

IMPACT OF MANAGERIAL OWNERSHIP AND CAPITAL STRUCTURE ON FINANCIAL PERFORMANCE OF LISTED INSURANCE FIRMS IN NIGERIA

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Abstract

The study examines the effect of managerial ownership and capital structure on financial performance of the listed insurance companies in Nigeria. The study employed the longitudinal panel and correlational research design, with data from 21 purposively selected insurance companies listed on the Nigerian Exchange (NGX) Group between 2016 and 2025 analyzed. The managerial-ownership proxy was the management's stake in the firm based on the number of shares held by the management and total outstanding shares, the debt-to-total-asset ratio was used to represent capital structure and financial performance was captured using return on assets. Annual reports were used for data collection. Panel regression analysis was utilized to analyze the data. The results indicate that managerial ownership has no significant effect on the financial performance of firms while the capital structure has a significant negative effect on the financial performance of the firms. The study recommends that the insurance companies should introduce performance-based remuneration for managers and review the capital structure on a regular basis to ensure that they have the right amount of debt and maintain financial stability.

Keywords: capital structure, financial performance, listed insurance firms, ownership structure

1. Introduction

Over the last ten years, Nigeria's insurance industry has grown considerably, with Gross Premium Written (GPW) growing from ₦300 billion in 2014 to over ₦1.55 trillion in 2024, and ₦2.3 trillion in 2025 (National Insurance Commission, 2026). But there are doubts on the performance of listed insurers in the Nigeria's volatile economic environment. Some of the companies are profitable, others are not making consistent profits. The financial results of several companies are linked with the structures of their ownership and capital. This is because the ownership of the company affects the incentives of managers, agency problems, and risk-taking.

Corporate shareholders enjoy limited liability, but they face inherent agency problems. Because ownership is separated from control, managers may prioritize personal interests by pursuing aggressive empire-building mergers to boost their status and also adopt low-risk strategies to protect their own job security rather than maximizing shareholder wealth. Also, a firm's capital structure which is the blend of debt and equity it relies on shapes the cost of capital, financial flexibility, and exposure to risk. Excessive debt if not properly managed can lead to poor financial outcome, dilution of ownership and



reduction in profitability. The optimal capital structure depends on various factors some of which includes industry characteristics, economic conditions, and the company risk tolerance.

Despite its potential to contribute significantly to economic stability and growth, the Nigerian insurance industry exhibits concerning performance inconsistencies. While some listed insurance companies, like Leadway Assurance and Mutual Benefits, experience strong growth in profits and market share (This Day Newspaper, 2024), many others demonstrate stagnant or declining financial metrics, such as AIICO Insurance facing stagnant profits and Continental Reinsurance experiencing a decline in their solvency ratio (Nigerian Insurers Association, 2023). This raises questions about the overall efficiency and health of the industry, which is vital for the Nigerian economy. A healthy insurance sector can mobilize long-term savings, mitigate risks for businesses and individuals, and contribute to overall financial stability (Agbomejiere & Afolabi, 2020).

Despite ongoing research efforts, problems like high claim settlement delays and poor operational transparency persist within the industry (Obafemi, 2007; Ojo, 2017). In relation to ownership structure, earlier studies by Adeniyi et al. (2017), Anthony (2014), Adebisi and Olowookere (2016), Benjamin et al. (2014), and Alhaji and Sani (2018) were limited to 2001-2010 which leave major gap in the current economic condition.

Furthermore, previous studies have analyzed the association between capital structure and firm performance in various environments including the Nigerian financial environment as studied by Afang and Bature (2016) and Benjamin et al. (2014). Afang and Bature (2016) found positive association with financial performance while Benjamin et al. (2014) found it to be negatively associated, among others. This absence of conclusive evidence requires further investigation, especially in the context of the Nigerian insurance companies which have specific challenges and opportunities than other financial sectors (Obafemi, 2007).

In addition, it has been noted by studies like Tian and Zeitun (2007), Champion (1999) and Gosh et al. (2000) that the mix of equity and debt in a firm's capital structure can have an impact on the firm's financial operations in developed nation. This study intends to close the gap through the assessment of the influence of managerial shareholding and capital structure on the financial performance (ROA) in insurance companies in Nigeria.

2. Literature Review

This section covers the concepts of financial performance, ownership structure and capital structure, along with the measurement of each. In addition, it also includes the review of previous empirical studies and theories as it relates to the topic of interest.

Concept of Financial Performance

Balagobei and Velnampy (2017) describes financial performance as a gauge of how effectively a firm converts its core operating resources into revenue. On the other hand, Kajola (2008) offers a different perspective, stating that firm performance refers to a firm ability to efficiently use its financial resources to achieve its overall goals, this was further supported by Rajkumar and Hanitha (2015) which hold the same view. Otieno (2017) believes that financial success is a result of a variety of factors such as capital adequacy,



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leverage, growth rate, size, risk, tax laws, management effectiveness, liquidity, and tangibility.

To accurately reflect a manager's performance over a specific period and describe a company's financial position, financial performance must be measured (Yunus & Tarigan, 2020). Liu and Luo (2019) propose that financial performance can be measured using both internal and external benchmarks, including comparison to the company's historical performance, industry peers, and broader economic indicators. Raza and Abbas (2018) contend that financial performance should be evaluated based on a balanced scorecard approach, which includes multiple dimensions of performance such as financial, customer, internal business processes, and learning and growth. Wang and Huang (2020) suggest that financial performance should be assessed not only in terms of short-term profitability, but also in terms of long-term sustainability and resilience, taking into account factors such as environmental and social impacts, as well as risks and uncertainties.

According to Tally (2014), financial performance measures used in research are dependent on the purpose of the research and the type of activity being analysed. Financial performance measures are usually categorized as accounting-based and market-based measures. Accounting based measurements are based on financial statements, balance sheets, income statements, and are related to profitability, liquidity and solvency of the firm. Some of the popular accounting-based financial performance indicators include ROA, ROE, debt-to-equity ratio, and net profit margin (Hassan, 2019).

Financial performance measures, however, which are market-based, are derived from the stock value and other market information, and reflect the market's assessment of the future prospects and financial health of a firm. Market capitalization, P/E ratio and EPS are examples of financial performance measures that are market-based (Ali et al., 2021). Although accounting-based and market-based financial performance measures have their own advantages and disadvantages, some researchers argue that market-based measures provide a better representation of the financial health of a firm because they are based on investor and market perceptions (Hassan, 2019).

Apart from these, some researchers propose non-financial indicators of financial performance like customer satisfaction, employee satisfaction, and social responsibility, which may not directly measure a company's financial health but are thought to enhance long-term success and sustainability (Bhattacharyya, 2020).

ROA and ROE are commonly used accounting-based measures of performance. Umenzekwe et al. (2021) utilized ROI to evaluate financial performance, while Abiodun (2012) used ROE as a performance proxy. Umar and Abdualqadir (2021) used EPS, Olaniyan et al. (2020) used gross operating profit, and Shams et al. (2019) and Almonani et al. (2021) employed ROA to assess financial performance. Rehman (2013) utilized ROA, ROE, EPS, and NPM as substitutes for financial performance, while Akande (2013) used ROA, ROE, EPS, and DPS as surrogates.

Despite the numerous measures used, the best measure that accurately represents a firm's performance continues to be a debatable subject in finance literature. This current study will use ROA and the choice was because it considers all assets employed by the firm including debt and equity to generate profits.



Concept of Managerial Ownership

The term management ownership refers to the specific proportion of a firm's shares controlled by its internal management team. The managerial ownership can have two effects: it can increase the capital of the company, and it can provide the manager with an incentive to make his actions consistent with the growth of the company (Fich et al., 2015). Khan et al. (2020) defined managerial ownership as the ownership interest of people who have substantial decision-making power in a firm.

Managerial ownership is one of the mechanisms that helps align the interests of managers with those of shareholders (Bebbington et al., 2018). Morck et al. (2021) noted, however, that the high incidence of managerial ownership has the potential to cause entrenchment, where managers may prioritize their own interests over shareholder interests. This may take the form of empire building, risk aversion, or opposition to change that is required.

Evidence from previous research revealed that managerial ownership can be measured in several ways, each with its advantages and disadvantages. Shleifer and Vishny (1997) employed the simple ownership percentage computed as the total number of shares held by all managers by the total outstanding shares of the company. Hermalin and Weisbach (2008) used the concentration approach through total shares held by top managers to total outstanding Shares.

Bebchuk and Fried (2005) focuses on shares with voting rights, which directly influence company decisions (total voting shares held by managers to total voting shares outstanding). This current study adopts the simple ownership percentage approach in line with Shleifer and Vishny (1997) this is because it is very easy to calculated and the data needed for the computation are readily available in published report.

Concept of Capital Structure

A company capital structure represents the specific blend of debt and equity used to fund its ongoing operations and asset acquisitions (Corporate Finance Institute, 2023). This composition balances the cost-effectiveness of debt against the strategic flexibility and shared ownership inherent in equity financing (Brealey et al., 2022). Assessment of capital structure through empirical lens rely on three primary metrics which includes the debt ratio, the debt-equity ratio, and interest coverage (Pandey, 2010).

While leverage ratios can be calculated using either book or market values, theoretical frameworks strongly favor market values because they actively capture current investor sentiments; however, capturing precise market data remains challenging due to the volatile nature of security pricing (Damodaran, 2012). Although the debt ratio and debt-equity ratio convey identical underlying economic information and rank firms identically but they possess different mathematical properties.

The debt ratio is bounded strictly between zero and one which make it highly specific (Penman, 2018), whereas the debt-equity ratio has an unbounded upper limit. Despite these mathematical differences, practitioners widely favor the debt-equity ratio. In corporate finance, a firm's debt-equity ratio is benchmarked against sectoral averages, and any figure exceeding these industry norms signals elevated financial risk (Pandey, 2010). Consequently, based on these established theoretical and practical conventions, this study utilizes the debt-to-equity ratio.



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Review of Empirical Studies and Hypotheses Development

The review of previous empirical literature on the relationship between the variables of interest are presented below.

Managerial Ownership and Financial Performance

The area remains a highly scrutinized and intensely debated topic within accounting literature. To contextualize this relationship, this study evaluates key domestic and international empirical literature investigating how insider equity stakes impact firm returns. Existing global evidence presents highly conflicting outcomes. For instance, in an analysis of the Kenyan banking sector, Wahba (2014) observed that executive shareholdings exerted an insignificant positive influence on return on assets (ROA).

Conversely, Elyasiani et al. (2017) examined a sample of 496 SMEs in Germany and identified a contrasting trend. The findings demonstrated that managerial ownership not only significantly impacted SME financial performance but was associated with a 40 percent increase in corporate returns. Studies within the African context show further divergence. Afan and Bature (2016) explored ownership structures within six conglomerate firms listed in Nigeria. The empirical results indicated that managerial ownership had an adverse influence on the performance of these specific entities during the analyzed timeframe. Because the insights from Afan and Bature (2016) are confined strictly to Nigerian conglomerates, the stark operational differences between these diversified firms and the insurance sector prevent their conclusions from being directly generalized to this study.

In the domestic insurance sector, Lawal et al. (2018) indicated that managerial ownership had no influence on the financial outcomes from 2011 to 2016 period. However, because the investigation concluded in 2016, subsequent macroeconomic disruptions such as economic recessions and the COVID-19 pandemic limit the relevance to the contemporary operating environment. In a different sector, Aribaba et al. (2022) evaluated the relationship between ownership structures and financial returns among six NSE-listed cement manufacturing firms as of December 31, 2020. In contrast to the insurance data, the evidence revealed that internal management equity enhances corporate performance.

More recently, Hassan and Hassan (2023) introduced board dynamics into the equation by exploring how independent directors altered the interaction between ownership structure and corporate returns. The outcome contradicted the trends observed in the manufacturing sector. Instead, their results demonstrated that executive shareholdings exerted a negative and statistically insignificant influence on the financial performance of these insurance companies. The empirical review results are inconclusive about the effect of managerial ownership on financial performance. Therefore, the study hypothesized that:
H₀₁: Managerial shareholding has no significant influence on the Return on asset of listed Insurance firms in Nigeria.

Capital Structure and Financial Performance

To explore the extractive industry, Anozie et al. (2023) utilized a convenience sample of five listed Nigerian oil and gas enterprises to examine how financing choices impact corporate returns. The empirical evidence indicated that the debt-to-equity ratio exerted a statistically significant positive influence on firm performance. Conversely, evidence within the consumer goods sector remains highly conflicted. Usman (2019) tracked 14 listed Nigerian consumer goods companies from 2012 to 2016 and concluded



that the debt-equity ratio had a negligible, statistically insignificant effect on profitability. This directly contradicts the broader evaluation by Alhassan (2021), who monitored a larger sample of 15 domestic consumer goods firms over a longer horizon (2011–2020). Alhassan results revealed that leverage allocations actually shaped corporate financial performance in a positive and statistically significant manner.

In Nairobi, Meshack et al. (2022) assessment of 35 corporations showed that the debt-to-equity ratio enhance financial performance of non-financial enterprises in the region. Expanding on this regional context, Opoku-Asante et al. (2022) conducted a sectoral assessment of 131 non-financial firms across Nigeria and Ghana to evaluate the broader economic impact of capital allocation. The empirical outcomes confirmed that debt-to-equity ratios positively and significantly influence firm performance. In contrast, alternative leverage metrics often yield inverse results in manufacturing and industrial contexts.

Ahmed et al. (2023) scrutinized 156 manufacturing enterprises in Tehran from 2011 to 2019 and the analytical data revealed an adverse association between total debt-to-total asset ratio and corporate profitability. This negative trajectory aligns with evidence compiled from other Asian emerging markets. Nazir (2017) assessed 21 Pakistani corporations spanning the textile, automotive, sugar, petroleum, and engineering industries, the study reported that the total debt-to-total asset is a major driver of return on assets (ROA). Similarly, Saad (2015) evaluated 28 Pakistani chemical sector companies between 2009 and 2013, the outcome corroborates the result that a higher total debt-to-total asset ratio was tied to a significant decline in ROA.

International empirical trends mirror this positive correlation across diverse sectors. Prekazi et al. (2023) modeled the relationship between capital allocation and corporate returns using data from 42 commercial enterprises in Kosovo between 2014 and 2019 and confirmed that leverage levels are positively and significantly linked to financial success. Similarly, within the financial services arena, Saeed et al. (2013) evaluated Pakistani banking institutions from 2007 to 2011. The findings demonstrated that higher total debt-to-capital configurations were associated with stronger performance metrics across the banking industry.

A synthesis of the existing literature highlights several distinct empirical gaps that the present study aims to address. While Anozie et al. (2023) restricted their investigation exclusively to the isolated relationship between capital structure and financial returns, this current inquiry expands that framework by evaluating both capital structure and ownership architecture alongside their interactive effects on corporate performance.

Furthermore, the geographical and sectoral scopes of prior research restrict their broad applicability. The empirical insights offered by Usman (2019) and Alhassan (2021) center entirely on the consumer goods sector within Nigeria; consequently, the divergent operational models and risk profiles between manufacturing entities and underwriting firms prevent these conclusions from being generalized to the Nigerian insurance industry.

Similarly, the international assessments conducted by Ahmed et al. (2023) and Nazir (2017) are bound to the specific institutional environments of the Tehran Stock Exchange and Pakistan, respectively. To bridge these analytical boundaries, this study introduces a comprehensive model evaluating how capital allocation and equity distribution simultaneously dictate the financial performance of listed insurance companies



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in Nigeria. Based on these foundational arguments, the following research hypotheses are proposed:

H₀₂: Total debt to asset ratio has significant effect on the Return on asset of listed Insurance firms in Nigeria.

Theoretical Review

Agency Theory

The foundational framework of agency theory established by Jensen and Meckling (1976) and extended by Fama and Jensen (1983) conceptualizes the firm as a complex network of contractual relationships between equity holders (principals) and corporate executives (agents). Within this paradigm, owners delegate operational oversight and decision-making authority to corporate managers. The underlying objective of this theoretical framework is to address corporate friction caused by clashing managerial and shareholder motivations, alongside complications arising from their asymmetric tolerances for financial risk.

Integrating debt into a firm's capital allocation serves as a primary structural mechanism to suppress these behavioral frictions (Chung et al., 2015). Using leverage particularly non-public bank debt imposes market discipline on managers, which curbs the misallocation of surplus cash reserves and narrows the information gap separating internal leaders from external stakeholders. Furthermore, while separating operational control from capital ownership inherently breeds incentive mismatches, escalating executive share ownership serves to realign these divergent motivations, effectively deflating aggregate governance expenses. Bacha and Attia (2016) model this interaction as a linear function through the assertion that enterprise efficiency peaks when internal managers hold a substantial portion of the firm's equity.

Alternatively, governance expenses can be curtailed by consolidating equity among a small group of large-scale blockholders who possess the capability to actively monitor operational choices. This oversight capacity hinges entirely on blockholder position sizes; a higher concentration of shares equips an investor with the financial incentive and leverage required to vigilantly safeguard corporate assets (Abu-Qa'dan & Suwaidan, 2019).

Absent rigorous and proactive shareholder monitoring, executive directors are prone to compromise on strict wealth-maximization targets (Adeniyi et al., 2017). Because it maps these behavioral dynamics, numerous researchers have deployed this theoretical perspective to contextualize how equity distribution profiles determine corporate profitability (Anthony, 2014; Benjamin et al., 2014; Helen & Bature, 2016). Consequently, this framework establishes the baseline theoretical justification for analyzing the interplay between management share ownership and firm financial outcomes.

Pecking Order Theory

According to Myers and Majluf (1984), the Pecking Order Theory is a foundational framework for understanding corporate financial behavior. This model posits that businesses prioritize internal savings over external financing, only seeking outside capital once corporate reserves are entirely exhausted. When forced to look externally, management initially taps into the debt market, utilizing equity issuance strictly as a final option.



This approach directly diverges from the Trade-off Theory, which prioritizes optimal leverage by balancing interest tax shields against bankruptcy risks—factors that the pecking order framework treats as secondary. Consequently, a firm's leverage ratio fluctuates primarily based on external funding requirements, which are driven by discrepancies between internal cash flows (after dividends) and available investment projects. Accordingly, this research utilizes the pecking order framework to substantiate the link between a company's capital structure and its overall financial performance.

3. Methodology

Historical descriptive design was employed and the study was conducted on the entire population of 27 insurance companies in Nigeria as at 2025. The judgmental sampling technique was adopted, using a two-point filter listed below:

- i. Financial reports (full) available for the periods studied,
- ii. There was no technical suspension from the Nigeria Exchange (NGX) Group for the period of the study.

From the 27 firms, six of them including Africa Prudential Plc, Coronation Insurance Plc, African Alliance Plc, Standard Alliance Insurance Plc, Goldlink Insurance Plc and Linkage Assurance Plc were excluded because they did not have complete financial data for the review period. The 21 sampled insurance companies for the study include Aiico Insurance Plc., Aiico Insurance Plc., Axamansard Insurance Plc, Cornerstone Insurance Plc, Continental Insurance Plc, Guinea Insurance Plc, International Energy Insurance Plc, Lasaco Assurance Plc, Mutual Benefits Assurance Plc, Nem Insurance Plc, Prestige Insurance Plc, Regency Assurance Plc, Royal Exchange Sovereign Trust Insurance Plc, Staco Insurance Plc, Sunu Assurances Nigeria Plc, Universal Insurance Plc, Veritas Kapital Assurance Plc, Wapic Insurance Plc, Equity Insurance Hallmark Insurance, and Niger Insurance Plc.

More so, the data obtained from the selected insurance company during the last ten years (2016-2025) was obtained from secondary sources. Since the data is of both time series and cross-sectional nature, a panel regression approach was selected. The data collected was processed with the aid of STATA statistical software package.

Variable Measurement

The information on how the variables was measured is presented below;



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Table 1

Variable Measurement

S/N	Dependent Variable	Measurement
1	Return on Asset	ROA is calculated as the net profit before tax divided by the total assets (Saad, 2015; Olaoye & Adeshina, 2022).
S/N	Independent Variables	Measurement
1	Managerial Ownership	It represents the number of shares held by managers and board members in relation to outstanding shares (Afang & Bature, 2016; Al-Sa'eed, 2018; Aribaba et al., 2022).
4	Capital Structure	It is calculated as total liabilities divided by total asset (Anshu & Narendra, 2014; Ahmed et al., 2023).
S/N	Control Variables	Measurement
1	Firm size	Natural logarithm of total assets as used by Khamis et al. (2015); Alkurdi & Mardini, 2020).
2	Liquidity	Current asset divided by current liabilities

Sources: Compiled from Literature Review (2026)

Model Specification

The model is specified as: $ROA_{it} = \alpha_0 + \beta_1 MNO_{it} + \beta_2 CS_{it} + \beta_3 SE_{it} + \beta_4 LIQ_{it} + e_{it}$; where; ROA=Return on Asset, MNO=Managerial ownership, CS=Debt-to-total Asset; SE=Size, α_0 = Constant, e = Error term, α_{it} = constant value.

4. Results and Discussion

The chapter presents the data analysis and interpretation of the result of the study; this includes the descriptive statistics, pairwise correlation result, regression result and hypotheses testing. In addition, the test for robustness of the regression model is presented and explained.

Table 2

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
ROA	210	0.0187584	0.0658761	-0.1554700	0.125850	-0.9909617	4.0399000
MNO	210	0.2067464	0.2362032	0.0000000	0.725155	0.9751708	2.6510630
CS	210	0.5422455	0.2437375	0.1827884	1.105462	0.7145251	2.9204900
LIQ	210	511.46180	788.58720	0.6857912	2213.547	1.1127610	2.5543250
SE	210	23.394330	0.7490323	22.0057100	24.93683	0.2647554	2.5567410

Source: STATA Output

Table 2 puts average return on assets at 1.88%, with the standard deviation narrowing from 9.68% down to 6.59%. The minimum performance of the firms is bounded at -15.55%, and the maximum is capped at 12.59%. The skewness of -0.99 and kurtosis of



4.04 indicate that the performance distribution remains negatively skewed with a leptokurtic concentration.

For the independent variable of Managerial Ownership, the mean of 20.67% indicates that executives and board members hold approximately one-fifth of the equity in listed Nigerian insurance firms. However, the standard deviation of 23.62% and the range spanning from 0.00% to 72.52% demonstrate severe structural heterogeneity. This implies that while some insurance firms operate under complete separation of ownership and control, others are heavily dominated by owner-managers.

Capital structure, taken as total liabilities over total assets, averages 54.22%, meaning that liabilities fund over half of the listed Nigerian insurer's asset base. The maximum value of 1.11 indicate severe insolvency risk for certain underwriters during the study period.

The control variable Liquidity shows a mean of 511.46, though it exhibits extreme dispersion with a standard deviation of 788.59; this indicates vast disparities in asset-liability matching and cash conservation across the sector. Lastly, Firm Size exhibits a mean of 23.39 and a standard deviation of 0.75, this shows that the sampled firms are institutional peers of comparable asset magnitude.

Table 3

Pairwise Correlation Matrix

VARIABLES	ROA	MNO	CS	LIQ	SE
ROA	1.0000				
MNO	-0.0259 (0.7092)	1.0000			
CS	-0.3323* (0.0000)	-0.2049* (0.0028)	1.0000		
LIQ	0.1451* (0.0357)	0.0810 (0.2427)	-0.1341 (0.0523)	1.0000	
SE	0.1100 (0.1118)	-0.3246* (0.0000)	0.3086* (0.0000)	-0.1566* (0.0232)	1.0000

*Note: * indicates statistical significance at the 5% level or better; exact p-values are reported in parentheses.

Source: STATA Output

As shown in Table 3, managerial ownership correlates with Return on Assets only weakly and without statistical significance ($r=-0.0259$, $p=0.7092$). This implies that an increase in managerial share ownership will lead to an insignificant decrease in return on asset of the insurance firms. Conversely, Capital Structure (CS) displays a strong statistically significant negative correlation with ROA ($r=-0.3323$, $p<0.001$), this suggest that escalating leverage severely impairs underwriter performance.

Liquidity (LIQ) is positively and significantly associated with performance ($r=0.1451$, $p=0.0357$), while Firm Size (SE) exhibits a positive but statistically insignificant bivariate correlation with performance ($r=0.1100$, $p=0.1118$).



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On collinearity, a number of the independent variables show notable associations with one another; for instance, larger firms (SE) tend to have lower managerial ownership ($r=-0.3246$, $p<0.001$) and higher leverage ($r=0.3086$, $p<0.001$). Since none of the pairwise correlations come close to the conventional 0.70 cutoff, serious multicollinearity can be ruled out. This is formally confirmed by the Variance Inflation Factor (VIF) analysis in Table 5, where the maximum VIF is 1.21 and the mean VIF is 1.13 which is below the threshold of 5.0.

Diagnostics Test

A series of diagnostic checks guided the choice of estimator summarized in Table 4.

Table 4

Model Diagnostics and Specification Tests

Diagnostic Test	Test Statistic	Value	P-Value	Decision / Diagnostic Implication
Breusch-Pagan / Cook-Weisberg	$\chi^2(1)$ for Constant Residual Variance	33.72	<0.001	Reject H_0 (Homoskedasticity); severe heteroskedasticity detected in Pooled OLS.
Shapiro-Wilk Normality Test	W Statistic on Fitted Values (r)	$W=0.9346$	<0.001	Reject H_0 (Normal Residuals); fitted values are non-normally distributed.
Variance Inflation Factor (VIF)	$VIF_j=1-R_j^2$	Mean $VIF=1.13$	N/A	Max $VIF=1.21$ (); multicollinearity is absent.
Modified Wald Test	$\chi^2(21)$ for Groupwise Heteroskedasticity	1357.45	<0.001	Reject H_0 (Equal variance across panels); extreme panel heteroskedasticity.
Wooldridge Test	$F(1,20)$ for first-order AR(1) Autocorrelation	$F=5.888$	0.0248	Reject H_0 (No serial correlation); significant first-order serial correlation present.
Breusch-Pagan LM Test	$\chi^2(1)$ for Random Individual Effects	17.96	<0.001	Reject H_0 ($Var(ui)=0$); unobserved panel effects exist; RE is superior to Pooled OLS.
Hausman Specification Test	$\chi^2(4)=(b-B)'(b-B)$	2.74	0.6029	Fail to Reject H_0 (Systematic difference); Random Effects is preferred over Fixed Effects.

Source: STATA Output

The Breusch-Pagan Lagrange Multiplier (LM) test (17.96, $p<0.001$) strongly rejects the pooling restriction, this suggest that there are unobserved, firm specific heterogeneous effects (ui), that make standard Pooled OLS inefficient. The Hausman



specification test was used to decide between Fixed Effects (FE) and Random Effects (RE) framework. The Hausman test gives a $\chi^2(4)$ value of 2.74 and an extremely high p-value of 0.6029. The null cannot be rejected, and therefore the Random Effects specification is statistically preferred to Fixed Effects.

But additional diagnostic checks of the panel residuals showed that the residuals severely violated the classical Gauss-Markov assumptions. The Modified Wald test for groupwise heteroskedasticity is 1357.45 ($p < 0.001$), indicating that the error variance differs from one insurance firm to another. Furthermore, the Wooldridge test for autocorrelation in panel data generates an F (1,20) statistic of 5.888, which is statistically significant ($p = 0.0248$), this confirm that the residuals suffer from first-order serial correlation.

When heteroskedasticity across groups and serial correlation are both present, the standard errors of the conventional Fixed and Random Effects estimators are not reliable, it inflates t-statistics and biases hypothesis testing. Beck and Katz (1995) suggested using the Prais-Winsten estimator with Panel-Corrected Standard Errors (PCSE) to cope with these non-spherical error structures.

The PCSE technique retains the Prais-Winsten weighting of observations for the removal of serial correlation, but uses a sandwich-type covariance estimator which is robust to groupwise heteroskedasticity and contemporaneous cross-sectional correlation. Hence, the PCSE model with a panel-specific AR (1) correlation structure is used as the empirical model for hypothesis testing and policy formulation.

Regression Results

Table 5 presents a comparative layout of the regression results across Pooled OLS, Fixed Effects, Random Effects, and the final PCSE model.

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Table 5

Panel Regression Output Comparison

Independent Variables	Pooled OLS	Fixed Effects (Within)	Random Effects (GLS)	PCSE (Prais-Winsten robust)
MNO	-0.0111428 (0.554)	-0.0122098 (0.662)	-0.0157823 (0.474)	-0.0098502 (0.656)
CS	-0.1072608* (0.000)	-0.0476894 (0.288)	-0.0938826* (0.000)	-0.1281181* (0.000)
LIQ	0.0000111* (0.041)	0.00000637 (0.418)	0.00000963 (0.134)	0.0000126* (0.046)
SE	0.0211353* (0.001)	0.0002523 (0.986)	0.0156977 (0.067)	0.0210975* (0.034)
_cons	-0.4208929* (0.004)	0.0379811 (0.909)	-0.2992362 (0.130)	-0.4097611 (0.068)
Observations	210	210	210	210
Model Fit	F(4,205)=11.14 Prob>F=0.0000	F(4,185)=0.51 Prob>F=0.7271	Wald $\chi^2(4)$ =15.70 Prob> χ^2 =0.0035	Wald $\chi^2(4)$ =48.35 Prob> χ^2 =0.0000
R-Squared	0.1786	0.0109 (Within)	0.1773 (Overall)	0.1722

Note: p-values are in brackets. * Indicates statistical significance at the 5% level

Source: STATA Output

In Table 5 above, the result indicates that in the Fixed Effects model, the uncorrected heteroskedasticity and serial correlation inflate standard errors so severely that all explanatory variables appear statistically insignificant. Conversely, the Random Effects model yields an overall R² of 17.73% and a Wald (4) statistic of 15.70 ($p=0.0035$), but it fails to capture the significance of control variables like size and liquidity.

The PCSE model shows a significant Wald (4) of 48.35 ($p<0.001$) and an R² of 17.22%. This confirms that the model is statistically significant and that the chosen independent variables jointly explain 17.22% of the variations in the Return on Assets of listed Nigerian insurance firms.

The Prais-Winsten PCSE results report a negative and statistically insignificant coefficient for Managerial Ownership ($\beta_1=-0.0098502$, $p=0.656$). This empirical finding aligns with the core tenets of Agency Theory and the complex corporate landscape of emerging markets. Jensen and Meckling (1976) hold that managerial ownership curbs agency costs by aligning manager and shareholder interests, yet this convergence effect is frequently offset by managerial entrenchment.

The Nigerian insurance market, high levels of executive shareholding can insulate managers from board oversight, allowing them to prioritize job security, engage in risk-averse underwriting, or build empires rather than maximizing technical efficiency. Furthermore, this finding is highly consistent with Hassan and Hassan (2023),



who reported a negative and insignificant relationship between managerial ownership and Return on Assets for listed Nigerian insurance firms. It also mirrors the findings of Wahba (2014) in Kenyan banking and Lawal et al. (2018), who noted that managerial ownership lacks explanatory power for firm performance.

In addition, the PCSE regression yields a highly significant negative coefficient for Capital Structure ($\beta_2 = -0.1281181$, $p < 0.001$). This strong empirical evidence rejects H02 at the 1% significance level which indicate that a 10% increase in leverage is associated with a 1.28% decrease in Return on Assets. This inverse leverage-performance link is consistent with Myers and Majluf's (1984) Pecking Order Theory.

Under the Pecking Order framework, firms prefer internal financing, and highly profitable firms tend to accumulate retained earnings, thereby reducing their leverage ratios. Conversely, poorly performing firms are forced to rely heavily on liabilities which lead to a negative relationship between leverage and Return on Assets. Insurers' liabilities differ markedly from those of non-financial firms, consisting mainly of unearned premium reserves and outstanding claims provisions.

A high debt-to-total-asset ratio signifies that a firm has accumulated significant outstanding claim obligations relative to its total asset base. High claim backlogs combined with the escalating cost of claim settlements driven by Nigeria's macroeconomic inflation act as a major drain on profitability. This finding is highly consistent with the empirical outcomes of Ahmed et al. (2023) and Nazir (2017), who reported significant negative effects of leverage on Return on Assets. However, it directly contradicts the positive leverage-performance relationship reported by Anozie et al. (2023) for Nigerian oil and gas firms.

Furthermore, the result revealed that both control variables exert statistically significant, positive effects on Return on Assets. Liquidity displays a positive and statistically significant coefficient ($\beta_3 = 0.0000126$, $p = 0.046$). Firm Size also exhibits a positive and statistically significant coefficient ($\beta_4 = 0.0210975$, $p = 0.034$).

5. Conclusion and Recommendations

This study aimed at establishing the effect of managerial ownership and capital structure (debt-to-total-asset ratio) on the financial performance (ROA) of the listed insurance companies in Nigeria. Overall model was statistically significant because it suggests that the selected variables as a whole account for the variance in the financial performance of these firms.

The empirical results obtained by using Prais-Winsten regression technique had two different conclusions about the independent variables. First, results confirmed that managerial ownership negatively and statistically insignificantly affects Return on Assets, which means that executive shareholdings are not a good method of interest alignment in this industry.

On the other hand, Capital Structure has a strong negative effect on performance, which indicates that too much leverage and claims-related liabilities have a significant negative effect on the profitability of insurers.

On this basis, the following recommendations are made to the insurance companies in Nigeria:



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- i. Insurer management should rely more on internal financing through increasing retained earnings and building up capital reserves. In addition, companies need to enhance their underwriting practices and implement actuarial controls to avoid building up too many outstanding claims liabilities.
- ii. The listed insurers' Boards should not rely solely on equity allocation to match executive incentives. Rather, corporate governance structures must be improved, with independent board oversight and performance-based compensation that directly relates to the technical underwriting profitability, combined ratio goals and return on investment standards.

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