

Corporate Capital Structure and Financial Distress Likelihood

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Abstract

This study examined corporate capital structure and financial distress likelihood of listed insurance firms in Nigeria. The specific objectives were to investigate whether long term debt asset, short term debt asset, long term debt liability, short term debt liability have significant effect on financial distress likelihood of listed insurance firms in Nigeria. The secondary source of data collection was adopted in the study where the purposive sampling technique was used to select a sample size of twenty-two (22) out of a population of one hundred and one (151) listed deposit money banks in Nigeria. Ordinary Least Square regression analysis was used in this study. The findings revealed that long term debt asset has significant effect, short term debt asset, long term debt liability have no significant effect on financial distress likelihood of listed insurance firms in Nigeria. It was concluded that long term debt asset and short term debt asset had significant effect on financial distress likelihood while long term debt liability and short term debt liability had no significant effect on financial distress likelihood of listed insurance firms in Nigeria. It was recommended that firms should rely more on long term debt and further on equity as a source of finance so as to boost their financial performance.

Keywords: Financial distress, corporate capital structure, short term debt liability, short term debt asset, long term debt asset, long term debt liability.

1. Introduction

Financial distress has emerged as a prominent concern across nearly all global markets. Over the past two decades, the world has observed numerous instances of financial distress and subsequent failure among globally esteemed companies. The abrupt collapse of several companies (Enron, 2001; Swissair, 2001; Pacific Gas and Electric Ltd, 2001; WorldCom, 2002; Consecro, 2002; Parmalat, 2003; Delta Airlines, 2005; General Motors, 2009; The CIT Group, 2009), once emblematic of corporate financial stability, significantly impacted the global landscape and raised doubts regarding the foundational principles of these enterprises. Financial distress occurs when a

firm cannot generate adequate funds to fulfill its financial obligations promptly, typically arising from the failure to meet commitments to suppliers and creditors (Michael, 2024).

Firm management consistently confronts the challenge of determining the appropriate amount of capital to be sourced from owners/shareholders through equity, alongside the potential methods of acquiring external funds from non-owners via debt, to optimize the capital structure. Debt financing serves as a crucial capital source for numerous expanding firms, as their retained earnings may be inadequate or inaccessible. Sources of financing for firms are primarily categorized into equity and debt (Abebe, 2022).

Debt financing entails obtaining capital from a designated lender to initiate business operations, with the obligation to repay the principal amount along with interest within a stipulated timeframe. Acquiring loans from other banks, companies, or financial institutions to facilitate business operations is termed debt financing. An interest expense is disbursed prior to the debt's maturity, within the loan principal that will be repaid at a later date. Capital structure is defined as a combination of equity and debt financing, and is considered one of the most critical financial variables due to its association with the company's ability to fulfill the needs of all stakeholders, including employees, the community, and shareholders (Ebe et al., 2023).

The insurance industry in Nigeria is anticipated to be the most stable within the financial sector; however, it is currently facing numerous challenges that have adversely impacted the value of this sub-sector. The absence of modern technology, insufficient capital structure, excessive reliance on debt financing, inadequate electricity supply, natural disasters, and inefficient resource utilization have rendered insurance companies in Nigeria highly uncompetitive (Etim et al., 2022).

Financial analysts advocate for the utilization of debt, viewing debt financing as beneficial for improving firm performance, contingent upon its acquisition at favorable rates and the prudent application of its proceeds. Nonetheless, this has not been true for certain firms. Some firms have accumulated substantial debt that surpasses their net gains, adversely impacting their performance and investor confidence, ultimately resulting in total collapse and potential closures. Results from various scholars regarding capital structure and corporate financial distress have been consistent (Singhal et al., 2023). The debt overhang indicates that elevated debt levels deter investments due to heightened costs, resulting in financial distress for firms in the short term, long term, and overall. Improper utilization of debt financing can result in bankruptcy and negatively impact a firm's performance. The aforementioned developments, along with the absence of universal agreement on empirical findings, necessitated this study. This study aims to investigate corporate capital structure and financial distress likelihood among listed insurance companies in Nigeria

2. Literature Review and Hypotheses Development

2.1 Financial Distress

The term financial distress refers to a negative condition in which a firm experiences a temporary liquidity shortfall and encounters difficulties in meeting its financial obligations as planned and in full. From a comprehensive standpoint, it is perceived as an expensive event that impacts relationships with non-financial stakeholders and creditors. As a result, a company enhances its limited access to new capital, thereby incurring the elevated expenses associated with sustaining this strained relationship. The corporation faces this circumstance when its earnings capacity diminishes and the total debt exceeds the value of the company's assets (Shen et al., 2020).

Financial distress is a condition in which a firm is unable to fulfill or encounters challenges in meeting its financial obligations to all stakeholders. Olushola et al. (2021) classified financial distress into two categories: the first being the failure to fulfill a debt obligation, and the second involving efforts to reorganize debt to avert default. Financial distress occurs when a company is unable to meet its obligations to third parties (Akaji et al., 2021).

2.2 Capital Structure

Arikekpar (2020) asserted that capital structure pertains to a combination of various long-term funding sources and equity shares, encompassing reserves and surpluses of an enterprise. The capital structure of a company is a specific amalgamation of debt, equity, and other financial sources utilized to finance its long-term assets. The primary distinction in capital structure is between debt and equity. Furthermore, Olarewaju (2019) asserted that capital structure refers to the proportional relationship between debt and equity. The study verifies that debt predominantly consists of long-term loans, such as debentures, while equity encompasses paid-up share capital, share premium, reserves, and retained earnings (Michael, 2024).

2.3 Long Term Debt Asset and Financial Distress

The long-term debt to total assets ratio assesses the proportion of long-term debt within a firm's capital structure relative to its total assets. The long-term debt to total assets ratio indicates a company's financial capacity to fulfill its obligations (Ebe et al., 2023). A yearly calculation of this ratio reveals that a decrease signifies improved performance and reduced reliance on debt for operational needs. A greater level of long-term debt necessitates that a company maintains positive revenue and consistent cash flow. It is very helpful for management to check its debt structure and determine its debt capacity. The long-term debt to total assets ratio assesses a company's financial leverage. Long-term debt refers to obligations that are due for repayment beyond 12 months and are excluded from the current liabilities section of the balance sheet. It encompasses mortgages and long-term leases, excluding general trading liabilities (Asen et al., 2021).

Ebe et al. (2023) examined the impact of debt financing on the financial performance of publicly listed consumer goods firms in Nigeria. The study utilized secondary panel data sourced from firms' annual reports and accounts spanning 2011 to 2022, employing an ex post facto research design. Descriptive statistics were utilized to analyze the data, and OLS regression analysis was conducted to test the hypotheses at a 5% significance level. The findings indicated that the debt-equity ratio had an insignificant and negative impact on the return on assets of listed consumer goods companies in Nigeria. Conversely, the long-term debt ratio, while not significant at the 5% level, demonstrated a positive effect on the return on assets of listed consumer goods companies in Nigeria.

Etim et al. (2022) determined the impact of debt financing on the value of publicly traded consumer goods companies in Nigeria. The study employed an ex-post facto research design. The study's population comprised twenty-one (21) consumer goods firms listed on the Nigerian Stock Exchange as of 31st December 2019, while the sample size included sixteen (16) listed consumer goods firms in Nigeria. The study employed a purposive sampling technique. Data were obtained from the financial statements of the sampled firms in Nigeria. The collected data were analyzed using descriptive statistics and multiple linear regression analysis with E-Views version 10. The study's findings indicated that debt ratio and long-term debt exert a positive and significant impact on the firm value of publicly listed consumer goods companies in Nigeria.

Akaji et al. (2021) investigated the impact of debt financing on the performance of firms in Nigeria. The study assessed debt financing through long-term debt financing, short-term debt financing, and preferred stock financing, while firm performance was evaluated using return on equity. The research employed an Ex Post Facto design, with data sourced from the NSE Factbook, Annual Reports, and Accounts. The study's findings indicated that long term debt financing has a significant and positive impact on firms' performance in Nigeria at a 5% significance level. The study determined that debt financing has enhanced firm performance over the years.

Abubakar (2020) assessed the impact of financial leverage on financial performance, utilizing secondary data sourced from the annual reports of seven publicly listed Oil and Gas companies in Nigeria. Descriptive statistics, including mean, median, minimum, maximum, standard deviation, coefficient of variation, skewness, and kurtosis, were employed for data presentation, while a random effects panel estimator was utilized to ascertain the impact of financial leverage variables; short-term debt ratio, long-term debt ratio, and total-debt debt ratio on financial performance, as measured by return on equity. The regression result revealed that short term debt ratio and long term debt ratio exert no significant influence on financial performance, while total debt equity ratio has a negative significant impact on financial performance as indicated by ROE.

H1: From the above, we hypothesize that long term debt asset has no significant effect on financial distress likelihood of listed insurance firms in Nigeria.

2.4 Short Term Debt Asset and Financial Distress

Short-term debt asset assesses the proportion of short-term liabilities relative to a firm's total assets that are due for repayment within an accounting period. Certain scholars contend that a shorter debt duration enhances a firm's performance. The short-term debt to total assets ratio quantifies the company's financial leverage. It indicates the proportion of assets financed by short-term debt. Short-term debt refers to obligations that are due for repayment within 12 months or less and are excluded from the long-term liabilities total on the statement of financial position. It encompasses creditors and accruals. The short-term debt to total assets ratio indicates the company's capacity to fulfill its immediate financial obligations. It indicates the proportion of company assets financed through loans and other long-term financial obligations (Asen et al., 2021).

Okoror and Jamani (2023) investigated the correlation between short-term capital structure and firm performance, aiming to identify a secure short-term debt-equity threshold in this context. The research employed the Panel threshold regression estimation method, utilizing comprehensive data from publicly traded manufacturing companies on the Nigerian Stock Exchange for the period 2018 to 2022. The findings revealed a threshold effect of the short-term debt to equity ratio on the return on assets indicator of financial performance.

Lucky and Michael (2019) investigated the impact of leverage on the financial distress of publicly traded manufacturing firms in Nigeria. Cross-sectional data was obtained from the financial statements of ten publicly traded manufacturing companies. Result revealed that both short-term and long-term debt adversely impact operating profits.

Ohaka et al. (2020) investigated the impact of debt financing on the financial performance of firms in Nigeria. The study employed random sampling techniques to determine the sample size. The

study utilized secondary data. Econometric panel tools were employed to examine the panel data of diverse companies across sectors in the capital market. The results of the analysis revealed that, size of the firm; short term debt and long term debt have negative and significance impact on the financial performance of listed firms in Nigeria capital market.

H2: From the above, we hypothesize that short term debt asset has no significant effect on financial distress likelihood of listed insurance firms in Nigeria.

2.5 Long Term Debt Liability and Financial Distress

Long-term liabilities, or long-term debts, are obligations a company owes to external creditors that are due in more than 12 months. This differentiates them from current liabilities, which a company is obligated to settle within 12 months. Long-term liabilities are presented alongside current liabilities on the financial statement. Collectively, these constitute the total liabilities of a company. Settlement of these obligations is obligatory. Long-term liabilities, which are due beyond 12 months and often for extended periods, are typically utilized by companies to finance enduring assets such as land, buildings, and equipment. The payment and additional specifics regarding these debts are located in the notes accompanying the financial statements within the balance sheet (Aamir et al., 2021).

Abubakar (2023) examined the influence of capital structure on the financial performance of Nigerian oil and gas companies. Three panel estimators were employed to regress Return on Assets against three capital structure metrics for the period 2011–2020: short term debt to total assets, long term debt to total assets, and total debt to total equity. The findings indicate that the financial performance of Nigerian oil and gas enterprises exhibits a significant inverse correlation with the long-term debt to total asset ratio, an indicator of capital structure. This indicates that a company's profit will diminish as its long-term debt ratio increases.

Onyenekwe et al. (2023) examined the capital structure and its correlation and impact on the distress of publicly listed non-financial firms in Nigeria. The primary aim of the study is to investigate the impact of capital structure on the financial distress of publicly listed non-financial companies on the Nigeria Exchange (NGX). Independent variables, including financial leverage (debt to assets), short-term debt to equity, and long-term debt to equity, were deemed to signify the capital structure. Secondary data from the financial statements of publicly traded non-financial companies in Nigeria from 2011 to 2021 were utilized. A fixed effects regression analysis method has been utilized to address the hypotheses. Conversely, long-term debt to equity exerts an inconsequential negative impact on the financial distress of publicly traded non-financial companies in Nigeria.

Aniefor and Onatuyeh (2019) investigated the impact of debt financing on corporate performance in a study of publicly listed consumer goods firms in Nigeria. Analysis of audited annual reports from fifteen (15) consumer goods companies listed on the Nigerian Stock Exchange (NSE) for the period 2006 to 2017 indicates that total debt, long-term debt liability positively affect the performance of consumer goods firms in Nigeria, as determined by panel regression methodology.

Kenn-Ndubuisi and Nweke (2019) investigated the correlation between financial leverage and corporate financial performance in Nigeria, analyzing 80 non-financial firms listed on the Nigerian Stock Exchange from 2000 to 2015. The total debt to capital ratio, debt to equity ratio, cost of

debt, debt to asset ratio, and long-term debt to capital ratios served as indicators of financial leverage. Panel data methodologies, encompassing pooled regression, fixed effects, random effects, and marginal models, were utilized. The findings indicated that earnings per share are significantly inversely correlated with the debt to equity ratio and the total debt to total asset leverage metrics, whereas return on equity (ROE) exhibited an insignificant correlation. The long-term debt to capital ratio exhibited a negative correlation with ROE.

H3: From the above, we hypothesize that long term debt liability has no significant effect on financial distress likelihood of listed insurance firms in Nigeria.

2.6 Short Term Debt Liability and Financial Distress

Short-term debt refers to financial obligations that are payable within the forthcoming 12 months or the current fiscal year of an enterprise. Short-term debts are also known as current liabilities. They are located in the liabilities section of a company's financial statement. Short-term debt is differentiated from long-term debt, which pertains to debt obligations maturing beyond 12 months. Short-term debt is primarily associated with business debt obligations, but it can also pertain to personal financial responsibilities (Singhal et al., 2023).

Horsfall (2023) empirically determine the impact of debt structure on the profitability of publicly listed oil and gas companies in Nigeria. The research has enhanced the empirical literature regarding the debt structure and financial performance of publicly traded oil and gas companies in Nigeria. The study facilitated comprehension of the relationship between institutional factors and the debt structure of Nigerian firms, as well as the corresponding impact on financial performance. Furthermore, short-term debt (STD) exhibited a significant negative impact on financial performance as measured by ROCE, while demonstrating a positive correlation with NPM among listed oil and gas companies in Nigeria.

Sike et al. (2022) evaluated the impact of capital structure on the financial performance of publicly listed non-financial firms in Nigeria. The research was grounded in positivist philosophy and employed an ex post facto methodology, utilizing historical data derived from the financial statements of all non-financial companies listed on the Nigerian Stock Exchange over a twelve-year period from 2010 to 2021. The study utilized panel data analysis through the pooled regression model, fixed effects model, and random effects model. The study revealed that short-term debt significantly positively influences return on assets and Tobin's Q, whereas long-term debt significantly negatively affects return on assets.

Akaji et al. (2021) investigated the impact of debt financing on the performance of firms in Nigeria. The researchers assessed debt financing through the variables of long-term debt financing, short-term debt financing, and preferred stock financing. The study employed an ex-post facto research design, and data were sourced from annual reports and the NSE fact book. The gathered data were analyzed utilizing ordinary least squares (OLS) statistics. Findings indicated that debt financing has a significant and positive impact on firm performance in Nigeria at a 5% significance level.

Aniefor and Onatuyeh (2019) investigated the impact of debt financing on the corporate performance of publicly traded consumer goods companies in Nigeria. Data for the study were obtained from the audited annual reports of fifteen (15) consumer goods companies listed on the Nigerian Stock Exchange (NSE) for the period from 2006 to 2017. The data were analyzed

employing descriptive statistics and panel regression methodology. The findings indicated that total debt, long-term debt, and short-term debt to asset ratio positively impacted the performance of consumer goods firms in Nigeria.

H4: From the above, we hypothesize that short term debt liability has no significant effect on financial distress likelihood of listed insurance firms in Nigeria.

3.0 Methodology

The ex-post facto research design was used in this study due to the fact that the variables cannot be manipulated by the researcher. This method was adopted since social scientific research problems do not lend themselves to experimental and controlled inquiry of the ex-post factor kind. The population comprises of one hundred and fifty one (151) firms listed on Nigerian Exchange Group as at 31st December, 2024. Since the entire listed firms cannot be used for the study, the study is limited to twenty-two (22) listed insurance firms in Nigeria. In selecting the sample, purposive sample technique was used to derive the sample size which used to ensure that the sample represents a diversity of perspectives. The secondary source of data collection was used for this study where data was gathered from audited annual reports of selected listed insurance firms in Nigeria. However, for the purpose of this study, ten (10) years annual reports of twenty-two (22) selected insurance firms were adopted. The study employed multiple regression technique of analysis using Least Squares regression estimation. This method was adopted because it enhances easy presentation and interpretation of data. The empirical model of the study is mathematically expressed as follows:

$$FDTS_{it} = \alpha + \beta_1 LTDA_{it} + \beta_2 STDA_{it} + \beta_3 LTDL_{it} + \beta_4 STD L_{it} + \epsilon_{it}$$

Where;

$FDTS_{it}$	=	Financial Distress
$LTDA_{it}$	=	Long Term Debt Asset
$STDA_{it}$	=	Short Term Debt Asset
$LTDL_{it}$	=	Long Term Debt Liability
$STD L_{it}$	=	Short Term Debt Liability
ϵ_{it}	=	Error term
α	=	intercept
$\beta_1 - \beta_3$	=	Coefficients of parameters estimated

The variables used in this study were measured as follows:

S/N	Variables	Measurement
1.	Financial Distress	The ability of a company to generate cash to pay its debt obligations and meet other financial obligations can indicate financial distress.
2.	Long Term Debt Asset	This forms the total amount of debt that a company owes to lenders with a maturity of more than one year.
3.	Short Term Debt Asset	This forms the portion of long-term debt that is due within the next year.
4.	Long Term Debt Liability	This forms the total amount of debt that a company owes to lenders with a maturity of more than one year.
5.	Short Term Debt Liability	This forms the portion of long-term debt that is due within the next year and is reported on the liability side of the balance sheet.

Source: Researcher's Compilation, 2025

4. Result and Discussion

Table 1: Summary of Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Dev.	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
FDTS	220	-.60	3.17	1.3992	.56301	1.118	.327
LTDA	220	5.61	236.13	51.4621	34.63139	11.541	.327
STDA	220	.00	31.87	6.3296	5.74201	4.572	.327
LTDL	220	-83.34	25.03	1.1371	6.65925	120.185	.327
STDL	220	-3.40	3.82	.1704	.50841	32.414	.327
Valid N (listwise)	220						

Source: Output of data analysis by author using SPSS (2025)

From the above table, the dependent variable, financial distress (FDTS) has a mean value of 1.3992, standard deviation of .56301, minimum value of -0.60 and maximum of 3.17. The independent variables; long term debt asset (LTDA) has a mean value of 51.4621 and a standard deviation of 34.63139, a minimum and maximum value of 5.61 and 236.13 respectively. Short term debt asset (STDA) has a mean value of 6.3296, standard deviation of 5.74201, minimum value of 0.00 and maximum value of 31.87. Long term debt liability (LTDL) has a mean value of 1.1371, standard deviation of 6.65925, minimum value of -83.34 and maximum of 25.03. Short term debt liability (STDL) has a mean value, standard deviation, minimum and maximum values of 0.1704, 0.50841, -3.40 and 3.82 respectively.

Table 2: Summary of Coefficient of Correlation
Correlations

		FDTs	LTDA	STDA	LTDL	STD L
FDTs	Pearson Correlation	1	-.266	-.170	.104	.082
	Sig. (2-tailed)		.000	.014	.134	.238
	N	209	209	209	209	209
LTDA	Pearson Correlation	-.266	1	.086	-.001	.010
	Sig. (2-tailed)	.000		.213	.985	.881
	N	209	209	209	209	209
STDA	Pearson Correlation	-.170	.086	1	.049	.378
	Sig. (2-tailed)	.014	.213		.481	.000
	N	209	209	209	209	209
LTDL	Pearson Correlation	.104	-.001	.049	1	.768
	Sig. (2-tailed)	.134	.985	.481		.000
	N	209	209	209	209	209
STD L	Pearson Correlation	.082	.010	.378	.768	1
	Sig. (2-tailed)	.238	.881	.000	.000	
	N	209	209	209	209	209

Source: Output of data analysis by author using SPSS (2025)

Table 2 above shows the 2-tailed correlation analysis of the variables at 5% (0.05) level of significance. This shows that financial distress (FDTs) is positively correlated with long term debt liability (LTDL) and short term debt liability (STD L) while negatively correlated with long term debt asset (LTDA) and short term debt asset (STDA). Long term debt asset (LTDA) is positively correlated with short term debt asset (STDA) and short term debt liability (STD L) while negatively correlated with financial distress (FDTs) and short term debt asset (STDA). Short term debt asset (STDA) is positively correlated with long term debt asset (LTDA), long term debt liability (LTDL) and short term debt liability (STD L) while negatively correlated with financial distress (FDTs).

Table 3: Summary of Regression Result
Model Summary

Multiple R	.402
R Square	.162
Adjusted R Square	.146
Std. Error of the Estimate	.520

Coefficients

	Unstandardized Coefficients		Beta	t	Sig.
	B	Std. Error			
Equation 1 (Constant)	1.771	.072		24.524	.000
LTDA	-.005	.001	-.313	-4.970	.000
STDA	-.023	.007	-.235	-3.153	.002
LTDL	-.005	.009	-.061	-.579	.563

STDL	.241	.126	.218	1.910	.057
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Source: Output of data analysis by author using SPSS (2025)

The B column discusses the coefficient of the model. This indicates that a 1.771 unit increase in financial distress is as a result of a 0.005 decrease in long term debt asset, 0.023 decrease in short term debt asset, 0.005 decrease in short term debt liability and 0.231 increase in short term debt liability. The cumulative adjusted R^2 (0.146) which is the multiple coefficient of determination gives the proportion or percentage of the total variation in the dependent variable as explained by the independent variables jointly. Hence, it signifies that 14.5% of the total variation in financial distress of the sample firms is caused by the proxies of corporate capital structure. This is quite high so predictions from the regression equation are fairly reliable. It also means that 85.5% of the variation is still unexplained so adding other independent variables could improve the fit of the model.

Considering the significant effect of long term debt asset on financial distress likelihood of listed insurance firms in Nigeria, the regression result in table 3 indicates that long term debt asset has a negative and significance influence on financial distress likelihood of listed insurance firms in Nigeria. This was proven by the beta coefficient value of 0.313 and a t- value of -4.970 and a significance value 0.000 which is significance at 5% significance level. This leads to the acceptance of alternative hypothesis and rejection on null hypothesis. Hence, it is concluded that long term debt asset has significant effect on financial distress likelihood of listed insurance firms in Nigeria.

Considering the significant effect of short term debt asset on financial distress likelihood of listed insurance firms in Nigeria, the regression result in table 3 indicates that long term debt asset has a negative and significance influence on financial distress likelihood of listed insurance firms in Nigeria. This was proven by the beta coefficient value of 0.235 and a t- value of -3.153 and a significance value 0.002 which is significance at 5% significance level. This leads to the acceptance of alternative hypothesis and rejection on null hypothesis. Hence, it is concluded that short term debt asset has significant effect on financial distress likelihood of listed insurance firms in Nigeria

Considering the significant effect of long term debt liability on financial distress likelihood of listed insurance firms in Nigeria, the regression result in table 3 indicates that long term debt liability has a negative and insignificance influence on financial distress likelihood of listed insurance firms in Nigeria. This was proven by the beta coefficient value of 0.061 and a t- value of -.579 and a significance value 0.563 which is insignificance at 5% significance level. This leads to the acceptance of null hypothesis and rejection on alternative hypothesis. Hence, it is concluded that long term debt liability has no significant effect on financial distress likelihood of listed insurance firms in Nigeria

Considering the significant effect of short term debt liability on financial distress likelihood of listed insurance firms in Nigeria, the regression result in table 3 indicates that long term debt asset has a positive and insignificance influence on financial distress likelihood of listed insurance firms in Nigeria. This was proven by the beta coefficient value of 0.218 and a t- value of 1.910 and a significance value 0.057 which is insignificance at 5% significance level. This leads to the acceptance of null hypothesis and rejection of alternative hypothesis. Hence, it is concluded that

short term debt liability has no significant effect on financial distress likelihood of listed insurance firms in Nigeria

4.1 Discussion of Findings

The results indicate that almost all the variables are significantly normally distributed at 5% level of significance. The correlation matrix indicates the variables have mixed relationships. The results also indicate the absence of multi-colinearity.

Long term debt asset and financial distress likelihood

The findings from the first hypothesis revealed that long term debt asset has significant effect on financial distress likelihood of listed insurance firms in Nigeria. These findings is in agreement with the findings of Etim et al. (2022) whose result revealed that debt ratio and long-term debt exert a positive and significant impact on the firm value of publicly listed insurance companies in Nigeria. It also agrees with the findings of Akaji et al. (2021) whose result showed that long term debt financing has a significant and positive impact on firms' performance in Nigeria. It however negates the findings of Ebe et al. (2023) whose results revealed that long-term debt ratio, while not significant, demonstrated a positive effect on the return on assets of listed insurance companies in Nigeria.

Short term debt asset and financial distress likelihood

The findings from the second hypothesis revealed that short term debt asset has significant effect on financial distress likelihood of listed insurance firms in Nigeria. This result agrees with the findings of Okoror and Jamani (2023) whose result revealed a threshold effect of the short-term debt to equity ratio on the return on assets indicator of financial performance. The study also agrees with the study of Lucky and Michael (2019) whose result revealed both short-term and long-term debt adversely impact operating profits. However, the study negates the study of Ohaka et al. (2020) whose result showed that short term debt have negative and significance impact on the financial performance of listed firms in Nigeria capital market.

Long term debt liability and financial distress likelihood

The findings from the third hypothesis revealed that long term debt liability has no significant effect on financial distress likelihood of listed insurance firms in Nigeria. This findings correlates with the findings of Abubakar (2023) whose result revealed that the financial performance of Nigerian enterprises exhibits a significant inverse correlation with the long-term debt to total asset ratio, an indicator of capital structure. This indicates that a company's profit will diminish as its long-term debt ratio increases. The study however, disagrees with the study of Onyenekwe et al. (2023) whose result revealed that long-term debt to equity exerts an inconsequential negative impact on the financial distress of listed insurance firms in Nigeria.

Short term debt liability and financial distress likelihood

The findings from the forth hypothesis revealed that short term debt liability has no significant effect on financial distress likelihood of listed insurance firms in Nigeria. This is further

strengthened by the position of Sike et al. (2022) whose result revealed that short-term debt significantly positively influences return on assets and Tobin's Q, whereas long-term debt significantly negatively affects return on assets. The study also agrees with the study of Aniefor and Onatuyeh (2019) whose result indicated that total debt, long-term debt, and short-term debt to asset ratio positively impacted the performance of firms in Nigeria. The study however, disagrees with the findings of Horsfall (2023) whose result revealed short-term debt exhibited a significant negative impact on financial performance.

5.0 Conclusion and Policy Recommendation

5.1 Conclusion

In view of the fact that companies are allowed to charge interest expense on debt before arriving at the profit for the year, debt financing has become a tempting source of finance to many companies. However, debts have fixed interests and principal commitments which can affect firms negatively if the debt profile grows out of control. In a worst-case scenario, successive default in interest payments could result in financial distress or bankruptcy. In this case, debt holders must be settled first and the equity owners stand the risk of losing their investments. Besides the negative implication of interest default, high debt profile requires surplus cash for debt servicing thereby limiting the ability of a firm to pay dividends. From historical sequence, the heavy use of debt has affected many large firms over time. Therefore, firms must choose the best sources of finance that would enable them to reach the optimal financial structure so that they can make suitable financial decision for positive outcomes. This study concludes that long term debt asset and short term debt asset had significant effect on financial distress likelihood while long term debt liability and short term debt liability had no significant effect on financial distress likelihood of listed insurance firms in Nigeria.

5.2 Policy Recommendations

The following recommendations are hereby made:

- i. Firms should rely more on long term debt and further on equity as a source of finance so as to boost their financial performance.
- ii. Managers of firms should be prudent when seeking short term debt advance from the money market or other finance raisers to follow the right direction.
- iii. In order to avoid any reputational issues and other risks that may arise as a result of lopsided assets or liabilities position, insurance firm management owes the public and other stakeholders in the industry a balanced asset and liability management position that will ensure profitability and liquidity while warding off any risks manifestations.
- iv. In view of the benefits of debt financing on the scourge of interest expense of debt, government should prevail on creditors, especially, financial institutions to reduce their lending rate as this will contribute to better performance of listed firms and further balance asset to liability ratio.

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