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Merger and Acquisition (M&A) and the Performance of Insurance Industry in Nigeria

Victor Chukwunweike EHIEDU[1], Anastasia Chi-Chi ONUORAH[2], Regina Nma, AKUBUE [3]

[1,2,3]Banking and Finance Department, Faculty of Management Sciences, Delta State University, Abraka.

ABSTRACT: The study examines merger and acquisition and the performance of insurance industry in Nigeria (pre-M&A 2011-2015) and (post-M&A 2016-2020) five years each. The study adopts a sample of three (3) conveniently selected insurance firms in Nigeria. The study used profitability (PRF) as the dependent variable while investment income (IVI), underwriting profit, total asset (TA0 and shareholders wealth (SHE) as the independent variables. Panel data was used, Ordinary Least Squares estimation technique was also tested with the aid of E-views 9. The study found that the p-value for investment income in pre-M&A era is 0.3178 while post-M&A era is 0.000, this shows that investment income (IVI) has a significant effect on performance of insurance firms in post-M&A era in Nigeria because the p-value is less than 5% level of significance at the post M&A era. For underwriting profit there is a positive effect on profitability of insurance companies in Nigeria in the post-M&A era, the pre-M&A era was negative, furthermore, the p-value for pre-M&A era is 0.3636 while post-M&A era is 0.000, this shows that underwriting profit (UP) has a significant effect on performance of insurance firms in post-M&A era in Nigeria because the p-value is less than 5% level of significance at the post M&A era. Total asset (TA) has a positive effect on profitability of insurance companies in Nigeria in the post-M&A era, the pre-M&A era was negative, furthermore, the p-value for pre-M&A era is 0.5147 while post-M&A era is 0.04. This shows that total asset (TA) has a significant effect on performance of insurance firms in post-M&A era in Nigeria because the p-value is less than 5% level of significance at the post M&A era. Finally shareholders equity has a positive effect on profitability of insurance companies in Nigeria in both pre and post-M&A era. Furthermore, the p-value for pre-M&A era is 0.3748 while post-M&A era is 0.000. This shows that shareholders equity (SHE) has a significant effect on performance of insurance firms in post-M&A era in Nigeria because the p-value is less than 5% level of significance at the post M&A era. The study concludes that merger and acquisition have significant effect on the performance of insurance industry during the post merger and acquisition era. The study further recommended that government should encourage declining or distressed insurance companies to engage in merger/acquisition by providing incentives such as tax holiday, loss relief and capital allowance. Government should constantly provide the enabling and conducive environment for mergers and acquisitions.

KEYWORDS: Merger, Acquisition, Industry, Profitability, Capital Allowance

1. BACKGROUND TO THE STUDY

The modern-day business environment has experienced some evolution which has necessitated the business to re-evaluate their strategies in order to remain competitive and relevance as such different industries have taken different strategies in order to fit in the ever changing environment. A merger is a combination of two or more companies in which the resulting firm maintains the identity of the acquiring company. In a consolidation, two or more companies are combined to form an entirely new entity. A consolidation might be utilized when the firms are of equal size and market power, (Horne, 2016). Companies may seek external growth through mergers in order to achieve risk reduction, improve access to the financial markets through increased size, or obtain tax carry-forward benefits. A merger may also expand the marketing and management capabilities of the firm and allow for new-product development. The motives for mergers are both financial and non-financial in nature, (Poposki, 2017; Agbogun, and Ehiedu, (2022); Bayem, Ehiedu, Agbogun, and Onuorah, A.C, (2022); Ehiedu, and Obi, (2022); Ehiedu and Imoagwu (2022); Ehiedu and Imoagwu (2022); Ehiedu V.C. (2022); and Ehiedu, V. C. (2022).

Merger and acquisition as a strategic intent has been a lingering issue since first merger and acquisition of firms in Nigeria in 1982, (Omoye & Aniefor, 2016). Merger and Acquisition deals are more often engineered by offshore parents of the local conglomerates and few other medium size local companies. According to Omoye & Aniefor, (2016) mergers and acquisitions are crucial to the growth and health of an economy, it is a highly attractive means for business owners and entrepreneurs to get value from the wealth they have created. Mergers and Acquisition and the related field of diversities became integral elements in the strategic business initiative of well managed organization. According to Vyas, Narayanan and Ramanathan (2016), the phenomenon of merger and acquisition was to facilitate a reconfiguration of insurance industry organizational structure and its core competencies.

In same vein, Akinwale (2018); Ehiedu, Victor C, (2022); Ehiedu, Onuorah, and Mbagwu (2022); Ehiedu, Onuorah and Owonye, (2022); Ehiedu and Olannye, (2014) and Ehiedu and Brume-Ezewu, (2022) stated that mergers and acquisitions in the Insurance Industry are reform strategies employed in the Insurance Sector to achieve improved financial efficiency, operational performance and expansion of business.

Furthermore, the Governments own controlling shares of the Nigeria insurance Industry. But obviously they decided to divested and sell their controlling shares to individuals and private companies. The criteria used in getting the controlling stake in the companies, was that government went for the long established and successful expatriate companies, in order not to collapse the system. This decision led to a deep chaos between the larger companies owned jointly by government and foreign interest and the smaller indigenous companies.

Furthermore, the reinsurance treaty arrangement is bound to be favorable to the bigger organizations because of their foreign connections since the treaties were placed abroad.

The low capital requirement for the establishment of insurance companies inhibits insurance business in Nigeria, Banking institutions which obtain deposit and with well calculated and defined financial risks were, required to have a very high capital base. Whereas, insurance companies which take higher financial risks were allowed to operate smaller capital requirements. Ogunlana (1986) argued that the capital requirement for establishing an insurance company should be higher than the one required for setting up a bank. Once the capital requirements of insurance companies are reviewed to the acceptable level, smaller companies will be encouraged to Merge or bigger companies will take over smaller ones through outright purchase. There is certainly a case to be made for larger and stronger companies rather than a fragmented market. According to Ndura (2017), Ehiedu, Odita, and Kifordun (2020); Ehiedu, Odita, and Kifordu, (2020); Ehiedu, Onuorah, and Owonye, (2022); Ehiedu, Onuorah, and Owonye, (2022) and Ehiedu and Okorie, (2022) mergers are expected to improve the financial performance of the merged companies and the central strategy for most of the companies seeking mergers is to seek to become the leading player in the market area of the strategic business unit.

STATEMENT OF THE PROBLEM

The concept of mergers and acquisition in insurance industry is an area of great interest presently. There are pressures being mounted on the regulatory bodies (National Insurance Commission, NICOM) to improve and tighten up the capital adequacy or the capital base due to the fact that the risk associated in the industry is even more than the banking industry that have a larger capital base. Insurance Companies are beginning to embrace Mergers and acquisitions as the best surviving option due to the challenges in raising funds in the capital market. Presently the number of domestic and cross border merger & acquisition have increased significantly (Hitt, Micheal, Duare and Robert 2015). Essentially, the increase in the numbers of insurance companies within the last three decades has enlarged the market as well considerably. The increased size of the market is an added advantage to the insurance industry and small companies will merge and be transformed into more viable units. This action would encourage pooling of human and financial resources to ensure better performance and stability of the industry. Overtime research in this area has been scanty but the little that exist have mixed findings: The study by (Chesang 2016; Shim 2016; found negative and insignificant effect on performance of insurance industry even after merger and acquisition, the study by (Omoye & Aniefor, 2016); found positive and significant effect on performance of insurance industry in Nigeria. The pre-M&A era covered 2011-2015 that is a five year period while post-M&A era covered 2016-2020 that is a five year period as well, making a total of 10 years. Against this background, this study examines merger and acquisition on the performance of insurance industry in Nigeria.

2.1 CONCEPTUAL REVIEW

2.1.1 Concept of Merger and Acquisition

Any transaction that merges two or more economic units is a merger. Owokalade (2016) defines merger as a corporate combination in which two or more firms merge to become one, with one being voluntarily liquidated and its shareholders becoming shareholders in the other. Glaxo Wellcome and Smithkline Beecham combined in 1999 to form Glaxo Smithkline. Acquisitions, on the other hand, are company purchases. Acquisitions include mergers (Alao, 2010, Dubey, 2017 Ehiedu and Okorie, (2022); Ehiedu, (2021); Ehiedu, (2021); Ehiedu, (2020); Ehiedu, (2020) and Ehiedu, (2020). The acquirer controls the acquired firm by hostile or favourable activities. Consolidations, which combine two or more enterprises into one, are different

from mergers and acquisitions. The new company replaces the merged companies (Okonkwo, 2014). The two enterprises merge and boost performance, capital, and profitability. This minimises competition and gives a competitive edge (Okonkwo, 2014). Instead, a corporation acquires the controlling shareholder stake of another company.
Two companies remain. The acquirer makes the target company a division or subsidiary.

There are basically two forms of acquisition

Stock Acquisition: This entails buying a company's controlling stake (51% or more) in exchange for cash, shares, or debentures. Stock acquisition can be controlled by confidential arrangements between company managements, friendly acquisition, and public offer by one firm to the owners of another firm in an unfriendly transaction (Omoye & Aniefor, 2016). Unfriendly acquisitions are costly.
Asset Acquisition: One corporation buys another's net assets. Asset purchase transfers legal title of the acquired company's assets to the acquirer, unlike stock acquisition.

The major types of acquisitions are

Horizontal Acquisition: This involves buying a competitor in the same industry and operating level. Horizontal mergers aim to expand (Omoye & Aniefor, 2016).
Vertical Acquisition: This entails a company in the same industry buying a smaller competitor. Vertical acquisition might involve growing operations backward into a company that produces raw materials or forward into a company that distributes or uses the company's goods. Concentric acquisition combines enterprises with similar technology, production processes, or markets, while conglomerate acquisition combines firms with unconnected business activity (Okafor and Eiya, 2015).

Brief History of Insurance Companies in Nigeria

The Nigerian Insurance Commission regulates insurance firms (NAICOM). In 2019, NAICOM boosted the capital of life insurance businesses from N2 billion to N8 billion, general companies from N3 billion to N10 billion, and composite firms from N5 billion to N18 billion. The regulator raised reinsurance companies' capital from N10 billion to N20 billion (Nairametrics, 2020).
The Nigerian Insurers Association lists 57 insurance businesses, including 14 specialty life insurance firms, 28 general insurance firms, 13 composite insurance firms, and two reinsurance firms (Nairametrics, 2020).
The regulator expected at least six insurance companies to consolidate by 2020. 44 NAICOM-approved recapitalization plans include the involved insurers.
Local enterprises had to meet government capitalization standards without borrowing money, so they merged.

Brief History of Standard Alliance Insurance Plc

In 2016, Standard Alliance Insurance Plc combined with its sister company, Standard Life Assurance, to establish one large insurance company providing life and non-life insurance. Standard Alliance currently underwrites life and non-life business as one entity.
"The court-sanctioned merger makes Standard Alliance Insurance Plc a top composite insurance business with a shareholders fund of N6.392b and asset base of N13.651b," stated Group Managing Director Bode Akinboye.
Akinboye added that the merger was a strategic choice by both firms' boards to create a frontline composite insurance company that will lead the nation's insurance sector and become the most favoured destination to invest. The emerging composite company has professional and results-oriented employees. Standard Alliance Insurance Plc may now offer more innovative products and fulfill its stakeholder pledges.
Global Credit Rating gave Standard Alliance Insurance BBB (NG), Outlook Stable (GCR).
This was based on the following key criteria:
Shareholders' funds which rose by 28% to N4.2bn at FYE15, on the back of internal capital generation. In conjunction with a substantial reduction in retained premium volumes, this led to an improvement in risk adjusted capitalisation, with the ratio of shareholders' funds to net earned premium (NEP) improving to 172% at FYE15 (FYE14: 86%). In turn, statutory solvency regained compliance at FYE15, with admissible asset coverage of liabilities equating to 1.5x.
GGR, looking at the company's future stated, going forward, risk adjusted capital adequacy is expected to remain at an adequate level".
The company's result in 2016, according to Akinboye, remained very encourage just as he is optimistic that the current merger would skyrocket the company to the realm of its glory in the current business year.

Corner Stone Insurance Company

Cornerstone Insurance Company Plc provides life and non-life insurance in Nigeria. They bought Fin Insurance in 2015. Risk underwriting and related financial services are offered to individuals, corporations, and institutions. Motor vehicles, aircraft, marine, engineering all hazards, asset protection, liability to third parties, oil and gas, group life, credit life, mortgage protection, term assurance, wealth development, and Islamic insurance are included. Cornerstone Insurance Firm Plc was Nigeria's first online insurance company. Internet and mobile technology make firm services accessible. Lagos is Cornerstone Insurance Company Plc's headquarters.

2.1.2 Factors Influencing Mergers and Acquisitions

a. Legislation: Due the enactment of new legislation affecting the operations of Insurance Company or the introduction of new economic policies by government, the proprietors may become unwilling or unable to continue in the business, (Akinwale, 2018). They will be compelled to seek a buyer. In Nigeria, following the upward review of the minimum capital base of insurance companies, companies were made to merge and in some cases taken over by bigger companies.

b. Withdrawal of Insurance licensees: The regulatory authorities have right to withdraw the licenses of insurance firms when they breach the compliance requirements, the life insurance element of the business may be transferred to another company. This is to protect the interest of the policy holders who do not wish to surrender their policies.

c. Government intervention: In developing economies, the government may take proactive step to protect their economy by compelling foreign companies to part with substantial parts or whole of their shares to indigenes, (Akinwale, 2018). This was carried out in Nigeria under the indigenization programs of the federal government.

d. Investment purposes: A potential investor either may take up a proportion or the whole of the shares of the insurance companies purely as an investment.

e. Business Expansion: An insurance company may wish to diversify into another area or line of business which the acquired company is in noted for but the purchaser is not active. The Company will be able to take advantage of the expanded agency network for marketing purposes and the benefit of new executive talents. This is a convenient way for an over capitalized company to gain additional premium income thereby ensuring effective use of capital.

2.2 Theoretical Review

Several theories is discussed in this section, and they include: the theory of efficiency, theory of market power, theory of corporate control, theory of managerial hubris, theory of managerial discretion and theory of managerial entrenchment. It is important to note here that this study is anchored on the *theory of Efficiency*.

Theory of Efficiency

According to Banerjee and Eckard (1998); Ehiedu, (2020); Meteke, Ehiedu, Ndah, and Onuorah, (2022); Obaro, Onuorah, Evesi and Ehiedu (2022); Obi, and Ehiedu, (2020) as referenced by Ndura (2017), mergers will only occur when they are believed to yield enough realizable synergies to benefit both parties. This symmetric expectation of gains leads to a "friendly" merger being offered and approved. The target company's owners would not sell or submit to the purchase if the gain in value was negative, and the bidder's owners would not finalise the deal if the gains were negative. Thus, efficiency theory anticipates value creation for both the acquirer and the target in a merger negotiation. When discussing value creation in mergers and acquisitions, Chatterjee (1986) distinguishes between "operative synergies" or "efficiency benefits" from economies of scale and scope and "allocative" or "collusive" synergies from enhanced market power and the potential to take consumer surplus.

Theory of Market Power

Increased ‘allocative’ synergies is said to offer the firm positive and significant private benefits because, all things being equal, firms with greater market power charge higher prices and earn greater margins through the appropriation of consumer surplus. Indeed, a number of studies find increased profits and decreased sales after many mergers, (Sapienza, 2012). Market power is said to allow for the deterrence of potential future entrants which can again afford the firm a significant premium, and so offer another long-term source of gain (Motta, 2014).

Theory of Corporate Control

In an efficient merger market the theory of corporate control provides another justification, beyond simply synergistic gains, why mergers must create value. It suggests that there is always another company or management team willing to acquire an underperforming company, to remove those managers who have failed to capitalize on the opportunities to create synergies, and thus to improve the performance of its assets (Weston, Mitchell & Mulherin, 2014). Managers who offer the highest value to the owners, it suggests, will take over the right to manage the company until they themselves are replaced by another team that discovers an even higher value for its assets.

Theory of Managerial Hubris

Roll (1986) suggests that managers may have good intentions in increasing their companies' value but, being over-confident, they over-estimate their abilities to create synergies. Over-confidence increases the probability of overpaying and may leave the winning bidder in the situation of a winner's-curse which dramatically increases the chances of failure (Dong et al., 2016). Berkovitch and Narayanan (1993) found strong evidence of hubris in US takeovers, and Goergen and Renneboog (2014) found the same in a European context. The latter estimate that about one third of the large takeovers in the 1990s suffered from some form of hubris.

2.3 Empirical Review

Akinwale (2018) and Odita and Ehiedu and Kifordu (2020) examined merger and acquisition of financial institutions in Nigeria: A case study of Insurance Company. He found out that the acquisition of smaller Companies or Mergers between small Companies would go a long way towards improving the economy. Even larger companies benefit from increased capital resulting from Merger. Mergers also lead to savings in administrative expenses and reinsurance cost.

Omoye & Aniefor (2016) analysed Nigerian mergers and acquisitions. To assess merger and acquisition effects on profitability, leverage buyout, and shareholder wealth. Covering six years (Pre-merger and acquisition: 2007-2009 and Post-merger and acquisition: 2010-2012). Access Bank PLC, which amalgamated with Intercontinental Bank PLC, provided financial statements and accounts. McNemar test. M&A affects profitability, leverage buy-out, and shareholder wealth, according to this analysis. It found that mergers and acquisitions boost national economies.

Akinbola & Isaac (2016) examine ethical difficulties in Nigerian insurance industry. Qualitative research was conducted to interview top executives from two Nigerian insurance broking firms and several insuring public members with and without insurance policies. This study used Jones (1991) moral intensity model. The study found that insurance claims administrators in Nigeria recognise the morality of their decisions and act ethically and professionally.

Akinbuli & Kelilume (2016) examine Nigerian corporate growth after mergers and acquisitions. Selecting ten banks. Financial ratios assessed the data. The findings suggest that mergers and acquisitions do not solve corporate financial hardship. Especially when mergers are regulatory rather than business environment driven. The study also found that while mergers and acquisitions can boost growth and profitability in some companies, they temporarily reduce operating efficiency.

Busari & Adeniyi (2017) investigates how mergers and acquisitions affect Nigerian banks. The study seeks to determine if deposits, loans, and advances affect earnings before tax. This analysis includes all Nigerian banks that merged or acquired. Skye Bank, United Bank for Africa, Union Bank, First City Monument Bank, and Sterling Bank were chosen using simple random sampling. secondary data. Panel regression showed that mergers and acquisitions affect bank performance but not equity capital cost. After recapitalization, banks can mobilise more funds and lend more, especially to the real sector, to boost economic growth.

Ndura (2017); Odita, and Ehiedu, (2015); Onuorah, Ehiedu and Okoh, (2021) examined Kenyan insurance company financial performance after mergers. Pre- and post-merger financial performance of six insurance businesses was compared. Secondary data from financial statements was obtained for 4 years before and after the mergers for 4 firms and 3 years for 2 companies due to the unavailability of their prior financial statements. The study indicated that Kenyan insurance companies' profitability either remained the same or declined in the first four years after mergers. The mergers did not affect the capital adequacy and long-term solvency of the merging insurance businesses because 50% improved and 50% declined. Akpan (2017) used chi square to test his hypothesis that merger and acquisition in the Nigerian banking industry had increased customer confidence and profit.

However, Owolabi and Ogunlabi (2018) found that consolidation does not always lead to financial business performance and that capital is not the only factor. DeLong and Deyoung (2017) discovered that mergers and acquisitions have not improved financial institution efficiency.

2.4 Literature Gap

Overtime, most studies on merger and acquisition and firm's performance have focused on banking sector only very few exist on insurance industry, creating a large gap in empirical review. This study will bridge the gap and also extend the time frame to a current year in a bid to unfold if there is significant effect overtime.

3. RESEARCH METHODOLOGY

In order to analyze merger and acquisition and the performance of insurance industry in Nigeria, this study adopts the ex-post facto research design. The adoption of this method is due to the fact that the data gathered were panel data. Although the insurance firms used for the purpose of this study were selected using the judgmental sampling technique. Secondary data were used. The population of the study comprised of all insurance firms in Nigeria while the sample size focused on three insurance companies in Nigeria which are: Standard Alliance Insurance Plc, Corner Stone Insurance and SA Liberty Holdings was used as the case study. The pre-M&A era covered 2011-2015 that is a five year period while post-M&A era covered 2016-2020 that is a five year period, making a total of 10 years. Ordinary Least Square (OLS) regression estimation technique was used with the use of Eviews 9.0 statistical package was used.

Model Specification:

$$Y = \alpha_0 + \beta_x + \varepsilon \qquad \text{.....................} \quad \text{Equ 3.1}$$

With equation 3.1 defined in terms of the objective function of this study as;

$$PRF = f\,(M\&A) + \varepsilon \qquad \text{----------------------------} \quad \text{Eqn 3.2}$$

Given that PRF represents corporate performance and is measured by net profit after tax (PRF), M&A represents merger and acquisition. When all variables are finally entered, the equation becomes;

$$\textbf{Profitability} = f\,(\textit{IVI, UP, TA, SHE}) + \varepsilon \qquad \text{-------------------Equ 3.3}$$

Then the variables are coded into the main regression model as shown below;

$$PRFy = \alpha_0 + \beta_1 IVI + \beta_2 UP + \beta_3 TA + \beta_4 SHE + \varepsilon \text{ ----------------} \quad \text{Equ 3.4}$$

Where:

Profitability

Investment Income

Underwriting Profit

Total Asset

Shareholders Equity

α_0: a constant, equals the value of Y when the value of X = 0

β: coefficient of the independent variables

ε: the error term

The model was adopted from the work of (Omoye & Aniefor, 2016) but was further modified by the researcher.

4. PRESENTATION, ANALYSIS OF DATA AND DISCUSSIONS

Table 1a. Descriptive Statistics Pre-M&A Era

	PRF	IVI	UP	TA	SHE
Mean	247192.3	349449.6	1842730.	7751066.	4035353.
Median	21409.00	261051.0	1867360.	8932073.	4777570.
Maximum	1553510.	798201.0	4991241.	17919118	10142477
Minimum	-2029102.	39.40300	23201.00	80104.00	12106.00
Std. Dev.	825602.5	288489.9	1666834.	6172997.	3340032.
Skewness	-1.056402	0.464666	0.427951	-0.135356	0.036195
Kurtosis	5.169055	1.739478	2.078185	1.721392	1.905810
Jarque-Bera	5.730464	1.532860	0.988945	1.067577	0.751558
Probability	0.056970	0.464669	0.609893	0.586379	0.686754
Sum	3707885.	5241744.	27640954	1.16E+08	60530294
Sum Sq. Dev.	9.54E+12	1.17E+12	3.89E+13	5.33E+14	1.56E+14
Observations	15	15	15	15	15

Source: Author's Computation using Eviews 9.0

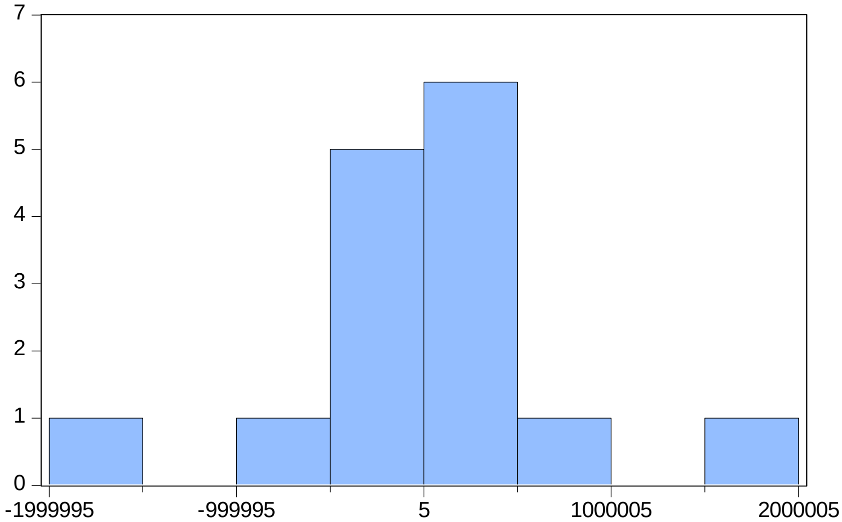
Table 1b. Descriptive Statistics Post-M&A Era

	PRF	IVI	UP	TA	SHE
Mean	829964.5	406729.8	935991.5	14552496	5599206.
Median	162730.0	160711.0	976369.0	13017167	4649072.
Maximum	4108923.	1234459.	2671510.	43828214	17724450
Minimum	-1341668.	45202.00	34302.00	292102.0	25988.00
Std. Dev.	1453668.	458318.8	865918.3	13733564	5618986.
Skewness	0.929451	0.883004	0.559547	0.675412	0.802399
Kurtosis	3.037292	2.059485	2.333533	2.507055	2.676520
Jarque-Bera	2.160569	2.502097	1.060344	1.292324	1.675009
Probability	0.339499	0.286205	0.588504	0.524053	0.432789
Sum	12449468	6100947.	14039873	2.18E+08	83988091
Sum Sq. Dev.	2.96E+13	2.94E+12	1.05E+13	2.64E+15	4.42E+14
Observations	15	15	15	15	15

Source: Author's Computation using Eviews 9.0

Table 1 provides a summary of the descriptive statistics obtained from the panel data used for the purpose of this study. Findings show that on the average, PRF for the selected insurance firms is N247192.3K pre-M&Aand N829964.5 post-M&A. While the minimum and maximum PRF's are N2029102 and N410892 in the pre-M&A era; compared to N134166 and N41089 for the post-M&A era. The average UP for the selected insurance firms is N1842730 in the pre-IFRS era and N935991 in the post-M&A era. While the minimum and maximum UP are N23201 and N4991241 in the post-M&A era; compared to N34302.00 and N2671510 for the post-M&A era.

Table 2. Normality Test (Pre-M&A Era)

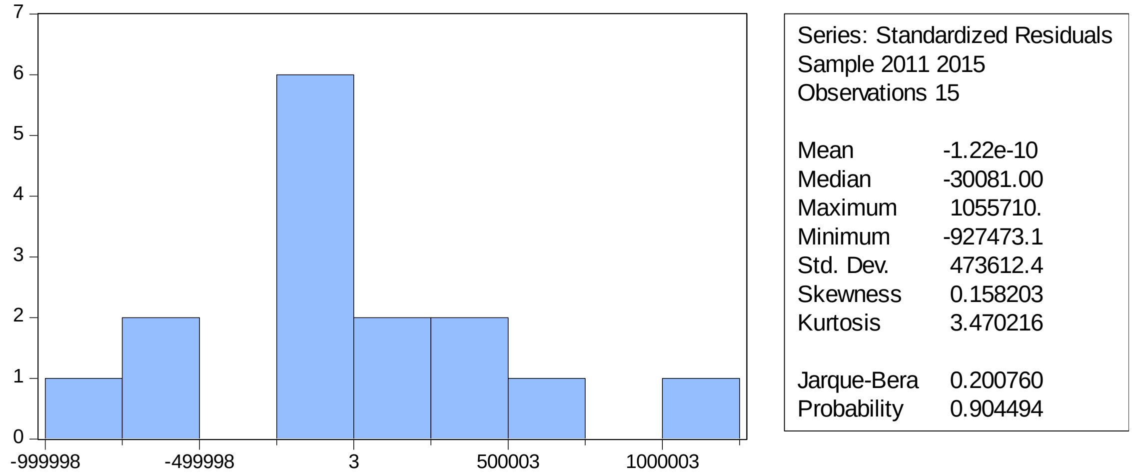


Series: Standardized Residuals	
Sample 2011 2015	
Observations 15	
Mean	1.05e-10
Median	75288.48
Maximum	1676750.
Minimum	-1600348.
Std. Dev.	680703.9
Skewness	0.189209
Kurtosis	5.288091
Jarque-Bera	3.361599
Probability	0.186225

Source: E-views 9

Table 2 is the variables normality test for pre merger and acquisition era. The Jarque-Bera statistics test was used and it indicated that the variables (investment income, underwriting profit, total asset, shareholders equity) were normally distributed at 5% level because the p-value 0.186 is greater than 5% significant value which is desirable, therefore the H_0 is accepted.

Table 3. Normality Test (Post-M&A Era)



Source: E-views 9

Table 3 is the variables normality test for post merger and acquisition era. The Jarque-Bera statistics test was used and it indicated that the variables (investment income, underwriting profit, total asset, shareholders equity) were normally distributed at 5% level because the p-value 0.9044 is greater than 5% significant value which is desirable, therefore the H_0 is accepted.

Table 4. Regression Estimation for Pre & Post-M&A Era

$PRF_{t+1} = \alpha_0 + \beta_1 IVI_{it} + \beta_2 UP_{it} + \beta_3 TA_{it} + \beta_4 SHE_{it} + \varepsilon_{it}$				
Independent variables	***Pre-M&A*** *2004-2011*		***Post-M&A*** *2012-2020*	
	Coeff.	***p-value***	***Coeff.***	***p-value***
Intercept	-167924.9	0.6716	-136505.8	0.5817
IVI	1.099221	0.3178	4.198350	0.0006
UP	-0.154287	0.3636	50635.96	0.0000
TA	-0.153291	0.5147	83.76125	0.0453
SHE	0.372575	0.3748	81.83727	0.0000
N	15			
Adjusted R-squared	0.408295		0.85139	
F-test		0.377591		0.0000

[a]*Significance at the level 5% level (two-tailed)*

Source: Researchers Computation 2021

DISCUSSION OF RESULT

from the results shown in Table 4, the explanatory power of merger and acquisition was tested using adjusted R-squared which shows the degree at which the independent variables is a strong predictor of the dependent variable. In this result, the adjusted R-squared in the pre-M&A era is 0.4082 while post-M&A era is 0.8513, the post-M&A era result shows a stronger explanatory power compared to the pre-M&A era.

Investment Income (IVI) and Profitability (PRF)

From the regression result as shown in Table 4, the coefficient of regression for investment income (IVI) for pre-M&A era is 1.0991 which is positive while post-M&A era is 4.1983 which is also positive. This indicates that investment income have a positive effect on profitability of insurance companies in Nigeria both in the pre and post-M&A era. Furthermore, the p-value for pre-M&A era is 0.3178 while post-M&A era is 0.000. This shows that investment income (IVI) has a significant effect on performance of insurance firms in post-M&A era in Nigeria because the p-value is less than 5% level of significance at the post M&A era.

Underwriting Profit (UP) and Profitability (PRF)

From the regression result as shown in Table 4, the coefficient of regression for underwriting profit (UP) for pre-M&A era is -0.1542 which is negative while post-M&A era is 50635.9 which is positive. This indicates that underwriting profit has a positive effect on profitability of insurance companies in Nigeria in the post-M&A era, the pre-M&A era was negative. Furthermore, the p-value for pre-M&A era is 0.3636 while post-M&A era is 0.000. This shows that underwriting profit (UP) has a significant effect on performance of insurance firms in post-M&A era in Nigeria because the p-value is less than 5% level of significance at the post M&A era.

Total Asset (TA) and Profitability (PRF)

From the regression result as shown in Table 4, the coefficient of regression for total asset (TA) for pre-M&A era is -0.1532 which is negative while post-M&A era is 83.761 which is positive. This indicates that total asset has a positive effect on profitability of insurance companies in Nigeria in the post-M&A era, the pre-M&A era was negative. Furthermore, the p-value for pre-M&A era is 0.5147 while post-M&A era is 0.04. This shows that total asset (TA) has a significant effect on performance of insurance firms in post-M&A era in Nigeria because the p-value is less than 5% level of significance at the post M&A era.

Shareholder's Equity (SHE) and Profitability (PRF)

From the regression result as shown in Table 4, the coefficient of regression for shareholders equity (SHE) for pre-M&A era is 0.3725 which is positive while post-M&A era is 81.837 which is positive. This indicates that shareholders equity has a positive effect on profitability of insurance companies in Nigeria in both pre and post-M&A era. Furthermore, the p-value for pre-M&A era is 0.3748 while post-M&A era is 0.000. This shows that shareholders equity (SHE) has a significant effect on performance of insurance firms in post-M&A era in Nigeria because the p-value is less than 5% level of significance at the post M&A era.

5.1 SUMMARY OF FINDINGS

This study examined merger and acquisition and the performance of insurance industry in Nigeria pre-M&A era and Post M&A era. The performance of Insurance firms were captured with Profitability (PRF) while merger and acquisition was captured with investment income (IVI), underwriting profit (UP), total asset (TA) and shareholders equity (SHE) in the pre-and post M&A era. To this end, the study aimed at comparing the predictive power of the determinants of merger and acquisition in the Insurance industry in Nigeria during the pre and post-M&A era.

To achieve this aim, a sample of three (3) listed insurance firms was judgmentally selected in Nigeria (Standard Alliance Insurance Plc which merge with Standard Life Assurance, Corner Stone Insurance which acquired FIN Insurance and SA Liabilities Holdings which acquire UNIC Insurance). Data were collected from the annual reports of the selected insurance firms. The raw data were later computed to arrive at the desired forms. The study adopted the ex-post factor research design and a study period of ten (10) years spread between two independent periods known as the pre-M&A era and the post-M&A era. The pre-M&A era is spread from 2011 to 2015; while the post- M&A era is spread from 2016 to 2020. The panel least square regression estimation technique was used for the purpose of data analysis and this was implemented using the E-views 9.0 statistical software.

The results revealed that; the merger and acquisition of the firms under study has improved the performance of insurance firms. The explanatory power of merger and acquisition was also tested using adjusted R-squared which shows the degree at which the independent variable is a strong predictor of the dependent variable. In this result, the adjusted R-squared in the post-M&A era shows a stronger explanatory power compared to the pre-M&A era.

For the regression result, in the pre-M&A era, the p-value for IVI is 0.3178 while for post-M&A era is 0.000 of which it has a positive effect for both era but significant for only post-M&A era. Furthermore, UP is negative for pre-M&A era and not significant but it is positive for post-M&A era and significant.

Total asset (TA) is negative for pre-M&A era and not significant but it is positive for post-M&A era and significant. For shareholders equity (SHE) it is positive for both era but significant for only post-M&A era.

5.2 CONCLUSION

Issue of merger and acquisition has been a major strategy employed by insurance firms in modern business environments like Nigeria for competitive advantage in. the decision for merger or acquisition is with the expectation of achieving increase in shareholders wealth or market capitalization, leverage buyout, increase in performance, and to dominate the market and also expand. Mergers and acquisitions have helped many bench racer insurance companies. As a corporate trend, mergers and acquisitions improve profitability, shareholder wealth, leverage buy-out, and insurance firm growth. Thus, post-merger and acquisition insurance industry performance is significantly affected by merger and acquisition.

5.3 RECOMMENDATIONS

Following the findings obtained, this study therefore recommends that:

1. Insurance companies taking part in mergers and acquisitions should involve all shareholders. Consequently, thorough study should be carried out so as to consider all factors relevant to the success or failure of these corporate strategies.
2. The government should encourage declining or distressed insurance companies to engage in merger/acquisition by providing incentives such as tax holiday, loss relief and capital allowance. Government should constantly provide the enabling and conducive environment for mergers and acquisitions.
3. Merger and acquisition should be a constant trend in Nigerian industry, especially in the insurance sector, to eliminate weak insurance firms and establish stronger ones until client confidence is boosted.
4. Unmanaged mergers and acquisitions risk failure. Managers must avoid failing to integrate two organisations with diverse processes, accounting methodologies, operating cultures, and buyer valuations. Successful mergers and acquisitions require a strategically integrated acquisition programme.

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