of the firm is irrelevant. Based on the Summary of Findings, the following are the conclusion:

- i. The Regression analyze Test concludes that there is negative and significant relationship between short-term debt and profitability of listed insurance firm.
- ii. The Descriptive Statistics Test shows a positive relationship between Long term debt and profitability of insurance firms which means insurance firms are financially leverage with a large percentage of long-term debt more than short-term debt.
- iii. Premium Growth have significant positive relationship with profitability. Capital Structure consist of different capital channels composed to equip companies' financial structure and to make returns on those funds

raised by the companies from individuals, investors and government through selling of shares, bonds and other capital instruments. It is at this point, that this research focused on the Assessment of the Impact of Capital Structure on the Profitability of Listed Insurance Firms in Nigeria. Holistically the study concludes that capital structure has significant impact on the profitability of insurance industries in Nigeria. This study is in line with Akinyomi (2013), Semiu and Collins (2015), Ong and Teh (2015).

### **Recommendations**

The study recommends that the management of listed insurance firms should work towards having optimum capital structure by increasing their equity level and reducing dependence on debts so as to avoid being cash strapped and debt ridden. This is because, beside equity holders providing funding, they could be helpful by bringing in their business experiences, skills, and contacts to grow the insurance company. Investors are often prepared to provide follow-up funding as the business grows and they take a long-term view, as most do not expect return on their investment immediately.

### **Contribution to knowledge**

i. The result of this study shows empirical evidence which is capable of assisting management of insurance firms in making sound decision on Capital Structure and balancing debt to equity ratio to maintain an optimal level. Also, the good knowledge of the impact of capital structure individually will enhance sound capital structure decisions which will enhance the Performance of Insurance Industries in Nigeria.

ii. The study also served as an opener to critical variables that positively affected the performance of listed Insurance firms in Nigeria and created insight to policy implementation capable of driving Insurance firm Performance.

### **Suggested Areas for Further Studies**

The study suggested the following areas for further study:

i. More variables like Returns on Asset and Returns on Capital Employed, Net Profit Margin should be used to measure the Performance of Insurance firms in Nigeria.

ii. Other determinants of Capital Structure other than Short-term debt, Long-term debt and Premium Growth should be focused on.

iii. More industries should also be looked at like manufacturing, petroleum etc in order to ascertain the effect of Capital Structure on them.

### **References**

- [1]. Abor, J. (2005). The Effect Of Capital Structure On Profitability: An Empirical Analysis Of Listed Firms In Ghana. *The Journal Of Risk Finance*, 6(5), 438-445.
- [2]. Aragaw, H. (2015). The Impact Of Capital Structure On Profitability Of Commercial Banks In Ethiopia. A M.Sc Project Submitted To The Department Of Accounting And Finance, University Of Addis Ababa, Ethiopia.
- [3]. Ayad, S.S., & Mustafa, H.M., (2015). The Effect Of Capital Structure On Profitability: An Empirical Analysis Of Listed Firms In Iraq. *European Journal Of Accounting, Auditing And Finance Research*. 3(2), 61-78
- [4]. Akinlo, O. (2011). Determinants Of Capital Structure: Evidence From Nigeria Panel Data” *African Economic And Business Review*. 9 (1), 9-16.
- [5]. Aftab M, Ehsan R, Naseer S, Awan T (2012). The Effect Of Corporate Strategy And Capital Structure On Performance Of Banking Sector Of Pakistan. *Global Journal Of Management And Business Research* 12(17), 6779.
- [6]. Abu-Rub, N., 2012. Capital Structure And Firm Performance: Evidence From Palestine Stock Exchange. *J. Money Investment Bank*, 23: 109-116.
- [7]. Assad, (2016) Effect Of Capital Structure On Firm Profitability (An Empirical Evidence From London Uk) In United Kingdom.
- [8]. Anafu, S. A., Amponteng, E., & Yin, L. (2015). The Impact Of Capital Structure On Profitability Of Banks Listed On The Ghana Stock Exchange. *Research Journal Of Finance And Accounting*.
- [9]. Alhassan, (2017) The Impact Of Capital Structure On Profitability Of Commercial Banks In Ghana. Bashiru, M., & Bukar, M. (2016). The Impact Of Capital Structure On Financial Performance Of Listed Firms In The Nigerian Oil And Gas Industry. *International Journal Of Public Administration And Management Research Print*
- [10]. Charles, Joseph, Sang & Cheruiyot, (2014). The Effect Of Capital Structure On Firm's Profitability: Evidence From Kenya Banking In Kenya.
- [11]. Camelia, B. (2011), Factors Influencing The Company's Profitability. *Annales Universitatis Apulensis Sense Oeconomica*.13, (215-224).
- [12]. Chechet, Ishaya Luka And Olayiwola, A. B. (2014). Capital Structure And Profitability Of Nigerian Quoted Firms: The Agency Cost Theory Perspective. *American International Journal Of Social Science*, 3(1), 139-158. <https://doi.org/10.1080/10426914.2010.536937> Cyril, U. M. (2016). No Title. *проо. Ммит*, 4(6), 2016.
- [13]. Chang, Batmunkh, Wong & Jargalsaikhan, (2019) Relationship Between Capital Structure And Profitability: Evidence From Four Asian Tigers In Asia.
- [14]. Deepika, (2015) Effect Of Capital Structure On Profitability: Evidences From Portugal And Spain Gill, A., Biger, N., & Mathur, N. (2011). The Effect Of Capital Structure On Profitability: Evidence From The United States. *International Journal Of Management*, 28(4), 3.
- [15]. Goyal, A. (2013). The Impact Of Capital Structure On The Performance Of Listed Public Sector Bank In India. *International Journal Of Business And Management Invention*. 2(10). 35-43

- [16]. Gill, A., & Bigger, N. (2011). The Effect Of Capital Structure On Profitability: Evidence From The United States. *International Journal Of Management*. <https://doi.org/10.1016/J.Tet.2007.06.107>
- [17]. Gusty & Henry, (2020) Effect Of Capital Structure And Growth On Firm Value With Profitability As Mediation In Indonesia
- [18]. Giday, (2016) The Impact Of Capital Structure On Profitability Of Commercial Bank Of Ethiopia. Haijsaaid, (2020) The Effect Of Capital Structure On Profitability Of Basic Materials Firms In Saudi Arabia
- [19]. Ishaya, L. C., & Abduljeleel, B., O. (2014). Capital Structure And Profitability Of Nigerian Quoted Firms: The Agency Cost Theory Perspective. *American International Journal Of Social Science*, 3(1), 139–158.