



MONETARY POLICIES AND QUICK RATIO OF INSURANCE COMPANIES IN NIGERIA

Okerekeoti, Chinedu U.

Department of Accountancy
Nnamdi Azikiwe University, Awka
Mail: nattyhoodz@yahoo.com

Abstract

This study examines the effect of monetary policies on the quick ratios of Insurance companies in Nigeria. Ex-post facto research design was employed for this study. A sample of twenty two insurance companies were used which are trading on the floor of Nigerian Exchange Group. Data were collected from secondary sources which include audited accounts of companies, CBN statistical bulletins. The research work employed regression analysis to test the relationship between monetary policy and insurance companies. The analysis indicates that interest rate (ITR) has no significant effect on quick ratio of insurance companies in Nigeria. The study recommended that monetary policy rate seems less effective tool; therefore it should be reviewed to conform to the expectation as an instrument that can be used for regulating insurance companies in Nigeria.

Keywords: Monetary policies, Interest rate and Quick ratio

Introduction

One of the most important economic stabilization weapons is monetary policy, which entails measures to regulate or manage the volume, cost, availability, and direction of money and credit in an economy in order to achieve certain macroeconomic policy goals. It is a conscious effort by the monetary authority (Central Bank) to control the money supply and credit situation in order to achieve a broad economic goal. Okpara (2010) described monetary policy as a tool for influencing the availability, volume, and flow of money and credit in order to achieve specific economic goals. The importance of the banking industry in the development process cannot be overstated because it performs so many services globally. Commercial banks are Nigeria's most prominent banking industry. Commercial banks invest customer deposits in various short and long term investment outlets in order to make a profit, however the majority of such deposits are utilized for loans. As a result, the greater the number of loans and advances they make to borrowers, the greater the profit they make (Solomon, 2012).

To govern the banking sector before to 1986, direct monetary measures such as selective credit controls, administered interest and exchange rates, credit limitations, cash reserve requirements, and special deposits were used. Interest rates were set at relatively low levels primarily to encourage investment and growth. Special deposits were levied on occasion to restrict the amount of excess reserves and the banks' credit-creating capacity.

Interest rates and monetary aggregates were monetary policy aims in Nigeria, according to Ologunde, Elumilade, and Asaolu (2006). The monetary authorities use direct monetary policy measures to impact items on commercial banks' balance sheets. In such a system, monetary authorities determine interest rates and credit allocations in accordance with the government's economic plan (Gimba, Vincent & Oyedokun, 2020).

In Nigeria, monetary policy has been guided by a medium-term outlook. The goal was to remove the problem of time inconsistency from monetary policy implementation and reduce overreaction to transient shocks. Targeting monetary aggregates to monitoring and adjusting policy rates to influence interbank rates and, by extension, other market rates in the desired direction have all been used as policies.

In the corporate finance literature, measuring the performance of insurers has gained relevance since, as intermediaries, these organizations not only provide a vehicle for risk transfer, but also assist in channeling funds in an optimal manner to support economic operations in the economy. Insurance companies are vital to both businesses and individuals because they compensate them for their losses and put them back in the same position as before the loss. In addition, insurers give economic and social benefits to society, such as loss prevention, anxiety or fear reduction, and increased employment. Due to data disparity and methods used, a few researchers' investigations yielded mixed conclusions and imprecision. The study thereby examines the impact of monetary policies on the liquidity of Insurance companies in Nigeria. Specifically, this study determines the effect of interest rate on the quick ratio of insurance companies in Nigeria

Conceptual Framework

Monetary Policy

One of the most important economic stabilization weapons is monetary policy, which entails measures to regulate or control the volume, cost, availability, and direction of money and credit in an economy in order to achieve a certain macroeconomic policy goal. It is a conscious effort by the monetary authority (Central Bank) to control the money supply and

credit situation in order to achieve a broad economic goal (Onuorah, Shaib, Oyathelemi and Friday 2011). According to Onyeiwu (2012), monetary policy is a tool of economic management used to achieve long-term economic growth and development. It is a formal articulation of how money influences the economy.

Okpara (2010) defines monetary policy as a tool for influencing the availability, volume, and flow of money and credit in order to achieve specific economic goals. Monetary policy is the government's purposeful use of changes in the money supply, cost of credit, credit size, and credit direction to influence the level of economic activity in order to achieve desired macroeconomic stability in an economy (Chigbu & Okonkwo, 2014).

Interest rate

The cost of borrowing money is stated as a percentage of the loan amount and is known as the interest rate. In other terms, it's the percentage of a loaned amount that the lender charges the borrower as interest. It could also refer to the interest rate paid for holding a financial asset as an investment or for putting money in a bank. In general, the level of an economy's interest rate indicates the amount of liquidity in that economy. High interest rates normally imply a liquidity constraint, whilst low interest rates suggest a liquidity surplus. Other factors that may influence interest rate fluctuations include an investment's term to maturity, the central bank's targeted interest rate level for achieving monetary policy and broad macroeconomic goals, and so on. It could be either the market or the policy rate. Market rates include banking system lending and deposit rates, as well as interbank rates, whereas the policy rate is normally set by a central bank. Interest rate fluctuation sends a signal to central banks, making it a crucial component to consider when formulating and implementing monetary policy.

Quick Ratios

According to the Farlex Financial Dictionary (2012), liquidity is defined as a large cash or cash-convertible asset position. High liquidity allows a corporation in a low-risk position to be more flexible, but it also reduces profitability. According to Brealey (2012), liquidity can be measured using liquidity ratios such as the current ratio, fast (acid test) ratio, and cash ratio. The current ratio is the proportion of current assets to current liabilities, and it represents the liquidity margin. According to Brealey (2012), the quick (acid test) is a measure of a company's short-term liquidity and is derived by dividing current assets net of inventories by current liabilities. It assesses a firm's capacity to satisfy short-term obligations using only its most liquid assets, excluding inventory. The quick ratio calculates how much liquid assets there are for every shilling of current obligations. The greater the company's liquidity condition, the higher the quick ratio, and vice versa. The cash ratio measures how much cash and cash equivalents a company has compared to its current liabilities. The cash ratio is the most widely used metric for assessing a company's liquidity. The cash and marketable securities holdings of a firm are its most liquid assets, which is why analysts focus at the cash ratio. As a result, it can establish whether or not the company can repay its short-term debt, as well as how quickly. Creditors can use a high cash ratio to determine how much debt, if any, they are ready to issue to the asking party.

Uchendu (2011) looked at how monetary policy affects the performance of Nigeria's commercial banking sector. His findings, based on the OLS approach, revealed that interest rate fluctuations are a key source of changes in commercial bank performance. Other factors that have a beneficial impact on commercial bank profitability include bank reserves, oligopolistic market strength of the three largest commercial banks, and staff salaries. Variations in exchange rate viability produced negative consequences on viability, on which

managerial efficiency had no discernible influence. From 1980 to 2010, Agbokhese and Asekone (2013) examined the impact of monetary policy on bank credit creation in Nigeria. Total credit creation had a positive linear association with the explanatory variables total credit creation, total deposit, and treasury bill rate, whereas reserve requirement ratio and interest rate had a negative link with total credit creation, according to the findings. Manufacturing enterprises' profitability ratios, dividend coverage ratios, and debt-equity ratios were examined by Ezejiofor, Nwakoby, and Okoye (2016) to see if they differed considerably from those of commercial banks. The researchers used an ex-post facto and time series research design. To compute the profitability and dividend ratios, data was collected from seven years of annual reports and accounts of manufacturing enterprises and commercial banks. The data was evaluated using financial ratios, and the t-test statistic was employed with the help of SPSS version 20.0 to see if there were any significant variations in the investment value of manufacturing companies compared to their commercial bank counterparts. The findings reveal that there is a large disparity in profitability between manufacturing enterprises and commercial banks in Nigeria, as well as a big difference in coverage ratios between manufacturing firms and commercial banks. Okaro and Nwakoby (2016) performed research into the Nigerian banking system's competing issues of interest between liquidity and profitability. The goal of the research was to see how liquidity management affected the profitability of Nigerian deposit money banks (DMBs). For 16 years, from 2000 to 2015, relevant data was acquired from CBN and NDIC annual publications, and data was evaluated using multiple regression analysis utilizing the E-view 8.0 statistical tool. The OLS result showed that the liquidity ratio and deposit money bank profitability had a negative and significant association. The study also discovered that the cash-to-deposit ratio and deposit money bank profitability have a positive and substantial association. Using performance indicators such as profitability ratios, dividend coverage ratios, debt-equity ratios, and efficiency ratios, Ezejiofor, Olise, and John-Akamelu (2017) evaluate the investment value of a telecommunication corporation to see if it is similar to commercial banks in Nigeria. The researchers used an ipso facto and time series study design. The data was evaluated using financial ratios, and the t-test statistic was employed to see if there were any significant differences in the mean of telecommunication companies against their commercial bank counterparts. The findings reveal that there is a considerable disparity in profitability between telecommunication companies and commercial banks in Nigeria, as well as a big difference in coverage ratio between telecommunication companies and commercial banks. From 1990 through 2017, Macfubara, Suzane, Dumbor, and Barry (2018) investigated the impact of monetary policy on the performance of insurance firms in Nigeria. The study's goal was to look into the current relationship between monetary policy tools and insurance company performance measures. Secondary data was obtained from the Stock Exchange fact book and the Statistical Bulletin of the Central Bank of Nigeria (CBN). The effect of the independent variables on the dependent variable was investigated using multiple linear regressions. The unit root test revealed that the variables are stable at first difference, the co integration test revealed a long-run link, and the granger causality test revealed unidirectional causation. According to the findings, monetary policy has a moderate impact on the return on equity of companies. With a focus on the Nigerian economy, Okoye and Udeh (2019) investigated the impact of monetary policy on corporate profitability in the banking industry. The investigations were carried out using regression analysis. The study's data was derived from secondary sources. The study created four models that are likely to be used to forecast future profits for the institutions studied. The findings revealed that Nigerian banks' corporate profitability has been hampered by monetary policy. The effect of monetary policy on the performance of Nigeria's banking system was explored by Ekpung, Udude, and Uwalaka (2015). The study period spans 36 years, from 1970 to 2006, and it employs the

OLS regression technique and selected indicators. Overall, monetary policy has a large impact on bank deposit liabilities, according to the findings. Mainly, we discovered that the Deposit Rate (DR) and the Minimum Discount Rate (MDR) had a negative impact on bank deposit liabilities in Nigeria, but the Exchange Rate (EXR) had a positive and considerable impact on bank deposit liabilities in Nigeria. In Nigeria, Kyari (2015) looked at the impact of monetary policy variables on savings, national income, and investment as proxies for the real economy. The most important conclusion to be derived from these findings appears to be the importance of the monetary policy channel in managing Nigeria's real sector economy. Money supply shocks have a similar influence on real sector variables, which appears to be significant. From 2000 to 2017, Okegbe, Ezejiofor, and Ofurum (2019) assessed the contribution of Foreign Direct Investment (FDI) to Nigeria's Gross Domestic product. Three hypotheses were developed during the course of this investigation in order to meet the study's objectives. The study was conducted using an ex-post facto research design. In order to test the assumptions, the regression analysis technique was used with the help of E-view version 9.0. According to the report, foreign direct investment in Nigeria's financial industry has had a favorable and considerable impact on the country's Gross Domestic Product. It also revealed that foreign direct investment in the oil sector has had a beneficial and considerable impact on Nigeria's Gross Domestic Product. The study indicated that foreign direct investment (FDI) into the Nigerian economy was a key contributor to the country's economic growth over the period studied (2000-2017). Olokoyo (2013) looked at how the reforms affected bank performance in Nigeria. The data was collected using a questionnaire instrument with eighty (80) copies collated and analyzed using the Analysis of Variance (ANOVA) method with the statistical package for social sciences to test the hypothesis (SPSS). The study finds that the process of recapitalization and consolidation has had a substantial impact on the manufacturing sector of the economy, as well as the Nigerian economy as a whole. The report also shows that, despite the changes, post-consolidation difficulties such as greater return on investment persist. The efficacy of monetary policy in establishing Balance of Payments stability in Nigeria was investigated by Imoisi, Olatunji, and Ekpenyong (2013). From 1980 to 2010, data was analyzed using the Ordinary Least Squares (OLS) technique of multiple regression models. The estimated result demonstrates that the dependent variable (Balance of Payments) and the independent variables have a positive association (Money Supply, Exchange Rate and Interest Rate). Money Supply and Interest Rate, in particular, demonstrated statistically significant relationships with Balance of Payments, although Exchange Rate did not.

Research Methodology

The research method used in this study was ex-post facto research. A quasi-experimental study that evaluates the effect of an independent variable on dependent variables in a study is known as ex post facto research design.

The study's participants were twenty-two publicly traded insurance companies that traded on the Nigerian Exchange Group's floor.

Data were gathered from secondary sources such as audited financial statements and CBN statistical bulletins.

Technique for Data Analysis

The research work employed regression analysis to test the relationship between monetary policy and insurance companies.

Model Specification

In this work, the econometric model considers monetary policy as an independent variable and quick ratio as a dependent variable.

$$QR = f(\text{ITR}, \text{TA})$$

Empirically stated as

$$QR = \beta_0 + \beta_1 \text{ITR} + \beta_2 \text{TA} + \mu$$

Where

QR = Quick ratio

ITR = Interest Rate

TA = Total assets

Decision Rule

Reject H_0 and accept H_a if the P-value of the test is less than α -value (level of significance) at 5% otherwise accept H_0 .

Data Analysis and interpretation of Results

Table 1: Descriptive Analysis

	QR	ITR	TA
Mean	22.95500	27.45600	7.483000
Median	22.90000	27.57500	7.585000
Maximum	48.37000	30.99000	7.750000
Minimum	9.980000	23.21000	7.120000
Std. Dev.	11.54679	2.786636	0.223609
Skewness	1.033476	-0.057485	-0.616109
Kurtosis	3.371088	1.635334	1.892408
Jarque-Bera	1.837500	0.781472	1.143800
Probability	0.399018	0.676559	0.564452
Sum	229.5500	274.5600	74.83000
Sum Sq. Dev.	1199.955	69.88804	0.450010
Observations	10	10	10

The descriptive statistics for the dependent variable QR and the independent variables are shown in Table 1 (ITR and TA). The mean is used to establish a baseline. The central tendency is taken by the median, which re-ranks. The maximum and minimum numbers, on the other hand, aid in the detection of data problems. The deviation/dispersion/variation from the mean is represented by the standard deviation. It is a danger indicator. The standard deviation is a metric that expresses how much each item in a dataset deviates from the mean. It is the most reliable and extensively used method of determining dispersion. For ITR, TA, and QR, the standard deviation in tax revenues for the periods is 27.46, 7.48, and 22.96, respectively. Jarque-Bera contains both skewness and kurtosis. Skewness and Kurtosis are contained in Jarque-Bera. Positively skewed is an indication of a rise in profit while negatively skewed is an indication of loss or backwardness. Jarque-bera is used to test for normality; to know whether the data are normally distributed.

Test of Hypothesis

Table 2: Ordinary Least Square Regression analysis testing the relationship between ITR and QR

Dependent Variable: QR
 Method: Least Squares
 Date: 04/11/22 Time: 12:50
 Sample: 2011 2020
 Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-122.9204	149.0041	-0.824946	0.4366
ITR	2.143828	2.090726	1.025399	0.3393
TA	11.62828	26.05478	0.446301	0.6689
R-squared	0.517366	Mean dependent var		22.95500
Adjusted R-squared	0.379470	S.D. dependent var		11.54679
S.E. of regression	9.095834	Akaike info criterion		7.496835
Sum squared resid	579.1393	Schwarz criterion		7.587611
Log likelihood	-34.48418	Hannan-Quinn criter.		7.397255
F-statistic	3.751869	Durbin-Watson stat		1.772574
Prob(F-statistic)	0.078102			

In table 2, a panel least square regression analysis was conducted to test the relationship between interest rate (ITR) and quick ratio (QR). Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the table 2, the value of adjusted R squared was 0.38, an indication that there was variation of 38% on QR due to changes in ITR. The probability of the slope coefficients indicate that; $P(0.339 > 0.05)$. The co-efficient value of; $\beta_1 = 0.2143828$ implies that ITR is positively related to QR, and this is statistically significant at 5%.

The Durbin-Watson Statistic of 1.772574 suggests that the model does not contain serial correlation. The F-statistic of the QR regression is equal to 3.751869 and the associated F-statistic probability is equal to 0.078, so the null hypothesis was rejected and the alternative hypothesis was accepted.

Decision Rule

Accept H_0 if the P-value of the test is greater than 0.05, otherwise reject.

Decision

Since the Prob (F-statistic) of 0.078 is greater than the critical value of 5% (0.05), then, it would be upheld that interest rate (ITR) has no significant effect on quick ratio in Nigeria at 5% level of significance, thus, H_0 is preferred over H_1 .

Discussion and Recommendation

The effect of monetary policy on the liquidity of Nigerian insurance companies was investigated in this study. Insurance companies have played a crucial part in Nigeria's economy by facilitating investment without causing financial hardship to businesses. The influence of the interest rate on the quick ratio was investigated using regression analysis. At a 5% level of significance, the analysis shows that interest rate (ITR) has no significant effect on the quick ratio of insurance businesses in Nigeria. It means that the company's ability to accrue funds to finance its assets, as well as its ability to satisfy short-term obligations, is

hampered by interest rates. Based on this, it was suggested that the monetary policy rate appears to be a less effective tool, and that it should be evaluated to conform to expectations as a tool for regulating insurance businesses in Nigeria.

References

- Agbonkhese, A.O. & Asekome, M.O. (2013). The impact of monetary policy on bank credit creation in Nigeria. *International Journal of Business and Social Science*, 4(15), pp. 160-165.
- Brealey, R. A. (2012). *Principles of corporate finance*. Tata McGraw-Hill Education. 56-102
- Chigbu E. E. and Okonkwo O. N. (2014). Monetary policy and Nigeria's quest for import substitution industrialization. *Journal of Economics and Sustainable Development*, 5(23), 99-105.
- Ekpong, G. E., Udude, C. C. and Uwalaka, H. I. (2015). The impact of monetary policy on the banking sector in Nigeria. *International Journal of Economics, Commerce and Management*, 3(5), 1015-1031.
- Ezejiolor, R. A., Nwakoby, N. P., & Okoye, J. F. N. (2016). Comparative analysis of the investment decision of selected manufacturing firms and commercial banks in Nigeria. *International Journal in Management and Social Science*. 4(8), ISSN: 2321-1784 (Impact Factor- 5.276) 2056-5
- Ezejiolor, R. A., Olise, M. C., & John-Akamelu, R. C. (2017). Comparative analysis on investment decision of telecommunication and banking industries in Nigeria. *Journal of Finance and Economics*, 5(2), 65-75 Available online at <http://pubs.sciepub.com/jfe/5/2/4> ©Science and Education Publishing DOI:10.12691/jfe-5-2-4.
- Farlex Financial Dictionary (2012). *Farlex, Inc.*
- Gimba J. T., Vincent, H. S., & Oyedokun G. E. (2020). Effect of monetary policy on the performance of listed deposit money banks in Nigeria University of Oradea, Faculty of Economic Sciences Oradea University Publishing House, Oradea, Romania. *The Annals of the University of Oradea. Economic Sciences* Tom XXIX 2020, Issue 1 (July 2020), ISSN 1222-569X, eISSN 1582-5450
- Imoisi, A. I., Olatunji, L. M. and Ekpenyong, B.I. (2013). Monetary policy and its implications for balance of payments stability in Nigeria: 1980-2010. *International Journal of Economics and Finance*, 5(3), 196-204.
- Kyari, G.V. (2015). An evaluation of the impact of monetary policy on the real sector in Nigeria. *Mediterranean Journal of Social Sciences*, 6(2), 361-369.
- Macfubara, Minafuro Suzane, Norteh Dumbor & Gberesuu, Barida Barry (2018). Monetary Policy and Return on Equity of Quoted Insurance Firms: A Time Series Study from Nigeria. *American Finance and Banking Review*. 64-71
- Ologunde A.O, D. O. Elumilade, & T. O. Asaolu (2006). Stock Market Capitalization and Interest Rate in Nigeria: A Time Series Analysis. *African Journal online*. Vol 13(2)
- Olokoyo, F.O. (2013). Bank reforms and performance of banks in Nigeria. *International Journal of Education and Research*, 1(9), 1-10.
- Onyeiwu C.(2012). Monetary policy and economic growth of Nigeria. *Journal of Economics and Sustainable Development*, 3(7), 62 -70.
- Okegbe, T. O., Ezejiolor, R. A. & Ofurum, D. I. (2019). Foreign direct investment (FDI) and Nigerian economic growth. *International Journal of Accounting, Finance and Risk Management*. 4(1), pp. 15-23. doi: 10.11648/j.ijafrm.20190401.12.
- Okpara, G.C. (2010). Monetary Policy and Stock Market Returns: *Evidence from Nigeria*” *Journal of Economics* 1(1) 13 – 21
- Onouorah, A., Shaib, I. O., Oyathelemi, E. and Friday, O. I. (2011). The impact of monetary policy on micro-economy and private investment in Nigeria. *Research Journal of Finance and Accounting*, 2(6), 65.
- Solomon D. H (2012) Selective Publicity and Stock Prices. *Journal of the American finance association*. Vol 67(2)

Uchendu, O. (2011). Monetary Policy and the Performance of Commercial Banks in Nigeria.
Central Bank of Nigeria Economic Review.