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EFFECTS OF ACCOUNTING INFORMATION ON FINANCIAL PERFORMANCE OF LISTED INSURANCE COMPANIES IN NIGERIA

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Abstract

This study examined the effect of accounting information on financial performance of the listed insurance companies in Nigeria. Ex-post facto research design was utilized in this study. A total of 10 insurance companies were selected for the length of the inquiry (2015-2020). This inquiry made use of annual reports and financial statement from Nigerian insurance institutions. The obtained data was analyzed using a multiple regression model. In order to show how much diversity of stock price can be explained by the use of explanatory factors, we employed the R-squared coefficient of determination. The T-Statistic and F-Statistic were used to show how big of an effect the independent variable had on the dependent variable. Regression research indicated that accounting information proxies for cash flow ratio and book values had a negative and statistically insignificant impact on stock price at a 5% level of significance. The research also recommends that the management of insurance companies understand how their activities impact stock prices and use it as a measure of investors' trust and preference.

Keywords: Accounting Information, Financial Performance, Insurance Companies

Introduction

The birth of modern insurance has played vital part in the growth of Nigerian economy aswell as the social wellness of individual residents. Insurance provides individuals with a sense of security and confidence in the event of a financial loss. That's what insurance is all about: protecting customers against the hazards they're insured against. When an insurance company restores a company after a large loss, it prevents the loss of jobs, sources of revenue, the inability to provide social amenity, and the loss of purchasing power. In addition, insurance premiums make up a significant portion of the capital market, which might be difficult for an individual to build. The premiums paid by each insured individual contribute significantly to the capital market. Given the importance of the capital market to the economy, insurance cannot be overstated. Insurance in the non-banking sector provides an additional source of funding for economic growth. By channeling domestic savings into productive investments, insurance may help the economy grow, Arena (2006) claimed in his paper.

Despite the universally acknowledged importance of insurance companies, the sector has continued to face peculiar challenges which rangefrom low patronage to poor investors interest. These challenges havecontinuedto reduce the growth of the sector till date. A good number of research has been conducted in this area with the aim of addressing the challenges associated with insurance companies. Ogriki and Tovie (2021) noted that quality information is critical to an organization's ability to run efficiently and effectively, as well as its overall profitability. Managing a company in a fast-paced environment requires a constant flow of information that can be used to plan for the achievement of pre-determined objectives. False information can sway users of financial statements, so they must accurately reflect the organization's financial and economic reality. Okereke-Onyuike (2012) noted that one of the barriers inhibiting the growth of the insurance companies in Nigeria is investors' confidence. She further noted that investors' confidence is a function of the quality accounting information published. Based on results from the analysis by Oladutire and Agbaje (2019) on the Nigerian economy, there has been a major slowdown in the money supply and credit as well as poor asset quality, low capitalization and a depreciation of the exchange rate.

All of these characteristics have little influence on a company's stock price, though. Accounting information has been cited by certain market participants as a role in stock price changes, while others feel that the government's monetary policies have sparked exogenous elements (i.e., non-accounting information) (Stephen & Okoro, 2014). There are a number of variables that influence the price of a company's stock on the capital market, which are either accounting or non-accounting (Khanagha, 2011; Cheng, Shamsher, & Annuar, 2008).

Non-accounting factors like as speculation, gambling, and forced sales have been shown to influence share values in several studies (Cheng, Shamsher &Annuar, 2008). Nigerian research on the impact of accounting information on financial performance are few and far between, and these studies do not focus on the insurance industry. It is the goal of this research to produce empirical proof of the impact of accounting information on the financial performance of listed Nigerian insurance businesses.

Objectives of the study

This study was aimed at establishing the effect of accounting information the financial performance of listed insurance companies in Nigeria. Specifically, the study sought to achieve the following:

1) To determine the effect of book value of firm equity on stock price of listed insurance companies in Nigeria.
2) To determine the effect of cash flow rate on stock price of listed insurance companies in Nigeria.

Research questions

Thefollowing research questions were formulated to guide the study:

1) To what extent does book value influence stock price of listed insurance companies in Nigeria?
2) To what extent does cash flow rate influence stock price of listed insurance companies in Nigeria?

Hypotheses

The following hypotheses were formulated and tested at 0.05 level of significance:

$H0_1$: There is no significant relationship between book value and stock price of listed insurance companies in Nigeria.

$H0_2$: There is no significant relationship between cash flow rate and stock price of listed insurance companies in Nigeria.

Literature Review

Accounting Information

A company's financial statements are a source of accounting information in the form of a yearly, semi-annual, or quarterly financial statement (Olowolaju & Ogunsan, 2016). Accounting information is critical to a wide range of stakeholders, including investors. Investors, creditors, regulators, and the government all utilize them in some way. Management uses them to make the company more efficient, regulators use them to assess compliance with regulations, and the government itself uses them for tax and fiscal policy (Olowolaju & Ogunsan, 2016). The capacity of financial statements to explain stock market metrics indicates their value significance.

Cash Flow Ratio

It is the movement of cash and cash equivalents in and out of a firm. Assets that can be sold quickly and at high prices are important to the success of companies, according to Adelegan (2003). These cash flows are the pools of money that a corporation uses to invest in fixed assets, inventory, account receivables and marketable securities in order to produce profit. Positive cash flow shows an increase in the firm's liquid assets, which may be used to pay off debts, reinvest in the business, repay shareholders, and safeguard the company from potential financial issues. Negative cash flow, on the other hand, indicates that a company's liquid assets are dwindling over time. According to the above, a firm with a significant inflow of cash, as compared to its outflow (known as positive cash flow), has enough money to invest. Negative cash flow occurs when there is a surplus of outflows (called cash flow) over inflows (called cash flow) (Nwanyanwu, 2015).

Financial Performance

Financial or non-financial metrics may be used to assess an organization's performance; it can also be quantified in quantitative or non-quantitative terms. Effectiveness may be measured in a variety of ways. According to Yamin Gunasekruan and Mavondo (2019), the degree to

which an organization accomplishes its market-oriented and financial objectives is what they mean when they talk about organizational performance.

A more comprehensive view of company success includes not just financial but also operational (i.e. non-financial) performance measures, they said.

Stock Price

The stock market, which has become a vital aspect of the economy's performance, supports capital generation and economic growth. The stock market is more than just a venue to buy and sell securities; rather, it acts as a conduit between savers and capital users by pooling funds, distributing risk, and facilitating the flow of money. For economic progress, stock markets are crucial because they guarantee that resources are directed toward the most profitable investment possibilities.

Stock prices fluctuate on a regular basis in the stock market. It's also common to see stock prices rise every morning during certain seasons of the year, and this may happen many times in a single day for certain equities. Thus, supply and demand factors impact stock prices as a result of the features of corporations. To accurately predict stock values, there is not a foolproof method. However, a stock's demand and supply may be influenced by a variety of variables, including the company's fundamentals, the market's behavior, and external influences.

For example, Al–Tamimi (2007) found that corporate fundamentals such as the company's performance and changes in board members as well as external variables including government laws and regulations, other economic situations and investor behavior were highlighted. This includes market circumstances, competition, money availability and uncontrolled natural or environmentally elements. Using a simple regression model to analyze the correlation coefficients between stock price, earnings per share, oil price, GDP, CPI, interest, and money supply.

After studying the market, he determined that Earnings per share was its most influential component. The current stock price reflects both information specific to the firm that is providing the shares and information that is common to the market. Both sets of information are relevant to the stock market, but the first set is more specific to a particular stock, while the second set is more general to the macro economy of a country, including the inflation rate, interest rate, unemployment rate, and so on. It is impossible to correctly forecast the appearance of any of this information since it occurs in a random sequence and is reflected in the share prices.

Over the years, there has been a lot of disputes over how stock returns behave.

Researchers have looked at efficient market and random walk return characterizations. Market information efficiency has been shown through random walk testing.

Accounting Information and Stock Price

In the financial statements published by the issuer, accounting information may be found. For the most part, a company's financial statements consist of several kinds of income statements as well as reports on its debt and equity positions. Analyzers and investors need to know a company's financial health, according to the financial statements cited above. An increase in the stock price should follow an improvement in the company's financial performance, at least conceptually. Increases in sales, earnings, and debt management are all factors that should lead to a rise in stock prices for a company's shares. To begin with, Ball and Brown (Ball & Brown, 2014) examined the use of accounting information in 1968 to predict stock

prices (Ball & Brown, 2014). For example, Lev and Ohlson (1982) and Watts (1986) have demonstrated that accounting information is directly linked to stock prices (1986). A study by Naimah (2012), investigates the link between stock price movements, firm profitability, and equity values. To figure out how accounting data relates to stock market value. There was an alternative study and model developed in 1995 by academics Begley and Feltham (Feltham-Ohlson) (Vishwanath, 2009). Using accounting information, the findings showed a substantial positive correlation between the stock market and the stock market coefficient. Their findings reveal that accounting information provides basic information that stock prices do not represent. According to study by Fama and French (1995), a company's size correlates with profitability. There is a weaker earnings trend in small-company equities compared to large-company shares. A new study by Becker-Blease (2010) shows that a company's profitability and return on investment will be affected if it has substantial assets. An analysis by Ana and Rizal (2016) shows a positive correlation between stock performance and financial reporting information.

Theoretical review

Contingency Theory

Rather than having a system that can be applied universally, accounting systems are impacted by environmental (Harrison, 1992; Abbadi, 2013) and organizational (Chenhall & Morris, 1986) factors, according to the contingency theory of management accounting. There's a good reason they are referred to as "contingent" elements. Management accounting systems are affected by a variety of factors, according to the contingency hypothesis. Following this concept, management accountants may then create an appropriate accounting system rather than believing in one optimal system that is accessible to everyone (Wickramasinghe & Alawattage, 2007). The idea focuses on the link between organizational structures and their efficacy and the situational aspects connected with a company's conditions. Environment, technology, organizational size, structure, strategy, and national culture are all variables that have a significant impact on management accounting procedures, according to Chenhall (2003).

Accounting information presented will be affected by the following contingencies: top management support, technological advancement, and market volatility. Consequently, financial performance is likely to be affected.

Empirical review

Chaturvedi and Sharma (2021)examined and analysed the influence of accounting information systems on insurance company profitability and efficiency in India. Firm owners and managers may use the findings of this study to get better understanding of how Accounting Information Systems (AIS) can help them achieve profitability and efficiency. Productivity, dependability, and convenience of use, as well as data quality and correctness, all had an impact on how well firms performed after using AIS. Two hundred responses, fifty each, from State Bank of India, HDFC, LIC, and ICICI Insurance Companies were collected for the purpose of the study. In this research study, researcher has observed, through the regression and correlation technique how Accounting Information System affectthe profitability and performance of insurance companies in India.

Nigerian listed insurance companies' management accounting systems were experimentally researched by MAZI and EBERE (2019) in order to discover how these systems are connected to the performance of quoted insurance businesses in Nigeria. Multiple regression analysis was used to gather information from 10 of the 29 quoted insurance firms and to

evaluate the data for the study's aim. An investigation has shown a correlation between planning and control, efficiency, employee motivation, and corporate social responsibility. Research shows that planning and control have a substantial impact on the success of Nigerian insurers. Nigerian insurance businesses are urged to use a regular management accounting system to maintain the organization's goals and objectives top-of-mind and guarantee efficient performance, according to new research.

Listed insurance companies in Nigeria were studied in terms of their firm characteristics and financial performance by Abubakar, Sulaiman and Haruna (2018). Insurance businesses that were listed on the Nigerian Stock Exchange (NSE) between 2007 and 2016 provided the data for the research. Some diagnostic tests were also performed on the data to verify the hypothesis, which was tested using robust regression analysis. According to the findings of the research, the financial performance of insurance businesses in Nigeria is negatively impacted by liquidity and age. Cash and cash equivalents should be converted into productive assets in order to enhance financial performance, according to the research.

According to the literatures analyzed above, there is no empirical data on the true position of the relationship between accounting information and stock prices of listed Nigerian insurance firms between 2015 and 2020. The year 2015-2020 was selected for the research because of the change in central power from the incumbent PDP to APC (in 2015) that generated new economic changes, the economic recession experienced between 2016 and 2017 and the most feared COVID-19 shutdown that impacted most enterprises in various ways. Few studies used cash flow ratio and book value per share as proxies for accounting information. Filling up the aforementioned voids is the goal of our current investigation.

Methodology

Ex-post facto research design was used in the study's conduct. Observers cannot directly influence independent variables in ex-post facto studies because their manifestations have already happened or they are fundamentally unmodifiable. Due to the nature of this research, there is no manipulation of factors. Twenty-nine (29) of Nigeria's listed insurance firms are included in this study's population. Using the probability sampling approach was chosen since it does not leave the researcher with any choice. The sample size was determined using a random sampling method. Due to a lack of data, the research is only looking at ten (10) insurance providers. Aiico insurance Nigeria plc, Consolidated Hallmark insurance, Custodian & Allied insurance company Nigeria, Gold Link Assurance Company Plc, Intercontinental Wapic insurance Nigeria, Niger Insurance Company Plc, Universal Insurance Company and Lasaco Assurance Company are some of the companies that fall under this category. The research was based on panel data from insurance firms' public financial statements for the years 2015 through 2020.

With the help of E-View version 9, Pearson correlation and simple regression were used to examine the connection between the variables in this study's data.

Model of Specification

$SP = f(AI)$

$SPit = \beta_0 + \beta_1 BV_{it} + \beta_2 CFR_{it} + \beta_3 SIZE + \varepsilon t$

Where:
SP = Stock Price,
AI = Accounting Information

BV= Book Value = Net Income/Average Asset

CFR= Cash Flow Ratio= Cash flow scaled by revenue
SIZE= (Opening Assets + Closing Assets)/2
i = company,
t = time (year),
ε = error term

The regression equations for the variables, coefficient of determination (R^2), Student's t-test, f-test and Durbin-Watson *d* statistic used.

- Coefficient of determination (R2) test is a measure of the explanatory power of the independent variables.
- Student t-test is a measure of the special significance of the estimated independent variables.
- F-test is a measure of the overall statistical significance of the model. It will be used to generalize the hypotheses.
- Durbin-Watson *d* statistic will test for auto-correlation in the regressions.

Decision criterion
Using the E-Views statistical software package, version 9.0 p-value:
Reject the null hypothesis (H0) if $p < 0.05$ or
Accept the null hypothesis (H0) if $p > 0.05$
All tests of significance are done at 5% level.

Analysis and Results

Table1: Descriptive Statistics

	Mean	Std. Deviation	N
STOCK PRICE	6000805.5000	4693977.23279	6
BOOK VALUE PER SHARE	2501535.1667	1019800.26622	6
CASH FLOW RATIO	1.5012	.22006	6

Source: SPSS OUTPUT (2021)

The average value of SP was approximately 6000805.5000. BVS and CFR have mean values of 2501535.1667 and 1.5012 respectively. This shows that the businesses made a lower profit on the overall amount of investment throughout the time period of the research.

Table2: Correlation Analysis

		STOCK PRICE	BOOK VALUE PER SHARE	CASH FLOW RATIO
Pearson Correlation	STOCK PRICE	1.000	-.200	-.488
	BOOK VALUE PER SHARE	-.200	1.000	-.210
	CASH FLOW RATIO	-.488	-.210	1.000
Sig. (1-tailed)	STOCK PRICE	.	.352	.163
	BOOK VALUE PER SHARE	.352	.	.345
	CASH FLOW RATIO	.163	.345	.
N	STOCK PRICE	6	6	6
	BOOK VALUE PER SHARE	6	6	6
	CASH FLOW RATIO	6	6	6

Source: SPSS OUTPUT (2021)

SP was negatively correlated with BVS and CFR respectively. BVS is negatively correlated with CFR.

Table3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.488[a]	.238	.048	4580381.98482	.238	1.251	1	4	.326	1.888

Source: SPSS OUTPUT (2021)

The regression coefficient value of r= .0488 and a coefficient of determination RSQUARE = .238 were obtained between BVS, CFR and SP. This indicated that BVS and CFR explained only 23.8% of the variation in SP.

Table4: Regression Coefficients of the relationship between BVS, CFR & SP

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	27410992.484	17578215.540		1.559	.217	-28530734.614	83352719.583
	BOOK VALUE PER SHARE	-1.458	2.218	-.317	-.657	.558	-8.517	5.601
	CASH FLOW RATIO	-11832858.893	10279061.635	-.555	-1.151	.333	-44545420.616	20879702.831

a. Dependent Variable: STOCK PRICE

The results in table 4 show that the model have coefficients of -1.458 and -11832858 which implies that BVS and CFR have a negative relationship with SP. Also, it shows that the p-value for BVS is .558, while that of CFR is .333. Since, the p-values are greater than 0.05(0.558>0.05, 0.333>0.05) the relationship is not significant.

Discussion of Findings

The results show that BVS and CFR have a negative relationship with SP. Also, the relationship between BVS, CFR and SP of listed insurance companies within the period of 2015-2020 are not statistically significant. This is in line the findings of Abubakar, Sulaiman and Haruna (2018) who reported a negative and insignificant relationship between accounting information and financial performance of quoted insurance firms in Nigeria. The findings contradicts the findings of Mazi and Ebere (2019) and Chaturvedi and Sharma (2021) who reported a significant relationship between accounting information and financial performance of quoted insurance companies in Nigeria and India respectively.

Conclusion

The study has established that accounting information (proxied as BVS and CFR) have a negative relationship with financial performance (proxied as stock price, SP). Also, the relationship between BVS, CFR and SP of listed insurance companies within the period of 2015-2020 are not statistically significant.

Recommendation

Economic managers and policymakers should be aware of the nature ofactivities ofinsurance companies in Nigeria and should consider the required lag in any program designed to control theirstock prices, as most of the accounting information measures used in this study showed a negative and statistically insignificant influence.

The management of Insurance companies must also be aware of the impact their operations have on stock prices and use it as a barometer to monitor investors' confidence and preference.

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