
Effect of Current and Cash Ratios on the Financial Performance of Listed Insurance Companies in Nigeria

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Abstract

This study aims to examine the effect of current and cash ratios on the financial performance of listed insurance companies in Nigeria. Ex-post facto research design was adopted, while a secondary source of data collection was employed. Data were collected from the annual financial reports of six listed insurance companies. The study utilized panel regression to analyse the data from a sample of six (6) listed insurance companies on the Nigerian Exchange Group (NGX) from 2014 - 2023. The results of the panel regression revealed that the current ratio has a significant effect on the financial performance of the listed insurance companies in Nigeria. However, the cash ratio had an insignificant effect on the financial performance of the listed insurance companies in Nigeria. The study recommends that insurance companies should conduct internal liquidity assessments to establish a firm-specific optimal current ratio benchmark that balances liquidity and profitability as a measure of financial performance. To prevent liquidity shortages or excessive idle funds, insurance firms should invest in real-time liquidity monitoring systems. These systems should track daily cash inflows from premiums, investment returns, and claim payouts, enabling proactive financial decision-making. Also, excess cash that does not contribute to day-to-day operations should be strategically invested. Insurance companies can develop dynamic asset allocation models that adjust to market conditions, thereby investing idle cash in revenue-generating instruments. This approach can be guided by periodic reviews of cash flow forecasts and market trends, ensuring that excess liquidity is efficiently deployed.

Keywords: Financial Performance, Return on Assets, Current Ratio, Cash Ratio

Introduction

Insurance companies' financial performance is pivotal to any financial sector's stability and growth. One of the key metrics used to assess corporate financial performance is the return on assets, which indicates how efficiently a company utilises its assets to generate profits. In the global insurance industry, maintaining a robust return on assets is essential, especially amid

challenges such as increasing natural catastrophes and evolving regulatory landscapes. For instance, in 2024, global catastrophes resulted in \$320 billion in economic losses, with about \$140 billion covered by insurance, marking the costliest year for the industry since 2017 (Financial Times, 2024). In Africa, the insurance sector faces unique challenges, including market volatility and regulatory changes. The increasing frequency of extreme weather events, attributed to climate change, has led to higher underwriting losses and soaring insurance premiums. Despite these challenges, some large insurance companies have seen rising share prices due to stricter coverage policies and higher rates aimed at mitigating future losses (Financial Times, 2024).

Focusing on Nigeria, the insurance industry plays a vital role in the country's financial system. Liquidity ratios, particularly the current ratio and cash ratio, are essential metrics that assess a company's ability to meet short-term obligations. However, the impact of these liquidity ratios on the financial performance of listed insurance companies in Nigeria remains a subject of debate. Recent studies have produced mixed findings regarding this relationship. For instance, Bala et al. (2021) found that the capital adequacy ratio significantly influences the financial performance of quoted insurance firms in Nigeria, while the current ratio did not show a significant effect. Conversely, Nwala et al. (2024) reported that the current ratio positively affects financial performance, suggesting that higher liquidity ratios could enhance profitability.

These conflicting results highlight a gap in the literature concerning the specific impact of current and cash ratios on the financial performance of listed insurance companies in Nigeria. Understanding this relationship is vital for stakeholders, including investors, regulators, and company management, to make informed decisions regarding liquidity management and its implications for profitability. This study also covers the period of the adoption of the International Financial Reporting Standard (2014-2023), which was adopted in 2013 and has effects on the way companies report their financials. Therefore, this study seeks to address the problem by examining the effect of current and cash ratios on the financial performance of listed insurance companies in Nigeria, as measured by ROA. By doing so, it aims to provide clarity on how liquidity management influences profitability within the Nigerian insurance sector.

The study was guided by the following research questions:

- i. What is the effect of the current ratio on the financial performance of listed insurance companies in Nigeria?
- ii. How has the cash ratio affected the financial performance of listed insurance companies in Nigeria?

The study hypothesized that:

H₀₁: The current ratio has no significant effect on the financial performance of listed insurance companies in Nigeria.

H₀₂: Cash ratio has no significant effect on the financial performance of listed insurance companies in Nigeria.

Literature Review

Concept of Financial Performance

Financial performance refers to the overall financial health of a company, often measured using financial metrics that assess profitability, efficiency, liquidity, solvency, and other key indicators. In corporate finance, financial performance is a crucial metric that determines a company's ability to generate profits, maintain growth, and provide returns to its shareholders (Udenwa et al., 2023). For insurance companies, financial performance is often measured by how well they manage liquidity, risks, and investments, which is critical for their long-term viability. The financial performance also includes an evaluation of the manner organizations are efficiently using their assets and other resources to generate revenues, which affect the firm's overall financial condition for a given period and can be used to compare one sector with another (Adesina & Adewumi, 2022).

Technically, financial performance is defined as a subjective measure which determines how well the organizations use their available resources to generate more revenues (Pinto et al., 2017). Financial performance measures the financial soundness and health of the organization in monetary terms and thus can be used to compare the performance of different corporations within any industry or between industries (Ahmed et al., 2021). It can be utilized to decide an organization's general money-related execution over a timeframe and can likewise be utilized to decide how best organizations in similar industries are performing or to compare businesses or segments in conglomerations (Iyinomen et al., 2019). Financial performance is connected to all the activities of an organization concerning its past, future and other anticipated costs, the productivity of the firm, administrative duties and responsibilities. Subsequently, financial performance can also be used by entities to show how an entity has presented its results as well as how the results of the entity have been achieved (Onsongo et al., 2020).

For this study, financial performance is defined as the effectiveness with which an insurance company manages its financial resources to generate returns, ensure liquidity, and sustain profitability, measured by the Return on Assets (ROA) ratio. This definition is particularly relevant to this study because it highlights the critical role of liquidity management in determining the financial health of insurance companies, which operate in a highly regulated and risk-sensitive environment like Nigeria. This adapted definition best fits the study because it emphasises operational and financial outcomes of current and cash ratios, directly linking the firm's ability to meet its obligations and generate profits with the return on assets. In the insurance industry, managing liquidity is key to sustaining operations, fulfilling policyholder claims, and ensuring financial stability.

Concept of Current Ratio

The current ratio is one of the most used liquidity ratios. It measures a company's ability to meet its short-term liabilities with its short-term assets. A high current ratio indicates that a company has more than enough short-term assets to cover its short-term obligations, while a low current ratio may signal potential liquidity issues (Muhamad & Yayang, 2022).

The formula for the current ratio is:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

This ratio is significant for companies in industries like insurance, where liquidity management is critical for ensuring that short-term liabilities, such as policyholder claims, can be met promptly.

Silviana et al. (2023) defined the current ratio as a financial ratio that compares a firm's current assets to its current liabilities to evaluate its ability to meet short-term obligations. Siswohadi (2021) states that the current ratio measures the liquidity position of a company by comparing current assets with current liabilities, offering insights into a firm's ability to cover its short-term debts. Enda et al. (2021) explained that the current ratio measures a firm's short-term solvency, evaluating its capacity to meet maturing obligations using its current assets. Brigham and Ehrhardt (2019) describe the current ratio as a key liquidity metric that indicates whether a company has enough assets on hand to pay off its current liabilities, providing a snapshot of its short-term financial health.

The current ratio is a simple yet effective tool for determining whether a firm has sufficient liquid assets to cover its short-term liabilities, helping stakeholders assess the firm's liquidity risk (Brealey et al., 2019). Arnold (2020) explains that the current ratio compares current assets with current liabilities to evaluate a firm's short-term liquidity, providing a clear indication of its ability to avoid financial distress. Fraser and Ormiston (2022) state that the current ratio is a standard liquidity measure that reflects the extent to which a company can pay off its short-term liabilities with its short-term assets, which is essential for maintaining financial stability.

Hanifah (2023) described the current ratio as an important liquidity ratio that reveals how well a firm can manage its immediate financial obligations using its short-term assets. The current ratio is the most used liquidity ratio to assess a company's capacity to pay its current obligations with its current assets, serving as a key indicator of financial health (Neneng, 2022). Higgins (2020) describes the current ratio as a straightforward ratio that provides insight into a company's liquidity by comparing current assets to current liabilities, revealing its ability to meet short-term financial obligations.

For this study, the current ratio is defined as a liquidity ratio that measures the ability of an insurance company to meet its short-term financial obligations using its current assets, indicating its operational liquidity and capacity to satisfy policyholder claims. This definition is particularly suitable for the context of Nigerian insurance companies because it highlights the firm's ability to manage liquidity in a way that ensures financial stability, especially in an environment where the ability to meet policyholder claims promptly is critical for maintaining trust and regulatory compliance. This adapted definition is the best fit for the study because it emphasizes not only the general liquidity of the firm but also its operational relevance to the insurance industry,

where managing liquid assets to meet immediate obligations is crucial for ongoing business success and risk management.

Concept of Cash Ratio

The cash ratio is a liquidity ratio that measures a company's ability to cover its short-term liabilities using its most liquid assets, specifically cash and cash equivalents. It is considered one of the most conservative liquidity ratios because it excludes other current assets, such as receivables and inventories, which may not be immediately available to meet obligations (Rudi et al., 2020). The formula for calculating the cash ratio is:

$$\text{Cash Ratio} = \frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}}$$

This ratio is particularly important for insurance companies, as they need to maintain adequate liquid assets to meet claims and other financial obligations promptly.

This cash ratio evaluates a company's capacity to meet its immediate obligations entirely from its cash and cash equivalents. It is a reliable sign of a company's capacity to pay off its short-term debt using cash or resources that can be converted into cash quickly, like marketable securities. When deciding how much money to lend to struggling companies, creditors give this metric a lot of consideration. This is due to the uncertainty about the availability of existing assets such as inventory and receivables when it comes to time to pay off debt (Almakura et al., 2024). Since inventory and receivables may take longer to sell and collect, respectively, cash is always available to creditors. A cash ratio greater than 1 normally indicates a healthy cash position for the firm. However, it may also show that the firm is not using its funds effectively or investing in worthwhile ventures for expansion.

Purwanti and Warasto (2023) defined the cash ratio as a stringent liquidity ratio that compares cash and cash equivalents to current liabilities, focusing solely on the most liquid assets available to meet short-term obligations. Brealey et al. (2019) described the cash ratio as a conservative measure of liquidity that examines a firm's ability to pay off current liabilities using only cash and cash equivalents, excluding less liquid current assets. Gitman and Zutter (2021) state that the cash ratio is a liquidity metric that assesses a company's immediate solvency by focusing on cash and cash equivalents as the only means to settle current liabilities. Pandey (2018) explains that the cash ratio highlights a firm's ability to cover short-term obligations using its most liquid resources, providing a clear view of immediate liquidity without reliance on receivables or inventories.

For this study, the cash ratio is defined as a liquidity ratio that measures the ability of an insurance company to meet its immediate short-term financial obligations using only cash and cash equivalents, ensuring that the firm has sufficient liquidity to settle claims and other liabilities without delay. This definition is particularly relevant in the context of Nigerian insurance companies, where the ability to meet policyholder claims promptly is crucial for maintaining trust and regulatory compliance. This adapted definition is the best fit for the study

because it emphasizes the importance of immediate liquidity in the insurance industry. By focusing solely on cash and cash equivalents, this definition highlights the company's ability to settle claims quickly and efficiently, which is critical for the operational and financial stability of insurance firms in Nigeria.

The cash ratio is a more conservative liquidity measure than the current ratio because it only considers cash and cash equivalents (highly liquid assets) relative to current liabilities. It measures a company's ability to meet short-term obligations using only its most liquid assets, excluding less liquid items like inventories or accounts receivable.

Empirical Reviews

Current Ratio and Financial Performance

Moses et al. (2024) assessed the effect of the current ratio and financial performance of agricultural firms listed at the Nairobi Securities Exchange, Kenya. A census approach was adopted where secondary data from audited annual financial reports of all the six Agricultural firms listed at the Nairobi Securities Exchange, Kenya was used, covering the period 2015 to 2022. Descriptive analysis and panel regression analysis were applied. The findings from the panel regression analysis indicated that the current ratio has a significant effect on the financial performance of the agricultural firms listed at the Nairobi Securities Exchange, Kenya. The study recommended that agricultural firms listed at the Nairobi Securities Exchange need to increase their current assets holdings for purposes of increasing their liquidity levels. This is due to the current ratio's positive effect on the financial performance of agricultural firms listed at the Nairobi Securities Exchange, Kenya. However, just as a very low current ratio is discouraged for firms, it should notably not be too high as this will serve as an indication that managers are not efficiently utilizing assets. Managers need to properly assess the short-term obligations of their firms to ensure a corresponding current ratio is attained.

The study is industry-specific (agricultural firms), which provides more targeted insights. This focus ensures the findings are relevant to firms in that sector and minimizes generalization issues. The study only uses the current ratio to measure liquidity. While the current ratio is a popular liquidity measure, relying on a single proxy may oversimplify the complexity of liquidity management. Including additional proxies, such as the cash ratio or quick ratio, could have provided a more comprehensive analysis. The recommendation to increase current assets to boost liquidity levels may lead to inefficient asset utilization if taken too far. The study acknowledges this but does not explore how to strike a balance between liquidity and profitability, leaving managers without clear guidelines for optimal asset allocation.

Devi et al. (2023) examined the effect of the current ratio, total asset turnover, debt equity ratio, on the performance finance of manufacturing companies listed on the Indonesia Stock Exchange. Sources of research data using secondary data in the form of financial statements were found on the website www.idx.co.id. The financial reports observed are the financial statements of manufacturing companies for the years 2016-2020. The data of the study were analyzed on 10

manufacturing companies listed on the Indonesia Stock Exchange. In taking the sample for the study using a purposive sampling method. The data analysis technique used is linear regression analysis and hypothesis testing using a T-test that has been processed in SPSS Version 21 to test the regression coefficients. Based on the results of the study, it was found that the Current Ratio and Debt Equity Ratio had a positive and significant effect on performance finance, and Total Asset Turnover had a negative and insignificant effect on performance finance.

The use of financial statements from an official and accessible source (www.idx.co.id) ensures the reliability and authenticity of the data. While the Current Ratio and Debt Equity Ratio were found to have a positive and significant impact, the Total Asset Turnover had a negative and insignificant effect. The reasons for this inconsistency are not adequately explored, leaving gaps in the interpretation of findings. SPSS is a robust tool, but the study does not mention addressing potential statistical issues such as multicollinearity, autocorrelation, or heteroskedasticity, which could affect the reliability of the regression results. The study lacks a clear linkage to a theoretical framework that could help explain the observed relationships.

Cash Ratio and Financial Performance

Almakura et al. (2024) studied the effect of liquidity management on the financial performance of Nigerian oil and gas firms. Current Ratio, Quick Ratio, Cash Ratio, and Return on Capital Employed were explored as proxy variables for liquidity management and financial performance, respectively, using an ex-post facto research approach. The study used a purposive sampling approach to collect secondary data, which was based on the availability of data at the time of the investigation. These figures were collected from five Nigerian oil and gas firms' annual financial reports, which spanned the years 2012 through 2021. The data was analyzed using descriptive statistics and regression analysis. Results from the study revealed that the Quick Ratio and Cash Ratio have a positive insignificant impact on the Return on Capital Employed while the Current Ratio has a negative significant effect on the Return on Capital Employed. Based on the findings, managers of oil and gas firms should adopt effective liquidity management policies that guarantee an optimal level of liquidity that improves profitability and enables them to operate with a reasonable margin of safety.

The study addresses a pertinent issue by exploring the relationship between liquidity management and the financial performance of Nigerian oil and gas firms. This focus is particularly important given the capital-intensive nature of the oil and gas industry and the critical role of liquidity in ensuring operational continuity. The choice of purposive sampling introduces potential bias, as it selects firms based on data availability rather than random or stratified sampling. The study does not mention the diagnostic tests for the regression model (like tests for multicollinearity, heteroscedasticity, or autocorrelation), which are essential for validating the results. While the study provides a general recommendation to adopt effective liquidity management policies, it does not specify what constitutes "effective" policies or how firms can balance liquidity with profitability. More detailed, actionable strategies would enhance the practical utility of the findings.

Alagbe, et al. (2024) explored the impact of liquidity management on the profitability of the Nigerian banking sector. An ex-post facto research design was adopted, drawing on secondary data from the audited financial statements of eight Deposit Money Banks (DMBS) purposively selected from the 24 banks operating in Nigeria as of 2023. The data spanned five years (2018-2022), enabling a longitudinal analysis of trends over time. The collected data were analyzed using both descriptive and inferential statistics. Descriptive statistics, including tables and standard deviation, were employed alongside inferential techniques such as correlation analysis, multiple regression analysis, and Granger Causality Test. The findings demonstrated a statistically significant positive correlation between liquidity management and profitability of the selected DMBS, indicating that banks with more efficient liquidity management strategies are associated with enhanced profitability. These results contribute to the body of knowledge by offering empirical evidence of the importance of sound liquidity management practices in improving financial performance. The study provides actionable insights for policymakers and financial managers, highlighting the strategic role of effective liquidity management in sustaining long-term profitability in the banking sector.

The study spans five years (2018-2022), allowing for an examination of trends and relationships over time, which enhances the reliability of the findings. However, the use of purposive sampling could introduce bias, as the criteria for selecting the banks are not clearly stated. Were these banks chosen based on size, market share, or liquidity practices? A transparent sampling rationale is needed. The study does not compare the findings to similar studies or international benchmarks, limiting the ability to contextualize the results within the global banking industry.

Niva (2023) determined the effect of the current ratio, cash ratio, debt-to-asset ratio, debt-to-equity ratio, receivables turnover ratio, total asset turnover, gross profit margin, and return on assets on the financial performance of pharmaceutical companies listed on the BEI for 2015-2021. The study applied quantitative research. The population of the study was a pharmaceutical company listed on the Indonesian Stock Exchange, and sampling using purposive sampling. The data collection technique used secondary data. Data analysis was carried out by classical assumption tests and hypothesis testing using multiple linear regression analysis. The results showed that the debt-to-asset ratio and return on assets had a positive effect on financial performance, while the current ratio, cash ratio, debt-to-equity ratio, accounts receivable turnover ratio, total asset turnover, and gross profit margin did not affect financial performance.

The study investigates multiple variables influencing financial performance, including liquidity ratios, leverage ratios, efficiency ratios, and profitability ratios. This broad scope provides a well-rounded analysis. Conducting classical assumption tests (like normality, multicollinearity, and autocorrelation) strengthens the validity of the regression results by confirming that statistical assumptions are met. The study finds that the debt-to-asset ratio and return on assets positively affect financial performance, but no rationale is provided for why other variables, such as the current ratio and gross profit margin, have no effect. This raises questions about potential contextual or sector-specific factors.

Theoretical Framework

Trade-Off Theory

The trade-off theory was popularized by Modigliani and Miller (1963) in their extension of the capital structure irrelevance theory, introducing the effects of taxes. It was later expanded upon by Myers (1984), who described how firms balance the costs and benefits of debt and equity to optimize their capital structure. The theory posits that firms weigh the tax benefits of debt financing (due to interest tax shields) against the potential costs of financial distress. The trade-off theory suggests that firms seek an optimal balance between liquidity and profitability. Holding liquid assets provides a safety net against financial distress, ensuring the company can meet its short-term obligations. However, excessive liquidity entails opportunity costs because cash and other liquid assets typically yield lower returns compared to investments in productive assets. In essence, the theory underscores the trade-off between risk management and return optimization, which is critical for maintaining financial health and operational stability.

Many scholars and practitioners support the trade-off theory for its practical application in understanding financial decision-making. Myers and Majluf (1984) expanded on the theory by addressing information asymmetry, highlighting that firms prioritize internal financing to minimize financial distress costs. Recent studies, such as those by Horsfall (2022) and Bala, Kaoje, and Muhammad (2021), apply the theory to corporate liquidity management, emphasizing its relevance in financial performance analysis.

Despite its contributions, the trade-off theory has faced several criticisms. Critics argue that it oversimplifies the complex decision-making processes in firms, particularly in environments with significant market imperfections (Frank & Goyal, 2003). Additionally, the theory assumes rational behaviour, which may not align with the behavioural biases of managers or external economic shocks. Empirical inconsistencies, particularly in emerging markets like Nigeria, where economic volatility and structural inefficiencies are prevalent, further challenge the theory's applicability (Bala et al., 2021).

The Nigerian insurance industry operates in a volatile economic environment characterized by currency devaluation, inflation, and regulatory changes. These factors increase the importance of liquidity management in ensuring the sector's stability and profitability. According to Olufade and Emmanuel (2023), insurance firms in Nigeria must balance holding sufficient liquid assets to meet policyholder claims and investing in productive assets to enhance returns. The trade-off theory provides a theoretical foundation for understanding this balance, offering insights into how firms navigate the competing demands of liquidity and profitability.

This study examines the effect of current and cash ratios on the financial performance of listed insurance companies in Nigeria, proxied by return on assets (ROA). The trade-off theory directly aligns with this analysis by explaining how firms manage liquidity to optimize financial performance. In the context of Nigerian insurance firms, maintaining adequate liquidity is crucial for operational stability, while excessive liquidity can undermine profitability. By leveraging the

trade-off theory, this study aims to provide a deeper understanding of how liquidity management impacts financial performance in Nigeria's insurance sector.

Methodology

This study adopts an ex-post facto research design. This is because the phenomenon observed in the study has already taken place. Ex post facto research is ideal for conducting social research when is not possible or acceptable to manipulate the characteristics of human participants (Kerlinger, 1986). The population of this study comprises all twenty-three (23) insurance companies listed on the Nigerian Exchange floor. The probability sampling method was adopted to determine the sample size. This research adopted a simple random sampling method to pick 6 listed insurance companies based on the availability of data for the period under review especially the availability of 2023 financial reports. They are A.R.M Insurance Plc, Custodian Assurance Plc, Mutual Benefits Assurance Plc, African Alliance Plc, Coronation Insurance Plc and Royal Exchange Prudential Life Plc. The six (6) listed insurance companies represent the sample size for this study, for a ten (10) year period spanning from 2014-2023. The ten (10) year period is chosen to have fairly, reasonable and reliable up-to-date financial data. This study made use of panel secondary data precisely. The data were sourced from the annual reports and accounts of the selected listed insurance companies.

To establish the relationship between the current ratio, cash ratio and return on assets for selected listed insurance companies, the study employed panel regression analysis. The panel regression model is formulated below:

$$ROA_{it} = \beta_0 + \beta_1 CRR_{it} + \beta_2 CHR_{it} + \varepsilon_{it}$$

Where:

ROA_{it} = Return on Assets in i year t

β_0 = Coefficient of the constant variable

CRR_{it} = Current Ratio in i year t

CHR_{it} = Cash Ratio in i year t

β_1, β_2 = Regression coefficients of independent variables

ε_{it} = error term.

The study employed descriptive statistics to know the characteristics of the variables, Pearson product moment correlation; to know the relationship among the variables and panel regression technique to test relationships among theoretically related variables and estimate the effects of one variable on the other with the aid of statistical package (EVIEW 10). To ensure the reliability of results, the study carried out some diagnostic tests like Normality, Autocorrelation and Heteroskedasticity. The essence is to guard against spuriousness as observed by Granger and Newbold (1974) and Gujarati and Porter (2009) that, the presence of these factors usually introduces bias in the OLS estimators and thus, any conclusion drawn from the results will be spurious.

The model is considered appropriate because the major purpose of regression is: first, the possibility of determining the independent variables that can best explain the variation of the

dependent variable. Second, recognizing whether the independent variables are still significant while the other independent variables are controlled or held constant (Omar, 2007).

Data Analysis and Discussion

Table 1: Descriptive Statistics

	ROA	CRR	CHR
Mean	1.477667	1.085328	0.656220
Maximum	6.930000	2.560200	1.896222
Minimum	0.200000	0.010000	0.000451
Std. Dev.	2.230467	0.779918	0.547212
Observations	60	60	60

Source: Eview Version 10 Output

The table above revealed the data used in the study with the return on assets having a mean value of 1.477667, while the deviation from the mean (standard deviation) was 2.230467. This means that the return on assets was not normally distributed because the standard deviation value was greater than the mean value. The maximum value for return on assets as of the period of this study was 6.930000 which means that the returns generated from the usage of assets were not more than 6.93 while the minimum return on assets was 0.2.

Also, the current ratio had a mean value of 1.085328 while the deviation from the mean (standard deviation) was 0.779918. This means that the current ratio was normally distributed because the standard deviation value was lower than the mean value. The maximum current ratio as of the period of this study was 2.560200 which means that the current ratio was not more than 2.56 while the minimum current ratio was 0.01.

In a similar vein, the cash ratio showed a mean value of 0.656220 and a standard deviation of 0.547212. This means that the cash ratio was normally distributed because the standard deviation value was lower than the mean value. The maximum cash ratio as of the period of this study was 1.896222 which means that the cash ratio was not more than 1.896 while the minimum cash ratio was 0.000451.

Table 2: Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.565244	2	0.4572

Source: Eview Version 10 Output

To choose between fixed and random effect models, the Hausman specification model was run. In a situation where the chi-square value was less than 5%, the fixed effect model would be more appropriate but where the chi-square value was greater than 5%, the random effect model would

be more appropriate. In this case, the chi-square value was 0.4572 which was greater than 5%. This means that the random effect model was appropriate for the study.

Table 3: Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.213744	1.040281	1.166747	0.2482
CRR	0.221509	0.097461	2.272802	0.0268
CHR	0.035830	0.115528	0.310145	0.7576
Weighted Statistics				
R-squared	0.423990	Mean dependent var	0.022850	
Adjusted R-squared	0.403779	S.D. dependent var	0.160594	
S.E. of regression	0.124004	Sum squared resid	0.876482	
F-statistic	20.97830	Durbin-Watson stat	0.509751	
Prob(F-statistic)	0.000000			

Source: Eview Version 10 Output

The current ratio had a significant effect on financial performance because the p-value was 0.0268 which was less than 5%, signifying that an increase in the current ratio will increase financial performance to the extent of 0.221509.

Also, the cash ratio had an insignificant effect on financial performance because the p-value was 0.7576 which was greater than 5%, this signified that an increase in cash ratio will increase financial performance to the extent of 0.035830.

The coefficient of determination (R^2) is 0.423990 which means that current and cash ratios used in this study explained variation in financial performance to the extent of 42% while the remaining variation was explained by other variables not captured in the model. The model is a good fit with an F-statistics p-value of 0.0000.

Table 4: Post-Estimation Test

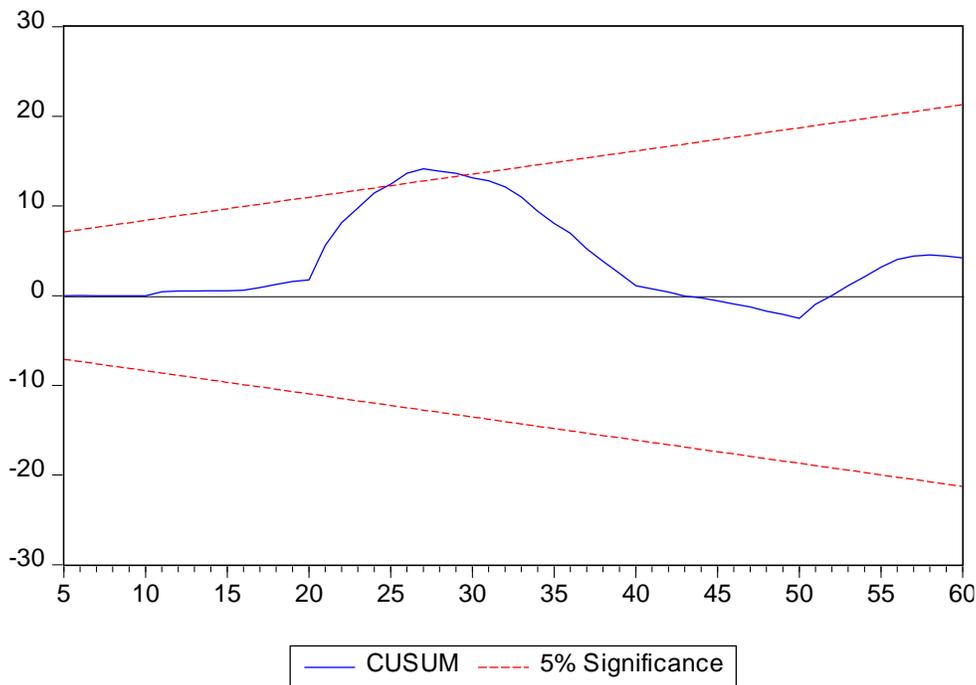
Description	Probability values
Normality Test:	
Jarque-Bera	5.280155
P-value:	0.071356
Serial Correlation	
F-statistics	0.384539
P-value	0.6826
Heteroskadasticity Test	
F-statistics	0.388169
P-value	0.6801

Source: *Researcher's computation, 2025*

Table 4 above indicates that the data is skewed, denoting that the data are normal. This is corroborated by the Jarque-Berra Statistic of 5.280155 and its corresponding P-value of 0.071356 which is greater than the p-value of 0.05.

The Breusch-Godfrey Serial Correlation LM Test indicates that there is no autocorrelation. This is given by the F-statistic of 0.384539 and its corresponding P-value of 0.6826. The Breusch Pegan Test of Heteroskedasticity with F-statistics 0.388169 and its corresponding P-value of 0.6801 indicates that there is no problem with heteroskedasticity.

Table 5: Stability Test



Source: Eview Version 10 Output

The stability of the model was checked using the CUSUM test and it shows that the model is stable as it is within the 5% boundary except for a period between 2018 and 2019.

Conclusion and Recommendations

Based on the findings of this research, the study concluded that the current ratio has a significant effect on the financial performance of listed insurance companies in Nigeria. This result suggests that maintaining adequate liquidity levels, as reflected by the current ratio, is essential for ensuring operational efficiency, financial stability, and overall profitability in the insurance sector. Given the capital-intensive nature of the insurance industry, where firms are required to settle claims promptly, a strong current ratio minimizes the risk of liquidity crises that could lead to financial distress or regulatory sanctions. This conclusion aligns with the findings of Moses et al. (2024) and Devi et al. (2023) that the current ratio impacts financial performance.

The study also concluded that the cash ratio has an insignificant effect on the financial performance of listed insurance companies in Nigeria. This finding suggests that holding large cash reserves does not directly translate into improved profitability for these firms. Insurance companies operate differently from manufacturing or retail firms, where cash flow fluctuations require high liquidity. Since insurance companies collect premiums upfront and invest them in various financial instruments, maintaining excessively high cash reserves may signal inefficient asset utilization. Instead of improving financial performance, excess cash holdings could reduce investment returns and limit opportunities for portfolio diversification. This conclusion resonates with the work of Niva (2023) but is not in tandem with Almakura et al. (2024).

This study recommends that insurance companies should conduct internal liquidity assessments to establish a firm-specific optimal current ratio benchmark that balances liquidity and profitability as a measure of financial performance. While high liquidity enhances solvency, excessively high liquidity may indicate underutilized assets. Each firm should align its liquidity targets with historical performance, claim settlement trends, and regulatory requirements to ensure that excess cash and short-term assets are deployed effectively in interest-generating investments. To prevent liquidity shortages or excessive idle funds, insurance firms should invest in real-time liquidity monitoring systems. These systems should track daily cash inflows from premiums, investment returns, and claim payouts, enabling proactive financial decision-making. This approach ensures that companies maintain an optimal current ratio without compromising financial performance. Fintech solutions or AI-driven financial analytics platforms can be integrated for predictive liquidity management.

This study further recommends that excess cash that does not contribute to day-to-day operations should be strategically invested. Insurance companies can develop dynamic asset allocation models that adjust to market conditions, thereby investing idle cash in revenue-generating instruments. This approach can be guided by periodic reviews of cash flow forecasts and market trends, ensuring that excess liquidity is efficiently deployed. Rather than holding large amounts of idle cash, companies should diversify their portfolio of liquid assets. Investing in short-term, low-risk instruments such as treasury bills, money market funds, and highly liquid corporate bonds can offer better returns while still providing the necessary liquidity. This diversification strategy not only optimizes the use of available funds but also helps balance risk and return.

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