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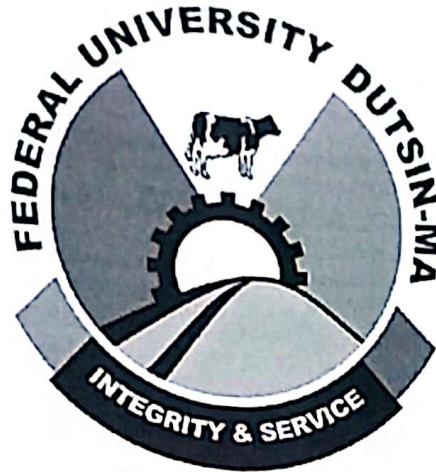


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Impact of financial statements information on market share price of listed insurance firms in Nigeria

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Abstract

In emerging economies, there is an issue of relevant information for investors' decision. Therefore, this study is carried out to determine the value relevance of financial statements information on Market Share Price of Nigerian listed insurance firms as at 31st December, 2022. Positivism methodology was adopted and as such, ex-post facto design was employed. Consequently, secondary data was used for this research work, obtained from the published annual reports and accounts of the selected insurance firms. The Panel data regression was used to analyze the data. The study found that both dividend per share and solvency margin ratio have positive and significant impact on market price per share (p-value > 5% level of significance). On the other hand, book value per share and earnings per share were found to have insignificant impact on market price per share (p-value > 5% level of significance). The study concludes that dividend per share and solvency margin ratio influenced market price per share of the selected companies in Nigeria and thus recommends that listed insurance companies should do more towards generating adequate profit that will enable payment of dividend to investors and to pay insurers their probable claims whenever the need arises.

Keywords: Financial Statements, Insurance Firms, Market Share Price, Solvency Margin Ratio.

1. Introduction

Information of interest to stakeholders include growth, profitability, liquidity and others as it affects the company from time to time. Information such as Earnings per share (EPS), Dividend per share (DPS), Book value per share (BVPS) and Solvency margin ratio (SMR) are of interest to all stakeholders. The major source of getting this information is in the financial statements of companies. Financial statements therefore could be said to have value relevance if it meets the need of various stakeholders as may be required at a specific point in time. Most investors (shareholders) do not participate in daily operations and policy management of their businesses either due to not having the time or the skills to do so but rather rely on financial information from financial statement to assess the performance of the managers. Therefore, it is imperative for business managers to give account of their stewardship and this is done through preparation of various financial reports which for many years, both internal and external stakeholders in financial matters of business organizations have been making use for the purpose of assessing company's financial performance and position (Certified Practicing Accountant, CPA, Australia, 2016).

However, developments in business environments, like company's social responsibility, financial analysis by researchers, enforcement of compliance of relevant rules and regulations and others have made the issue of accounting information no longer to be that of business owners alone as many

stakeholders now find it necessary to seek for financial information of firms relevant to their needs. Such stakeholders in addition to business owners (shareholders) include potential and existing investors. Existing investors take decision whether to maintain their investment, increase, reduce or sell the investment while potential investors consider where to put their money for the purpose of earning commensurate returns. Abogun, et al. (2020) identified decision on assessment of the management's stewardship and accountability as the most important decision among many economic decisions (Earnings Per Share (EPS) and Solvency Margin Ratio (SMR) that could be made based on financial statement information. The market worth (Market Price per Share (MPPS) and Book Value per Share (BVPS) of the company or companies under discussion is typically one of the most important criteria taken into account when making any of the decisions stated. Scholars were of the view that investors should not only have access to financial position of relevant organizations but should also understand the financial position of such organizations for them to make a well informed decision based on the value of the firm and avoid making decision based on manipulated stock prices.

With changes from industrial based economy to high technology and service oriented businesses, coupled with the 2008 global financial crisis claimed to have negatively impacted different capital markets world-wide, it became imperative to direct more attention and study on value relevance of financial statements of companies. The crisis led to discovery of severe regulatory gaps especially as related to banking and other financial sectors (Barth, et al., 2018). Specifically, Nigeria experienced varying degree of crisis in her financial sector and this is in addition to global economic crisis of 2005 - 2009. For instance, the major instability in Nigeria stock markets as occurred in the last few years and period of political crisis caused by military dictatorship of 1992 - 1998 led to questioning the effectiveness of value relevance of the financial statements (Adaramola & Oyerinde, 2014). In addition to political and financial crises that impacted negatively on value relevance, the model being used in preparing of financial statement has been identified as a factor limiting the usefulness of financial statements. Using historical cost model and capital maintenance concept in the preparation of financial statements may not allow for making available desired information that may be required by various stakeholders for economic decision (Abogun et al., 2020). Therefore, the goal of the study is to look into how financial information affects value relevance of insurance companies.

2. Literature Review and Hypotheses Development

Value Relevance

Value relevance refers to usefulness of financial statement information in measuring the worth of a firm in stock market (Alkali, et al., 2023; Omokhudu & Ibadin, 2015). Value relevance implies the extent to which such financial information can be used in taking economic decision. Therefore, value relevance of financial information is being studied here as it relates to its usefulness in measuring market value of a firm as determined by investors' perception of firm's financial performance and position (Bhattacharya, et al., 2022; Khanna, 2014). According to Francis and Schipper (1999); Ghayoumi, et al., (2012), there are four ways to describe value relevance: the fundamental analysis perspective of value relevance, the prediction perspective of value relevance, the information perspective of value relevance, and the measurement perspective of value relevance. Financial information will affect important stakeholders' decisions based on its predictive value, confirmatory value, or both, according to Conceptual Framework, IASB (2010). Financial information's predictive value is used as a tool to look into the future of a company and does not constitute prediction, aids users in forecasting anticipated future outcomes. Confirmatory value on the other hand relates to feedback obtained from previous evaluation to the extent that the feedback is in line with the expectation of the financial information user.



Furthermore, financial information must be current and accurately reflect what it is meant to represent in order to be useful in accordance with the conceptual framework. The framework therefore described the characteristics that financial information must possess what will make it to be useful and these are broadly fundamental and enhancing characteristics. The earlier mentioned relevance and faithfully representation comes under fundamental characteristics which are timeliness, comparability, understandability, and verifiability. The enhancing qualities strengthen and improve the utility of information that is pertinent and accurately portrayed. Enofe, et al., (2014); and Olowolaju & Ogunsan (2016) observed that accounting information can be used to determine various accounting variables and numbers that affect equity value, among such accounting numbers is dividend which has been observed to be the most influential. If financial information has the potential to affect the decision of the user, it is considered to be relevant (Umoren et al., 2018).

Idekwulim (2019); Azar and Zakaria (2019) argued that other fundamental characteristic of faithful representation is that financial information being prepared to the extent that it totally represents the economic matter being reported. Idekwulum (2019) added that three fundamental conditions—completeness, neutrality, and error-free must exist for financial information to fulfill the standard of faithful representation. If financial information includes all the details necessary for the users to comprehend the subject matter being provided, it will be considered complete. Neutrality imposes a responsibility on the preparer of financial information not to be biased in his reporting. The definition of neutrality is the act of reporting without taking sides with any one user or group of users. Hence, where the above-mentioned qualities are not present, it may consequently result in accounting information not worthy of being used in measuring firm's value; thus, the financial statement prepared has no value relevance (Umoren et al., 2018).

Financial Statements

One of the sources of information required to make economic decision by various stakeholders is the financial statements and it is the most important source of accounting information especially to external users (Umoren et al., 2018). International Accounting Standards (IAS 1) posits that financial statements serves as a guide with which the performance and position of a company can be measured, therefore it should contain information that can easily be understood by relevant users in terms of comparison, transparency and decision making. Akpan et al., (2024) opined that disclosure of relevant information in the financial statements of corporate bodies increases transparency. It provides interested stakeholders medium of evaluating the present situation with which the future of such entity can be predicted. Potential and existing and investors do make use of the contents of financial statements to determine whether to retain, diversify or dispose their investment while potential investors make use of financial statement information to determine where and how much of their fund should be invested. The users of accounting information rely on accounting information believing that it determines changes or movement in stock prices (Dang, et al., 2018).

Idekwulim (2019) classified some accounting information that may be required by existing and potential investors as "shareholders' investment ratios or stock market ratios". Some of the ratios include: EPS; DPS; Price Earnings Ratio (PER); Earnings Yield Ratio (EY); Dividend Yield Ratio (DY); Dividend Cover Ratio (DC); Retention Ratio; Dividend Pay-out Ratio; Cash flow per share ratio; BVS and Market price to book ratio. These ratios are calculated using information presented in annual financial statements. Earnings play major role in the life of any corporate entity as it represents resource available to the entity for the purpose of expansion, diversification, investment and payment of returns on investment and

maximization of shareholders' wealth. It is considered as one of the most important variables in measuring prices of shares as it has direct relationship with market price per share (Dang, et al., 2022; Jain & Bajaj, 2017). EPS refers to profit after tax that is attributable to a unit of firm's share and it is used to measure changes in value of a firm as it affects the equity holders. According to Osundina, et al., (2016), it is computed by dividing total earnings by the number of shares issued so far.

Dividends represent the portion of an entity's earning that is available to equity (shareholders) holders as returns on their investments. It involves payment of cash or bond or stock in return of shareholders' investments. This is calculated by dividing total dividends a company has distributed over a period of time by the number of common shares it has issued. Dividends have been observed having direct relationship with stock prices, hence, increase in dividends payment impacts positively on stock prices while decrease in dividend payment impacts negatively (Budagaga, 2017; Omokhudu & Ibadin 2015; Barth, et al., 2022). The BVPS ratio is used to evaluate a firm's common shareholders' equity in relation to the total number of outstanding shares. This is calculated by dividing total share value by the number of shares issued. Ahmadi, et al., (2018) observed that most investors in Tunisia make use of BVPS in making economic decision as it has significant positive relationship with share prices while reverse is the case in Nigeria where according to Uwuigbe, et al., (2016), a significant negative relationship exists between BVPS and MPS.

One of the criteria used by National Insurance Commission (NAICOM) to assess the financial health of insurance businesses is the Solvency Margin (SM). Insurance companies must have a minimum solvency margin of 100%, per the regulation. Several empirical investigations have been carried out previously. Alkali et al., (2023) assessed the impact of fair value accounting on share price of listed deposit money banks in Nigeria between 2016 and 2022, using regression analysis on the data obtained from annual reports of the sampled banks. The finding from the study revealed that earning per share has significant influence on the value relevance of the sampled banks in Nigeria.

Chakraborty and Maruf (2023) investigated the influence of liquidity, leverage, dividend, profitability, productivity and working capital on firm value of 38 selected firms between 2015 and 2021 using 2 stages least square. The findings revealed that dividend payment ratio and asset turnover positively influenced firm value. Bhattacharya, et al., (2022) examined whether market share enhances firm value or profit. The finding shows that what influence market share of firms differ across industries. However, revenue market share can predict firm value if the market share is well managed and share price of the firm well positioned in the stock market. Dang et al., (2021) investigated the effect of dividend on corporate value of listed companies on Vietnamese stock market between 2006 and 2017 using general least square. Finding revealed that dividend policy impacted corporate value of the sampled firms.

Phakdee and Srijunpetch (2020) studied value relevance in the Stock Exchange of Thailand. Secondary data gathered from the Thai Stock Exchange Market's online database was studied using the regression analysis method. The results found that EPS and BVPS are positively associated with stock price. Mbekomize and Popo (2020) used information from Botswana's listed firms from 2012 to 2018 to investigate the statistical associated between EPS, DPS, BVPS, and MPPS. The finding shows that earnings have the most positive impact on share prices, while dividends and book value have less of an impact. It was additionally observed that MPPS is mostly influenced in the 6th month of the year. Abogun et al., (2020) while studying value relevance collected data of eighty-six firms spreading across eleven sectors as classified by Nigerian Exchange Group. Earnings, dividend, equity and accounting conservatism were positively related with MPPS.

Ahmadi et al., (2018) using secondary source of data collection studied eleven banks and thirteen other financial institutions listed firms in Tunisia. The results revealed that BVPS, EPS and CFPS have positive relationship with MPPS and additionally observed that most investors made use of book value in taking investment decision. Ten listed banks in Nigeria were chosen by Umoren et al., (2018) using judgmental sampling for a study spanning the years 2007 to 2016. Using regression analysis, they examined value relevance before and after the adoption of IASs and found that EPS and BVPS do not have relationship with MPPS. Therefore, in view of above empirical studies, this study hypothesized that:

- H1: *Earnings per share (EPS) has no significant impact on market price per share (MPPS) of Nigerian listed insurance companies.*
- H2: *There is no significant association between dividend per share (DPS) and market price per share (MPPS) of Nigerian listed insurance companies.*
- H3: *Book value per share (BVPS) has no significant impacts on market price per share (MPPS) of Nigerian listed insurance companies.*
- H4: *SMR does not have significant impact on market price per share (MPPS) of Nigerian listed insurance companies.*

Theoretical Framework

This study is guided by signaling theory which was developed to explain the relevance of dividend policy as a means of informing stakeholders of firm's present and future value (Bhattacharya, 1979; John & Williams, 1985; Miller & Rock, 1985). Signaling theory emphasized the relevance of information in decision making process to the extent that a particular piece of information means different things to different people and so making different decision. Information influences how individuals, families, corporations, and the government make decisions. Using signaling theory in this research, the firm sending information about her earnings and dividend through financial statements, expects reactions from the various stakeholders especially potential and existing investors and their reactions ultimately impacts on MPPS (Bhattacharya et al., 2022; Nyabundi, 2013). If there is increase in firm's value and this was reflected in the books of the firm, this will give positive signal to investors (Dang, et al., 2022; Komara, et al., 2019).

3. Methodology

The study used secondary data made up of accounting data from the audited annual financial reports of selected companies. Ex-post facto research design was chosen for this study because the variables used were based on past event using the Nigerian Exchange Group Daily Price Quotation and Nigerian Exchange Group fact books. This method was also used by Orinya, et al., (2024), suggesting that the method is good for study combining a time series and cross-sectional data. Population of this study consists of the twenty-five insurance companies listed as at 31st of December, 2022. Purposive sampling technique was used to select sixteen (16) insurance companies listed from 2012 and still listed up to 2022. Insurance company is considered because it is one of the financial institutions that is striving and contributing to the growing Nigerian economy.

Model Specification

The model for this study was anchored on the work of Mbekomize and Popo (2020) as expressed below;

$$MPPS_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 DPS_{it} + \beta_3 BVPS_{it} + \mu_{it} \dots \dots \dots (1)$$

Where: MPPS = Market Price Per Share; EPS = Earnings Per Share; DPS = Dividend Per Share; BVPS = Book Value Per Share; i = company; t = time (year); β_0 = constant; β_{1-3} = coefficient of explanatory variable; μ = error term.

The model was however modified to include solvency margin ratio as independent variable peculiar to insurance companies and to fill the observed gap in the previous studies.

$$MPPS_{it} = \beta_0 + \beta_1 BVPS_{it} + \beta_2 EPS_{it} + \beta_3 DPS_{it} + \beta_4 SMR_{it} + \mu_{it} \dots \dots \dots (2)$$

Where: MPPS = Market Price Per Share; BVS = Book Value Per Share; EPS = Earnings Per Share; DPS = Dividend Per Share; SMR = Solvency Margin Ratio; β_{1-4} = coefficients.

Note: There is no control variable in this model because all the sample companies are the same (that is, the same industry) with the same characteristics.

Table 1
Variables Measurements

Variables	Description	Prior Literature
MPPS (Dependent)	Measured by last day share price as at 30th April of each year covered	Prihatini et al., (2018); Uwuigbe et al., (2016)
EPS (Independent)	Measured by profit after tax attributable to each unit of ordinary share held by equity holders	Nwaobia et al., (2018); Uwuigbe et al., (2016)
BVPS (Independent)	Measured by total equity and as attributed to each share	Umoren et al., (2018)
DPS (Independent)	Measured by total dividend paid in each year under study and as attributed to each unit of ordinary share.	Akadakpo & Mgbemi (2018); Omokhudu & Ibadin (2015)
SMR (Independent)	Measured by excess of admissible assets in Insurance companies over liabilities	Insurance Act, (2003)

Source: Authors' compilation (2024).

1. Results and Discussion

This study employed summary statistics, and regression analysis (fixed and random effect). Data were interpreted and discussed according to the results from the analyses. Table 2 shows the descriptive analytical result and statistical properties of the study's variables.

Table 2
Results of Summary Statistics

Variable	Mean	Std. Dev.	Min	Max
MPPS	0.545	0.292	0.201	2.720
BVS	0.891	0.684	-0.551	4.028
EPS	0.218	0.365	-0.725	1.003
DPS	0.013	0.026	0.000	0.130
SMR	1.533	0.918	-2.761	3.848

Source: Authors' Computation, 2024.

Note: MPPS is Market Price Per Share; BVS is Book Value Per Share; EPS is Earnings Per Share; DPS is Dividend Per Share; and SMR is Solvency Margin Ratio.

The summary statistics results presented in Table 2 shows that market price per share has a mean value of 0.545, standard deviations of 0.292, minimum value of 0.201 and maximum values of 2.720. The standard deviation also suggests that these firms are relatively equal in terms of market per share, given that the value is not far away from the mean. The table further reveals that book value per share has a mean value of 0.891, standard deviation of 0.684, minimum of -0.551 and maximum of 4.028. Earnings per share have a mean value of 0.218 percent, standard deviation of 0.36 percent, minimum of -0.725 percent, and maximum of 1.003 percent. Furthermore, result shows that dividend per share has a mean value of 0.013, standard deviation of 0.03, minimum of zero and maximum of 0.13. Solvency margin ratio indicates that an average firm recorded solvency margin ratio of 1.533 percent. The standard deviation value of 0.918 indicates that these firms are widely spread from this average behavior.

Regression Result

The results of pooled OLS method, fixed effects and random effects methods are presented in Table 3.

Table 3
Panel Regression Results

Variable	OLS			Fixed Effects			Random Effects		
	Coefficient	t	p	Coefficient	T	p	Coefficient	z	p
BVPS	0.053	1.380	0.169	0.070	1.120	0.267	0.061	1.411	0.158
EPS	-0.019	-	0.750	0.035	0.510	0.612	0.001	0.030	0.979
DPS	5.109	5.311	0.000	2.691	2.061	0.042	4.433	4.252	0.000
SMR	0.050	1.951	0.053	0.049	1.522	0.132	0.049	1.821	0.071
Constant	0.356	7.940	0.000	0.362	5.690	0.000	0.355	6.901	0.000
R-squared	0.336			0.121			0.693		
F-statistic	15.57		0.000	3.710		0.007			
Wald Chi ²									
F-test							43.64		0.000
Hausman test				2.011		0.020			
Autocorrelation				7.230		0.124			
Average VIF				116.2		0.000			
				1.271					

Source: Authors' Computation, 2024.

Note: BVPS is Book Value Per Share; EPS is Earnings Per Share; DPS is Dividend Per Share; and SMR is Solvency Margin Ratio.

The Hausman test's findings indicate a statistic value of 7.230 and a p-value of 0.124, which are not statistically significant. Given that the null hypothesis for the Hausman test is that "the difference in the coefficient of the fixed and random effects results are not systematic". The test result shows that this null hypothesis could not be rejected because the Hausman test's statistic is not significant. As a result, the random effects method is the most appropriate one. The variance inflation factor (VIF) also has an average value of 1.271, indicating that the VIF values of 1.271. With this value being less than the

suggested rule of thumb value of 10 (Asteriou & Hall, 2016), there is no evidence that there is problem of multicollinearity. Table 4 shows the results of the random effects model together with reliable estimates of standard errors.

Table 4
Random Effects Regression Results with Robust Estimates of Standard Errors

Variable	Coefficient	t	p
BVPS	0.061	0.922	0.359
EPS	0.001	0.034	0.974
DPS	4.433	2.321	0.020
SMR	0.049	1.962	0.050
Constant	0.355	5.010	0.000
R-squared	0.693		
Wald Chi-squared	8.791		0.066

Source: Authors' Computation, 2024.

The study makes use of robust estimates standard errors because it provides a way to estimate standard errors that are not affected by heteroskedasticity, thus, making the regression coefficients more reliable. Table 4 displays results of the random effects model, which indicate that the solvency margin ratio and dividend per share both have statistically significant positive coefficients (0.049 with p-value of 0.050 and 4.433 with p-value of 0.02, respectively). These show that the market price per share of listed insurance firms in Nigeria is positively influenced by both dividends per share and solvency margin ratio, whereas the market price per share of these firms is not significantly impacted by book value per share or earnings per share. The significant positive coefficient of dividend per share indicates a per cent point increase in the dividend per share of these firms will lead to an increase in market price per share by 4.433 per cent points. Similarly, the significant positive coefficient of solvency margin ratio indicates a per cent point increase in solvency margin ratio will lead to an increase in market price per share by 0.049 per cent points. According to the revealed R^2 of 0.693, the model accounts for around 69.3% of fluctuations in market price per share. The whole model is statistically significant and has an excellent fit, as indicated by the Wald Chi-squared statistic.

Discussion of Findings

According to the results of the econometric analysis, DPS has a significant and positive influence on MPPS. This finding is consistent with the a priori prediction that DPS will have a favourable effect on MPPS of Nigerian listed insurance companies. This finding is consistent with previous research such as Barth et al., (2022); Dang et al., (2021); Abogun et al., (2020); Azar et al., (2019); Ahmad et al., 2018). But the result was contrary to the finding of Mbekomuze and Popo (2020) where EPS, DP, BVPS and MPPS have less impact on corporate value in Botswana despite the fact that this is an African country too. However, the difference in submission may likely be that companies sampled are different. But in the study of Dang et al., (2021) in Tunisia, the result was in line with this present finding; it worth noting that Tunisia is an African country like Nigeria.

The finding of this study also demonstrated that SMR positively impacts the MPPS of Nigeria's listed insurance providers. This is premised on the fact that the ability of insurance firms to pay claims during the time of unforeseen circumstances increases its value, which in turn translates into increased market price per share. This study was unable to compare this finding with previous findings as solvency was a

new variable introduced. The finding further revealed that BVPS and EPS are not significant with MPPS of the sampled companies. The result is in tandem with the finding of Mbekomuze and Popo (2020); but in contrast with the finding of Abogun et al., (2020); Ahmad et al., (2018).

Conclusion and Recommendations

This study revealed that DPS has a positive effect on MPPS of the Nigerian sampled companies, which means that increase in DPS increases their MPPS. SMR has a positive effect on MPPS of listed insurance firms in Nigeria, which indicates that increase in the SMR increases MPPS. This study concludes that an increase in DPS and SMR is most responsible for the increase in MPPS of listed insurance firms in Nigeria and that increase in dividend per share is one of the factors that responsible for growth of market share prices. It can also be concluded that increase in solvency margin ratio is a vital tool to increasing market price per share of listed insurance firms in Nigeria. Furthermore, this study concludes that earnings per share and book value per share are not so much important to guarantee an increase in market price per share of listed insurance firms in Nigeria, as the two variables did not influence market price per share.

Therefore, this study recommends that corporate strategies such as optimal capital structure that will generate adequate profit from which dividend can be paid should be given priority by sampled insurance companies as dividend per share (DPS) is positively associated with market price per share (MPPS). Also the sampled companies should continue to improve their strategies on stability and growth to manage financial risk as solvency margin ratio (SMR) is positive and significant related with market price per share (MPPS). Future study should consider evaluating the value relevance of financial statements of other sectors of Nigerian economy such as manufacturing industry, oil and gas, pharmaceutical companies etc., as this study only cover insurance company part of financial institutions in Nigeria.

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