Liquidity Management and Gross Earnings of Insurance Firms in Nigeria

Florence Ifeoma Onuaguluchi & Prof. Ifeoma Mary Okwo

Department of Accountancy,
Enugu State University of Science and Technology, Enugu.

ABSTRACT: *The study appraised liquidity management and gross earnings of insurance firms in Nigeria. During the Covid-19 period, insurance firms were faced with the financial responsibility of indemnifying the numerous risks suffered by policy holders. To do so effectively, they need to be liquid enough so as to meet such indemnity demands as at when due. This affects their investment. Hence the study examines liquidity and gross earnings of insurance firms in Nigeria. Current ratio, cash ratio, and operating cash flow ratio is the independent variables of the study, while the dependent variable is profit for the year. The study adopted an ex-post-facto research design, covering the period between 2011 and 2020. Secondary data were extracted from the annual report and accounts of the sampled insurance companies. The correlation technique was used for the data analysis. In line with the specific objectives of the study which was to examine the relationship between current ratio, cash ratio, and operating cash flow ratio and profit for the year of insurance firms in Nigeria, it was revealed that current ratio has a positive and strong relationship with profit for the year of firms in Nigeria insurance subsector. Cash ratio has a negative and weak relationship with profit for the year of firms in Nigeria insurance subsector. The operating cash flow ratio has a positive and weak relationship with profit for the year of firms in the Nigeria insurance subsector. This implies that an increase in current ratio results in a significant increase in profit for the year of insurance firms in Nigeria. It is recommended therefore that insurance firms in Nigeria should strive to improve their current ratio. They can do this by reducing the personal draw on the business and by reducing the personal drawings on the business. They should reduce their propensity to hold cash. They should balance the trade-off between cash holding and profitable investment. They should make profitable investments and ensure that their liabilities are settled on time. Insurance firms should devise strategies to improve the cash they generate from operating activities. They can do this by improving their inventory, introducing electronic payments, etc.*

KEYWORDS: Profit for the year, current ratio, cash ratio, operating cash flow ratio, liquidity management, shareholders' value, insurance firms, Nigeria

INTRODUCTION

Background of the Study

The COVID-19 pandemic is causing businesses to fail worldwide, especially in tourism and leisure, aviation, maritime, automotive, construction and real estate, financial services, and education. Due to the pandemic's impact on policies, insurance companies, which are risky, are

expected to suffer. Insurance firms, like other businesses, prioritise employee health and safety, alternate work arrangements, and business continuity amid challenging circumstances. However, they must indemnify policyholders for insured risks. They need enough revenue to survive pandemic shocks to meet their responsibilities.

According to Olaniyi (2020), insurance firms' main source of revenue is premiums, hence business failure, bankruptcy, insolvency, and premium revenue loss will likely impact premium payments or policy cancellation. As a corollary, a considerable fall in premium payments will impact insurance firms' revenue pool and business sustainability. Insurance companies are more resilient to economic shockwaves due to stricter capital adequacy and prudential standards, but many will need to reposition and adjust their business strategy, liquidity position, implementation plans, cash flow expectations, and investment portfolios to mitigate the COVID-19 pandemic (Ajayi, 2020).

Effective liquidity management can maximise insurance revenues and indemnify policyholders. Liquidity means the firm can pay its maturing commitments. Thus, liquidity management involves strategic supply or withdrawal from the market or circulation of the amount of liquidity consistent with the desired level of short-term reserve money without distorting the bank's profit-making ability and operations, according to Elijah, Jaya, and Jacklinne (2017). A mismatch between firms' assets and obligations causes liquidity mismanagement. Refinancing or maturity mismatch cause this (Saunders& Comett, 2005). Falling asset prices, inadequate financing, and low marketability of assets indicate poor liquidity management (Brealey, 2012). Thus, many companies suffer lower profits.

Liquidity management concerns have lowered public confidence in many companies and increased financial disintermediation (Barad, 2013). Current ratio compares assets to liabilities. This ratio shows liquidity. A sharp drop may indicate liquidity issues. Liquidity is the economy's lifeblood and can cripple financial markets (Molefe & Muzindutsi, 2016). Thus, using insurance data, the study explores how liquidity management affects Nigerian firms' gross earnings.

Statement of the Problem
COVID-19 is humanity's largest challenge and continues to change how we live and do business. The global health crisis has affected all industries, including insurance. It continues to impact this sector in numerous ways, and all important stakeholders must prepare for some extremely challenging months ahead.

Insurance companies hold risk and are vital during economic downturns. Companies and individuals rely on insurance companies to manage risks and limit losses during and after the pandemic. The Pandemic increased claims on insurance policies, performance bonds, and advance payment guarantees, straining the insurance industry. The virus's business and social disturbances risked consumers and businesses. Pandemic illness, impairment, and disability claims from consumers and their dependents hit health insurers hard. Cancellations and postponements have hurt the events business. This insurance sector may lose. Customers who purchased supplementary disruption insurance made travel insurance companies vulnerable. Credit insurers faced bankruptcy risks due to the virus's propagation.

Insurers and reinsurers with a large liquid or liquidatable portfolio may face more risks. Insurance funds are vulnerable to global financial market volatility due to policyholders' investments in insurers. Insurance companies are one of the major institutional investors, therefore financial market volatility may hurt them. Thus, liquidity management is crucial for these insurance companies to be profitable and avoid bankruptcy in this tough period. Thus, the study investigates how management liquidity affects Nigerian insurance firms' gross earnings. This aims to determine how current ratio, cash ratio, and operating cash flow ratio effect insurance firms' operating revenue in Nigeria during covid-19.

REVIEW OF RELATED LITERATURE

Liquidity

According to the business lexicon, liquidity is a measure of a person's or organization's ability to satisfy immediate and short-term obligations with cash or assets that can be easily converted to do so. Liquidity can alternatively be defined as the ease with which assets can be converted to cash. Liquid assets are those that can be swiftly converted to cash in order to pay financial obligations; examples of liquid assets include cash, central bank reserves, and government debt. A financial organisation must have adequate liquid assets to pay its short-term obligations, such as depositor withdrawals, in order to remain viable. In addition, liquidity is a financial phrase that refers to the quantity of funds accessible for investment. The majority of this capital is now in the form of credit rather than cash.

Liquidity Management

According to Choudhry (2011), liquidity management entails funding deficits and investing surpluses, managing and developing the bank's statement of financial condition, and ensuring that the bank works within regulatory and statutory boundaries. To maintain relative macroeconomic stability, liquidity management is used to smooth out changes in liquidity growth in the financial system (Olagunju, Adeyanju and Olabode, 2011). This mix of lending and deposit-taking activities protects firms and families from a wide range of idiosyncratic and systematic liquidity shocks while also encouraging economic growth (Berger and Sedunov, 2017). Excessive liquidity mismatches, on the other hand, can result in bank runs, wholesale market failures, and distressed asset sales, all of which jeopardise the financial system's viability (Tirole, 2011). Furthermore, liquidity monitoring is a strategy for avoiding over-liquidity and under-liquidity, both of which can have a detrimental impact on profitability (Ayo, 2014).

Current Ratio (CR)

The current ratio evaluates a company's capacity to pay short-term debts within a year. The current ratio displays investors and analysts how a company may optimise its current assets on its statement of financial position to pay its current debt and other payables, according to Fernando (2020). A firm's ability to pay its liabilities (debts and account payable) with its assets is determined by the current ratio (cash, marketable securities, inventory, accounts receivable). Current ratio can estimate a company's financial health. Due to its higher asset-to-liability ratio, a firm is better able to satisfy its commitments as they come due. Current ratio = current assets / current liabilities. It indicates short-term insurance firm solvency. A company's current ratio estimates liquidity (Olagunju, Adeyanju and Olabode, 2011).

Cash Ratio (CASHR)

The cash ratio is the ratio of a company's total cash and cash equivalents to its current liabilities measures liquidity, according to Kenton and James (2020). The indicator measures a company's ability to repay short-term debt with cash or easily marketable securities. This information helps creditors decide how much to loan a company, according to the study. Cash ratio measures firms' ability to pay their liabilities. Ejelly (2004) opine that a firm with a large reserve can make large purchases instantly since it has the liquidity to cover short-term expenses and invest.

Operating Cash Flow Ratio (OCFR)

Hargrave (2020) believes the operating cash flow ratio gauges how well operating cash flows meet current liabilities. The ratio evaluates a firm's short-term liquidity. Operating cash flows show the company's ability to repay loans, maintain operations, pay dividends, and make new investments without outside financing (IAS, 7). Operating cash flow better measures a company's performance than net income because it accounts for receivables, depreciation, and liabilities (Fabozzi & Markowitz, 2006). Firms need operating cash flow because it shows their operational and working capital management success (McLaney & Atrill, 2014).

Profit for the Year

A company might use its annual profit for business purposes or pay shareholders dividends. Since it includes operating income and additional income, such as interest income, the profit for the year statistic is the strongest indicator of an entity's ability to provide a return. Profit for the year is a measure of a company's ability to turn revenue into profits and is used in margin analysis to compare companies in the same industry. Aldridge (2015) says it helps investors determine how much a company earns and whether it needs to cut costs. Investors regularly monitor a firm's profit for the year margin to determine its income-generating ability. If so, this might be a stock price indicator.

Nigeria Insurance Industry Overview

The Nigerian insurance sector is divided into life (13 companies), non-life (27 companies), composite (13 companies), and reinsurance (2 companies). In 2017, non-life premium income was 55.7% and life 44.3%. Investment & Allied Insurance and Spring Life Assurance were liquidated by NAICOM recently. The former was liquidated for fraud, while the latter failed to meet the life business's minimum capital requirements of 2.0bn.

Mansard (2014), Swiss Re (2016), UNIC Insurance (2017), Allianz (2018), and InsurResilience Investment fund (2019) have all invested in the industry. These partnerships and investments have failed to make a difference since capital concerns prevent large insurers from entering the market (Afrinvest, 2020).Nigeria's insurance penetration (Gross Premium Written/GDP) was 0.34% in 2019 (0.33% in 2018) compared to South Africa (13.4%), Morocco (3.9%), Kenya (2.3%), and Egypt (0.6%). (Sigma Research, 2020). Insurance density (Gross Premium Income per Capita) at $8.0 (2018: $6.2) is also low compared to peers like South Africa ($803.0), Morocco ($127.0), Kenya ($43.0), and Egypt ($19.0).

Theoretical Framework

The study is anchored on Keynesian Liquidity Preference Theory by Kyenes (1936) and Shiftability Theory of Liquidity Management by H.G. Moulton (1913) as the theory underpinning the study.

Keynesian Liquidity Preference Theory

Keynes (1936) identified three key reasons for holding cash. For speculative, precautionary, and transactional reasons. The speculative purpose is to store cash in order to benefit from changes in agreed-upon buying and appropriate interest rates. To achieve these goals, most firms have decided to keep their tradable securities. When an institution wants to have funds on hand in case of unforeseen disasters, calamities, or mishaps. Institutions require money for transaction motivation in order to carry out their economic everyday activities. Individual businesses are thus expected to hoard cash, resulting in a loss of earnings if the capital was profitably spent. Kenyan banks, for example, must hold a minimum of 20% of all deposits, matured obligations, and short-term obligations in liquid assets.

Shiftability Theory

The theory suggests that a firm's liquidity is preserved if it keeps assets that can be sold to other lenders or investors for cash even during a crisis. Liabilities are the topic of the shiftability theory. According to the theory, a firm's liabilities can provide additional liquidity, therefore its assets' shiftability, marketability, or transferability ensures liquidity. Based on the theory, a firm's highly marketable security provides liquidity. This theory held that some liquid assets might boost a firm's liquidity.

Nwankwo (1991) claims that firms are not required to store liquidity on the asset side (liquidity asset) of the statement of financial position because they may receive all the cash they need. Scholars have critiqued liquidity management theories. However, firms with poor financial conditions and reduced standing may have trouble accessing liquidity during a crisis since investors' confidence in them has decreased. The study relies on shiftability theory.

Empirical Review

Olaoye (2020) examined how liquidity management affected the profitability of various Nigerian food and beverage firms. Secondary data was collected from 2014–2018 annual reports of selected firms. Data was analysed using multiple regression and correlation. Current ratio, current assets/total assets ratio, and working capital ratio have no effect on return on capital employed based on p-values >0.01.

Liquidity affects bank profitability, according to Thu-Trang and Toan (2020). Bank profitability is measured by return on assets (ROA), whereas liquidity is measured by liquid assets to total assets (LATA) and total loans to total deposits (TLTD). 2013-2018 data from 26 Vietnamese commercial banks is collected. Vietnamese commercial banks' profitability is tested using GMM estimate. Profitability (ROA) was negatively influenced by the liquid asset ratio (LATA) and positively connected with the loan-to-deposit ratio (TLTD). EG and inflation both affected bank profitability (INF).

Liquid assets, bank deposits, treasury bills, and return on assets were used by Obim, Takon, and Mgbado (2020) to study how liquidity affects bank profitability. Central Bank of Nigeria statistical bulletin data was used. The study used ordinary least square with multiple regression. The study demonstrates positive and nonsignificant impacts on return on asset from bank deposits, liquid assets, and government bills.

Liquidity's impact on Tunisian bank profitability was examined by Moussa and Boubaker (2020). The study sampled 18 banks across the period (2000 to 2017). In the empirical study, two panel static models are used. (Liquid assets / Total Assets) and (Total Credits / Total Deposits) have a positive and significant impact on return on assets (ROA), whereas (Current Assets / Current Liabilities) do not. The study also indicated that liquid assets/total assets and total credits/total deposits negatively impact ROE (return on equity). Current assets/current liabilities have no significant impact on ROE.

In 2018–2019, Arini, Samrotun, and Masitoh (2021) examined how liquidity ratios, activity ratios, profitability ratios, and leverage ratios affected textile and garment companies listed on the Indonesia Stock Exchange. Linear regression analysis were used to test hypotheses. Liquidity has little effect on financial distress, according to the study. The activity has a significant effect on financial distress. Profitability significantly impacts financial distress. Leverage affects financial distress but not significantly.

Six foreign deposit money banks in Nigeria were used by Eze and Agu (2020) to study liquidity management and performance. Capital adequacy, liquidity ratio, current ratio, and bank size measured liquidity management. Annual reports from banks' websites were analysed over seven years (2013 – 2019). Descriptive statistics and regression analysis were used for analysis. Capital adequacy and return on equity had a strong positive link, while liquidity and current ratio had a statistically nonsignificant negative relationship. Return on equity increased with bank size.

Rahmawati, Pandansari, and Khasanah (2020) examined the effect of liquidity ratios, profitability ratios, leverage ratios, and operating cash flow on financial distress in Indonesia Stock Exchange-listed manufacturing companies (2015-2018). This study's independent variables included financial distress, liquidity ratios, profitability ratios, leverage ratios, and operating cash flow. Data analysis using logistic regression. The liquidity ratio and operating cash flow ratio did not affect financial distress.

Liquidity management's impact on Nigerian quoted deposit money banks' financial performance was examined by Okere, Okeke, Echeonwu, Eze, and Oluwatobi (2021). Secondary data were collected from 15 banks' corporate annual reports and accounts from 2007 to 2017. This study relied on agency theory. The data was analysed using OLS methods. The results show that liquidity management affects Nigerian Deposit Money Banks' financial performance.

Etale and Sawyerr (2020) investigated the relationship between liquidity management and GlaxoSmithKline's financial performance, a leading pharmaceutical company in Nigeria with a strong multinational foundation. Return on assets (ROA) represented financial success,

whereas current ratio (CUR), quick ratio (QUR), and cash ratio (CAR) represented liquidity management (independent variables). Data analysis uses descriptive statistics and OLS multiple regression. Current ratio and cash ratio had a significant positive effect on return on assets, whereas quick ratio had a significant negative effect.

Lojek (2020) examined the relationship between profitability and financial liquidity among Polish importers of top-selling new automobile brands. Operating cash flow/sales ratio, current liquidity ratio, quick ratio, and immediate liquidity ratio were examined. Return on asset and equity measured financial performance. The study used Pearson correlation. The Polish automobile industry's profitability and financial liquidity are positively correlated.

Arief (2021) examined the financial performance of Indonesia Stock Exchange-listed manufacturing companies' liquidity, asset management, cash turnover, and capital structure. Return on assets measured financial success while current ratio measured liquidity. Multiple linear regression was employed to test hypotheses. The results showed that partially liquidity (current ratio) affected manufacturing companies listed on the Indonesia Stock Exchange's return on assets.

Dahiyat, Weshah, and Aldahiyat (2021) examined how liquidity and solvency management affected the financial performance of Jordanian manufacturing companies listed on the Amman Stock Exchange from 2010 to 2019. Financial performance is measured by ROA and EPS. Current ratio (CR) and total debts to total assets were utilised as liquidity and solvency management proxies, whereas logarithm of total assets measured size. Correlation and multiple regression were used to analyse the data. Liquidity has a negligible negative impact on Amman Stock Exchange manufacturing enterprises' financial performance.

Hacini, Boulenfad, and Dahou (2021) examined how liquidity risk management affected selected Saudi conventional banks' financial performance from 2002 to 2019. Liquidity risk is measured by the loan to deposit ratio (LTD) and cash to deposit ratio (CTD). Financial performance is measured by Return on Equity (ROE). The control variable is equity to total asset ratio (ETA). Panel data (Pool, Fixed-effects, Random-effects) is used to test the study hypothesis. Saudi Arabian banks' financial performance suffers from liquidity risk.

Gap in Empirical Review
The foregoing empirical review indicates that numerous works had been done on liquidity management and profitability of firms, however, the majority of these recent studies were done outside Nigeria such as Hacini, Boulenfad, and Dahou (2021), Arief (2021), Arini, *et al* (2021) among others. Also, the majority of the reviewed literature on liquidity management in Nigeria such as Okere, Okeke, Echeonwu, Eze, and Oluwatobi (2021), Eze and Agu (2020), and Otekunrin, *et al* (2019) focused on the banking industry of the Nigeria financial services sector isolating the insurance industry. This created a gap in the literature which the study filled by evaluating the relationship between liquidity management and gross earnings of insurance firms in Nigeria.

METHODOLOGY

Research Design

This study adopted the *ex-post-facto* researcher design (after the fact). This is as a result of the fact that data used for the study have been in existence in the companies' annual reports and accounts. *Ex-post* makes results to be verifiable and free from bias. The study purposively sampled seven (7) insurance companies. The judgement was made based on the Nairametrics Power Ranking of quoted insurance companies in Nigeria. The selected company according to their ranking are AIICO, Cornerstone Insurance Plc, Continental Reinsurance, Custodian and Allied Insurance, Axa Mansard, NEM, Niger Insurance and WAPIC.

Model Specification

The correlation model was specified as follows:

$r=[1/(n-1)] \times \sum [(\overline{CR} - CR)/S_{CR}) \times (\overline{PFY} - PFY)/S_{PFY})]$ - - - (1)

$r=[1/(n-1)] \times \sum [(\overline{CASHR} - CASHR)/S_{CASHR}) \times (\overline{PFY} - PFY)/S_{PFY})]$ - (2)

$r=[1/(n-1)] \times \sum [(\overline{OCFR} - OCFR)/S_{OCFR}) \times (\overline{PFY} - PFY)/S_{PFY})]$ - - (3)

Where;

n	= number of observations in the sample
$\sum$	= summation symbol
PFY	= the value of profit for the year
$\overline{PFY}$	= the sample mean of profit for the year
S_{PFY}	= the sample standard deviation of the profit for the year
CR	= the value of current ratio
$\overline{CR}$	= the sample mean of the current ratio
S_{CR}	= the sample standard deviation of current ratio
CASHR	= the value of cash ratio
$\overline{CASHR}$	= the sample mean of cash ratio
S_{CASHR}	= the sample standard of cash ratio
OCFR	= the value of operating cash flow ratio
$\overline{OCFR}$	= the sample mean of operating cash flow ratio
S_{OCFR}	= the sample standard deviation of operating cash flow ratio

DATA PRESENTATION AND ANALYSIS

Panel Data Analysis

Table 4.2.1: Panel Data Descriptive Statistic for the Variables under Study

	PFY	CR	CRATIO	OCFR
Mean	1594613.	2.085006	0.634071	0.157751
Median	1283562.	1.514785	0.579008	0.075136
Maximum	9682114.	12.53580	2.031283	2.501251
Minimum	-2554385.	0.900379	0.060228	-0.520637
Std. Dev.	1981596.	1.840989	0.403335	0.425708
Skewness	0.927538	1.861813	1.235306	0.983272
Kurtosis	3.162421	8.077418	5.261217	3.054759
Jarque-Bera	75.35721	994.6637	32.71634	709.1026
Probability	0.079652	0.000000	0.000000	0.082299
Sum	1.122208	145.9504	44.38495	11.04259
Sum Sq. Dev.	2.710014	233.8575	11.22487	12.50467
Observations	70	70	70	70

Source: Author's Computation from Eviews 10.0 Statistical Software

Table 4.2.1 above reveals the variable description of the 70 observations of the panel data for sampled insurance companies. From the table, the industry's minimums include Profit for the Year (₦-2,554,385), Current Ratio 0.900379, Cash Ratio 0.060228, and Operating Cash Flow Ratio -0.520637. However, the industry's maximum includes Profit for the Year ₦9,682,114, Current Ratio 12.53580, Cash Ratio 2.031283, and Operating Cash Flow Ratio 2.501251. The industry means for the variables studied are Profit for the Year ₦1,594,613, Current Ratio 2.085006, Cash Ratio 0.634071, and Operating Cash Flow Ratio 0.157751.

The normality of the distribution of the data series is shown by the coefficients of Skewness, Kurtosis, and Jarque-Bera Probability. From Table 4.2.1, the probability of the Jarque-Bera Statistics for Profit for the Year and Operating Cash Flow Ratio has insignificant p-values as follows Profit for the Year (0.079652) and Operating Cash Flow Ratio (0.082299). The insignificant p-values depict that the variables are normal distribution. This was further confirmed by the skewness coefficients which are not greater than one with the following outcomes Profit for the Year (0.927538) and Operating Cash Flow Ratio (0.983272). The kurtosis coefficient also confirmed that Profit for the Year and Operating Cash Flow Ratio is normally distributed with coefficients that are around three (Profit for the Year 3.162421 & Operating Cash Flow Ratio 3.054759). However, the Current Ratio and Cash Ratio are abnormally distributed judging by the significance of Jarque-Bera Probability, the skewness coefficient that is greater than one, and the kurtosis coefficient that is greater than three.

Table 4.2.2: Pooled Data Covariance Analysis

	LOG(PFY)	CR	CRATIO	OCFR
LOG(PFY)	1.000000	0.617038	-0.08982	0.233744
CR	0.617038	1.000000	0.391196	0.049532
CRATIO	-0.08982	0.391196	1.000000	0.283097
OCFR	0.233744	0.049532	0.283097	1.000000

Source: Author's Computation from Eviews 10.0 Statistical Software

Table 4.2.2 suggests that there is a strong (61.7% approx.) and positive relationship between Profit for the Year and Current Ratio. Profit for the Year and Cash Ratio share a negative and weak relationship (8% approx.). Operating Cash Flow Ratio and Profit for the Year have a positive and weak relationship at approximately (23%).

TEST OF HYPOTHESES
The three testable hypotheses formulated in section one was tested using the following decision criteria:
Decision Rule: Reject H_0 if the correlation coefficient is > 0.50; if the t-statistic is > 2, and accepts the null hypotheses if reverse becomes the case.

Hypothesis One: Current ratio do not have a strong relationship with profit for the year of firms in the Nigeria insurance subsector
Decision: From the panel correlation analysis in Tables 4.2.2, the correlation coefficient of 0.617038 is > 0.50. Therefore, the null hypothesis is rejected and the alternative hypotheses accepted. This implies that current ratio has a strong relationship with profit for the year of firms in the Nigeria insurance subsector

Hypothesis Two: Cash ratio do not have a strong relationship with profit for the year of firms in Nigeria insurance subsector

Decision: From the panel correlation analysis in Tables 4.2.2, the correlation coefficient of 0.08982 is < 0.50. Therefore, the null hypothesis is accepted and the alternate hypotheses rejected. This implies that the cash ratio does not have a strong relationship with profit for the year of firms in the Nigeria insurance subsector

Hypothesis Three: Operating cash flow ratio does not have a strong association with profit for the year of firms in Nigeria insurance subsector

Decision: From the panel correlation analysis in Tables 4.2.2, the correlation coefficient of 0.233744 is < 0.50. Therefore, the null hypothesis is accepted and the alternative hypotheses rejected. This implies that the operating cash flow ratio does not have a strong relationship with profit for the year of firms in the Nigeria insurance subsector

DISCUSSION OF FINDINGS

Hypothesis One: In the test of hypothesis one, the correlation analysis result reveals that the current ratio has a strong and positive relationship with profit for the year of firms in the Nigeria insurance subsector. This implies that as the current ratio of firms in the Nigeria insurance subsector is increasing, their profit for the year is also increasing significantly. The finding is in tandem with the finding of Okere, Okeke, Echeonwu, Eze, and Oluwatobi (2021), Arief (2021) and Musaed (2020) these researchers found that liquidity management has a strong relationship with performance.

The researchers got a similar result because of equal economic circumstances prevailing for all corporate entities. The ability to maximize its current assets to settle its short-term obligations should have a strong relationship with net asset value per share. However, Waswa, Mukras and Oima (2018) found an insignificant relationship between liquidity ratios and profitability. This is a result of sectorial differences between the two studies.

Hypotheses two: In the test of hypothesis two, correlation analysis result reveals that cash ratio has a weak and negative relationship with profit for the year of firms in Nigeria insurance subsector This implies that as the cash ratio is increasing, the profit for the year of firms in Nigeria insurance subsector is decreasing. The finding is in line with the *a priori* expectations of the researcher because as companies keep more cash to settle their financial obligations without converting it to profit yielding assets, it will have a negative relationship with profit for the year. An imbalance trade-off between liquidity and shareholder's value comes to play.

The finding is in tandem with the finding of Hacini, Boulenfad, and Dahou (2021), and Dahiyat, Weshah, and Aldahiyat (2021) who found either a negative or weak relationship between liquidity ratio and performance. The imbalance trade-off practised by enterprises sampled in the studies can be attributable to this. However, Okere, Okeke, Echeonwu, Eze, and Oluwatobi (2021), Arief (2021), and Musaed (2020) received opposing results, possibly due to their performance metrics.

Hypotheses three: In the test of hypothesis three, the correlation analysis result reveals that the operating cash flow ratio has a weak and positive relationship with profit for the year of firms in the Nigeria insurance subsector. This implies that as the operating cash flow ratio of

10

firms in the Nigeria insurance subsector is increasing, the profit for the year is also increasing. The result is consistent with the researcher's a priori expectation, because as cash earned from operating activities rises, the company will have more funds to spend on assets, resulting in higher earnings and value for shareholders. Prior studies by Obim, *et al* (2020), Hacini, Boulenfad, and Dahou (2021), and Dahiyat, Weshah, and Aldahiyat (2021) also found a positive relationship between operating cash flow and performance.

This was challenged by findings by Okere et al. (2020), Arief and Musaed (2020), who reported a negative relationship between operating cash flow ratio and performance. The finding could be due to the industry investigated.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Summary of Findings
The findings are summarized as follows:
i. Current ratio has a positive and strong (the correlation coefficient of 0.574685 is > 0.50) relationship with profit for the year of firms in the Nigeria insurance subsector.
ii. Cash ratio has a negative and weak (the correlation coefficient of 0.012665 is < 0.50) relationship with profit for the year of firms in the Nigeria insurance subsector.
iii. Operating cash flow ratio has a positive and weak (the correlation coefficient of 0.192411 is < 0.50) relationship with profit for the year of firms in Nigeria insurance subsector.

Conclusion
The relationship between liquidity management and gross earnings of Nigerian insurance firms was investigated in this study. According to the results of the correlation analysis, the current ratio has a positive and strong relationship with profit for the year of firms in the Nigerian insurance sector. Cash ratio and profit for the year have a weak and negative relationship. In terms of the relationship between the operating cash flow ratio and profit for the year, the operating cash flow ratio has both a positive and a weak relationship with profit for the year of firms in the Nigerian insurance sector. As a consequence, the study concludes that among the explanatory factors, the current ratio is the only one that can be utilized to predict gross earnings in the industry. The research made the following recommendations:
i. Insurance firms in Nigeria should strive to improve their current ratio. They can do this by reducing the personal draw on the business and by reducing the personal drawings on the business.
ii. They should reduce their propensity to hold cash. They should balance the trade-off between cash holding and profitable investment. They should make profitable investments and ensure that their liabilities are settled on time.
iii. Insurance firms should devise strategies to improve the cash they generate from operating activities. They can do this by improving their inventory, introducing electronic payments, etc. None of the prior studies attempted to ascertain the extent liquidity management relates to gross earnings. Also, the majority of studies on liquidity were conducted in the banking sector isolating the insurance sector. Hence, this study contributed to existing knowledge by evaluating the nature and magnitude of the relationship between liquidity management and shareholders of insurance firms in Nigeria. The study found that only the current ratio among the variables studied has a strong relationship with shareholders' value.

REFERENCE

Abdul, N. A. & Abdulrahman, A (2014). The Impact of free cash flow on the market value of the firm. *Global Review of Accounting and Finance, 5(2),* 56 – 63.

Aiyegbusi, O.O. & Akinlo, A.E. (2016). The effect of cash holdings on the performance of firms in Nigeria: evidence from a generalized method of moments. *Futa Journal of management & technology*, 1(2), 1-12.

Ali, O. & Jameel, S. (2019). The role of liquidity management in profitability: A case study of five selected commercial banks of Iraq Stock Exchange over the period (2006 – 2016). *Academic Journal of Nawroz University, 8(4),* 267-282.

Arief, M. (2021). Financial liquidity, asset management and financial performance in Indonesia listed companies. *International Journal of Management Research and Social Science, 8(2),* 40-46.

Arini, S. A., Samrotun, Y. C., & Masitoh, E. (2021). Determinant of financial ratio analysis to financial distress. *Jambura Science of Management, 3(1),* 26-35.

Dahiyat, A.A., Weshah, S.R., & Aldahiyat, M. (2021). Liquidity and solvency management and its impact on financial performance: Empirical evidence from Jordan. *Journal of Asian Finance, Economics and Business, 8,* 135-141.

Etale, L. & Sawyerr, A. E. (2020). Liquidity management and financial performance nexus: A microanalysis with GlaxoSmithKline consumer Nigeria plc. *Archives of Business Research, 8(8),* 138-150.

Eze, E. & Agu, S. (2020). Liquidity management and performance of deposit money banks in Nigeria. *International Journal of Multidisciplinary Research, 6(8),* 358-367.

Hacini, I., Boulenfad, A., & Dahou, K. (2021). The Impact of liquidity risk management on the financial performance of Saudi Arabian Banks. *Emerging Markets Journal, 11(1),* 68-75.

Jiao, J. (2019). Asymptotic theory of statistical estimation. *Department of Electrical Engineering and the Computer Sciences University of California, Berkeley.*

Łojek, P. (2020). The relationship between profitability and financial liquidity among the importers of best-selling brands of new cars in Poland. *Central European Economic Journal, 7(54),* 127-142.

Moussa, M. A. & Boubaker, A. (2020). The impact of liquidity on bank profitability: Case of Tunisia. *European Journal of Accounting, Auditing and Finance Research, 8(2),* 20-37.

Obim, E. N., Takon, S. M. & Mgbado, M. U. (2020). The impact of liquidity on banks profitability in Nigeria. *IIARD International Journal of Banking and Finance Research, 6(1),* 1-8.

Okere, W., Okeke, O. C., Echeonwu, S. I., Eze, C. E., & Oluwatobi, R. (2021). Liquidity management: implications for the financial performance of deposit money banks (DMBs) in Nigeria. *Journal of Asian Business Strategy, 11,* 24-32.

Olaoye, A. A. (2020). Impact of liquidity management on profitability of selected companies in Nigeria. *Journal of Economics & Management Research, 1(3),* 1-5.

Otekunrin, A.O, Fagboro, G.D, Nwanji,T.I , Asamu, F.F, Ajiboye, B.O & Falaye, A.J (2019). Performance of deposit money banks and liquidity management in Nigeria. *Banks and Bank Systems, 14(3),* 144-161.

Rahmawati, I, Y., Pandansari, T. & Khasanah, F., L. (2020). *liquidity ratio analysis, profitability ratio, leverage ratio, and cash flow operations to predict the financial*

distress in manufacturing companies listed in the Indonesia stock exchange. Conference or Workshop Item (Paper), https://eudl.eu/doi/10.4108/eai.5-8-2020.2301126.

Thu-Trang, T. & Toan, N. B. (2020). An empirical analysis of macroeconomic and bank-specific factors affecting the profitability of Vietnam banks. *Accounting, 6(2020),* 1059–1064

Vikneswaran, S. O., Chin, H. S., & Siti, Z. R. (2020). Liquidity risk management and financial performance of conventional commercial banks in Malaysia. *International Journal of Psychosocial Rehabilitation, 24(02),* 1064-1083.