

FAIR VALUE ACCOUNTING AND FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN NIGERIA

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Abstract: This study examined the effect of fair value accounting on the financial performance of insurance companies in Nigeria. The study specifically examined the effects of fair value measurement, fair value disclosure, fair value hierarchy, valuation techniques, and fair value gains and losses on financial performance. A quantitative approach and ex-post facto study design were adopted, while secondary data obtained from published annual reports and financial statements were used for the analysis. The study covered 100 firm-year observations, and data were analysed using descriptive statistics, correlation analysis and multiple regression analysis. The descriptive results showed that financial performance had a mean value of 0.0999, fair value measurement had a mean of 0.4321, fair value disclosure had a mean of 0.6989, fair value hierarchy had a mean of 0.3588, valuation techniques had a mean of 0.6456, while fair value gains and losses had a mean of 0.0115. The regression result produced an R-squared value of 0.289, indicating that the explanatory variables jointly explained 28.9% of the variation in financial performance. The ANOVA result was statistically significant at $F = 7.645$ and $p = 0.000$. Fair value measurement had a positive and significant effect on financial performance ($\beta = 0.0444$, $p = 0.005$), while fair value disclosure also had a positive and significant effect ($\beta = 0.0432$, $p = 0.022$). Fair value hierarchy had a negative and insignificant effect ($\beta = -0.0312$, $p = 0.104$), while valuation techniques had a positive but insignificant effect ($\beta = 0.0232$, $p = 0.231$). Fair value gains and losses had a positive and significant effect and recorded the strongest coefficient ($\beta = 0.3194$, $p = 0.000$). The study concluded that fair value measurement, fair value disclosure, and fair value gains and losses significantly influence the financial performance of insurance companies in Nigeria. The study recommended improved fair value measurement, transparent disclosure, effective valuation procedures and closer monitoring of fair value gains and losses by insurance companies and regulatory authorities.

Keywords: Fair Value Accounting, Fair Value Disclosure, Fair Value Measurement, Financial Performance, Insurance Companies.

Introduction

Fair value accounting has become an important component of contemporary financial reporting because it provides a measurement basis that reflects the current economic value of assets and liabilities rather than relying solely on historical costs. Under IFRS 13, fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also provides a framework for fair value measurement and disclosure (IFRS Foundation, 2023). Its application is particularly relevant to insurance companies because insurers hold substantial investment portfolios and are exposed to changes in market conditions. The measurement

of these assets and liabilities can therefore influence reported profitability, asset values and shareholders' returns (Adegboyegun et al., 2020). Fair value information may also improve the usefulness of financial statements by providing values that reflect prevailing economic conditions (Osanyinbi et al., 2023).

The relevance of fair value accounting to insurance companies is largely connected to their investment activities. Insurers invest funds in quoted equities, government securities, bonds, investment properties and other financial instruments whose values may fluctuate with market conditions. Changes in fair values can consequently affect reported gains, losses and financial performance. Where observable market prices are unavailable, valuation may depend on techniques and professional judgement,

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which can affect the reliability of reported values (Oyewo, 2020). Evidence from Nigerian insurance businesses suggests that fair value measurement is associated with financial reporting quality, highlighting the importance of appropriate valuation procedures (Osanyinbi et al., 2023).

Financial performance reflects an insurance company's ability to generate income, control expenses, meet policyholders' obligations and provide returns to shareholders. Common measures include return on assets, return on equity, profit before tax and earnings per share. Studies have shown that Nigerian insurance performance is influenced by factors such as liquidity, solvency, underwriting risk, capital structure and asset management (Fali et al., 2020). Since fair value changes can affect recognised gains, losses and equity, they may also influence reported financial performance. This is particularly relevant in Nigeria, where insurers operate amid inflation, exchange-rate movements and changing investment conditions (Eguavoen & Joel, 2023).

Despite these requirements, the effect of fair value accounting on the financial performance of Nigerian insurance companies remains insufficiently examined. Previous Nigerian studies have focused largely on banks, manufacturing firms and other sectors, producing mixed findings on profitability, firm value and investment decisions (Abiahu et al., 2020; Okere et al., 2022). Studies of insurance companies have mainly examined financial risk, underwriting practices, capital structure and asset management rather than fair value accounting specifically (Duniya et al., 2024; Danjuma & Dauda, 2024). This creates a gap because insurance companies have distinctive investment portfolios and claim obligations. Therefore, this study examines the effect of fair value accounting on the financial performance of insurance companies in Nigeria, focusing on fair value measurement, disclosure, hierarchy, valuation techniques, and fair value gains and losses (Kiarie, 2025).

Statement of the Problem

Insurance companies contribute significantly to the Nigerian financial system by providing risk protection, mobilising savings and investing funds. Their financial performance is therefore important to policyholders, shareholders, regulators and the wider economy. However, Nigerian insurance companies continue to face challenges relating to underwriting risk, liquidity, capital adequacy, investment decisions and asset-liability management (Fali et al., 2020; Banjo & Oyetade, 2022). While previous studies have examined these factors, relatively limited attention has been given to the accounting measurement basis used in reporting insurers' assets and liabilities.

The adoption of fair value accounting presents both opportunities and challenges. Fair value measurement can improve the relevance of financial statements by reflecting

current market conditions, but it can also be affected by market volatility, limited observable information and management judgement. This is particularly important where assets are not traded in active markets and valuation techniques are required (Oyewo, 2020). Changes in fair values may consequently affect reported profits and equity without corresponding realised cash flows, making it difficult for users to distinguish operating performance from changes in investment values (Abiahu et al., 2020).

The fair value hierarchy also raises concerns regarding the reliability of reported values. IFRS 13 classifies measurements according to the observability of valuation inputs, with Level 1 measurements based on quoted market prices and lower levels relying more heavily on valuation models and assumptions (IFRS Foundation, 2023). Where reliable market information is unavailable, professional judgement becomes more important. Research on Nigerian insurance businesses has found a significant relationship between fair value measurement and financial reporting quality, demonstrating the importance of appropriate valuation procedures (Osanyinbi et al., 2023).

Furthermore, much of the existing Nigerian research on fair value accounting has focused on banks, manufacturing companies and other sectors (Abiahu et al., 2020; Okere et al., 2022; Opuene & Amadiwo, 2025). Findings from these sectors cannot automatically be applied to insurance companies because insurers have different investment portfolios, claim obligations and regulatory requirements. Although studies of Nigerian insurance companies have examined financial risk, capital structure, underwriting activities and firm characteristics, fair value accounting has received comparatively limited attention (Duniya et al., 2024; Danjuma & Dauda, 2024).

The implementation of IFRS 17 from 2023 has further changed the insurance reporting environment, making it important to understand how fair value-related practices interact with insurance companies' financial performance. Consequently, there is a need for empirical evidence on whether fair value accounting influences the financial performance of insurance companies in Nigeria. This study therefore investigates the effect of fair value accounting on the financial performance of insurance companies in Nigeria.

Objectives of the Study

1. Examine the effect of fair value measurement on the financial performance of insurance companies in Nigeria.
2. Determine the effect of fair value disclosure on the financial performance of insurance companies in Nigeria.

3. Assess the effect of fair value hierarchy on the financial performance of insurance companies in Nigeria.
4. Examine the effect of valuation techniques on the financial performance of insurance companies in Nigeria.
5. Determine the effect of fair value gains and losses on the financial performance of insurance companies in Nigeria.

Research Questions

1. To what extent does fair value measurement affect the financial performance of insurance companies in Nigeria?
2. What effect does fair value disclosure have on the financial performance of insurance companies in Nigeria?
3. To what extent does fair value hierarchy affect the financial performance of insurance companies in Nigeria?
4. What effect do valuation techniques have on the financial performance of insurance companies in Nigeria?
5. What effect do fair value gains and losses have on the financial performance of insurance companies in Nigeria?

Research Hypotheses

Ho1: Fair value measurement has no significant effect on the financial performance of insurance companies in Nigeria.

Ho2: Fair value disclosure has no significant effect on the financial performance of insurance companies in Nigeria.

Ho3: Fair value hierarchy has no significant effect on the financial performance of insurance companies in Nigeria.

Ho4: Valuation techniques have no significant effect on the financial performance of insurance companies in Nigeria.

Ho5: Fair value gains and losses have no significant effect on the financial performance of insurance companies in Nigeria.

Scope of the Study

The study focuses on the effect of fair value accounting on the financial performance of selected insurance companies in Nigeria. The study covers fair value measurement, fair value disclosure, fair value hierarchy, valuation techniques, and fair value gains and losses as the independent variables, while financial performance represents the dependent variable. The study is limited to selected insurance companies quoted on the Nigerian Exchange Group and relies mainly on information obtained from their published

annual reports and financial statements. The study covers the period for which relevant and consistent financial information is available for the selected companies.

Conceptual Review

Fair Value Accounting

Fair value accounting refers to an accounting approach in which assets and liabilities are recognised or measured using values that reflect current market conditions rather than relying solely on historical transaction costs. The approach is based on the principle that financial information should provide users with relevant information about the current economic value of an entity's resources and obligations. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (IFRS Foundation, 2023). The application of fair value accounting has become increasingly important because changes in market conditions can significantly affect the values of financial assets and liabilities reported by organisations.

For insurance companies, fair value accounting is particularly relevant because insurers hold substantial amounts of investment assets generated from premiums received from policyholders. These investments may include quoted equities, government securities, bonds and other financial instruments whose values fluctuate over time. Consequently, the use of fair values enables insurance companies to reflect changes in the economic value of these investments in their financial statements (Adegboyegun et al., 2020). Fair value accounting can therefore improve the relevance and timeliness of financial information available to investors, regulators and other stakeholders.

The application of fair value accounting also promotes greater transparency by providing information based on prevailing market conditions. However, its application may involve considerable professional judgement, especially where assets are not traded in active markets. In such situations, management may have to rely on valuation models and estimates, which can create uncertainty and differences in reported values (Oyewo, 2021). The reliability of fair value information therefore depends on the quality of available market information, the valuation methods used and the competence of those responsible for the measurement process.

Fair Value Measurement

Fair value measurement involves determining the amount at which an asset could be sold or a liability transferred under current market conditions. IFRS 13 provides a consistent framework for measuring fair value and establishes a hierarchy based on the observability of inputs used in the valuation process. Level 1 inputs consist of quoted prices for identical assets or liabilities in active markets, Level 2

inputs include observable information other than directly quoted prices, while Level 3 inputs involve significant unobservable information and greater reliance on estimates and professional judgement (IFRS Foundation, 2023).

The measurement process is particularly straightforward where an active market exists because quoted market prices provide direct evidence of an asset's fair value. However, difficulties may arise where there is limited or no active market for the asset being measured. In such circumstances, entities may use valuation techniques such as market approaches, income approaches and cost approaches to estimate fair value. The choice of valuation technique and assumptions used can influence the amount recognised in the financial statements (Oyewo, 2021).

For insurance companies, reliable fair value measurement is important because investment assets constitute a significant part of their financial resources. Incorrect or inconsistent valuation may affect reported asset values, profitability and shareholders' equity. The use of Level 3 measurements may also increase uncertainty because the values depend more heavily on management assumptions and estimates. Evidence from Nigerian studies indicates that the quality of fair value measurement can influence the usefulness and reliability of financial information reported by financial institutions and insurance businesses (Osanyinbi et al., 2023; Ogunrinde et al., 2024). Thus, effective fair value measurement requires appropriate valuation techniques, reliable inputs and adequate professional judgement.

Fair Value Disclosure

Fair value disclosure refers to the presentation of information concerning the fair values recognised or disclosed in an entity's financial statements. Such information may include the amounts measured at fair value, the valuation techniques employed, the inputs used and the level of the fair value hierarchy applicable to the measurement. IFRS 13 requires entities to provide sufficient information to enable users of financial statements to understand the valuation process and assess the effect of fair value measurements on financial statements (IFRS Foundation, 2023).

Fair value disclosure is important because the value presented in the financial statements may not always be based on directly observable market prices. Where valuation depends on estimates and unobservable inputs, users need additional information to understand the degree of uncertainty associated with the reported amount. Adequate disclosure can therefore improve transparency and help investors, regulators and other stakeholders make informed assessments of an insurance company's financial position and performance (Ogunrinde et al., 2024).

For insurance companies, fair value disclosure can also reduce information asymmetry between management and external users. Detailed disclosure of valuation methods and

assumptions enables users to assess the reliability of reported values and understand how changes in market conditions may affect the company's financial position. However, the usefulness of disclosure depends on its completeness, accuracy and clarity. Inadequate disclosure may limit users' ability to evaluate the reliability of reported fair values, particularly where complex valuation models are used. Consequently, effective fair value disclosure forms an important part of transparent financial reporting among insurance companies in Nigeria.

Fair Value Gains and Losses

Fair value gains and losses arise when the fair value of an asset or liability changes between reporting periods. A fair value gain occurs when the recognised value of an asset increases or the value of a liability decreases, while a fair value loss may arise when the value of an asset decreases or the value of a liability increases. These changes can result from movements in market prices, interest rates, exchange rates, inflation and other economic conditions (IFRS Foundation, 2023).

For insurance companies, fair value gains and losses are particularly relevant because insurers invest significant portions of their funds in financial assets. Changes in the market value of these investments can affect the amounts recognised in the financial statements. Depending on the nature of the financial instrument and the applicable accounting requirements, fair value changes may be recognised in profit or loss or in other comprehensive income. Consequently, fluctuations in fair values can affect reported profitability, equity and other financial performance indicators.

Fair value gains may increase reported income or equity, while fair value losses may reduce profitability or equity, depending on where the changes are recognised. This means that changes in market conditions can contribute to fluctuations in the reported performance of insurance companies even when there has been no corresponding cash transaction. Studies in Nigeria have indicated that fair value accounting can influence accounting-based performance measures and the quality of financial reporting (Aigienohuwa & Ohonba, 2023; Olabode & Ajao, 2023).

Financial Performance of Insurance Companies

Financial performance refers to the extent to which an insurance company is able to generate income, manage its resources efficiently, meet its financial obligations and provide satisfactory returns to its stakeholders. It represents an important indicator of the financial health and operational success of an insurance company. Common measures of financial performance include return on assets, return on equity, profit before tax, net profit and earnings per share (Fali et al., 2020).

The financial performance of insurance companies is influenced by several factors, including underwriting activities, investment decisions, liquidity, capital adequacy, financial risk and operational efficiency. Insurance companies generate substantial funds through premiums and invest these funds to generate additional income. The performance of their investment portfolios can therefore have a significant effect on overall profitability. Effective management of assets and liabilities is consequently important for maintaining financial stability and improving performance (Banjo & Oyetade, 2022; Duniya et al., 2024).

Fair value accounting can influence the financial performance of insurance companies through the measurement and recognition of changes in the value of investment assets. When the fair value of investments increases, the resulting gains may improve reported profitability or equity, depending on the applicable accounting treatment. Conversely, declines in fair value may result in losses that reduce reported performance. This relationship makes fair value accounting particularly important for insurance companies with substantial investment portfolios.

Empirical evidence has shown that fair value accounting can be associated with financial performance and financial reporting outcomes among Nigerian financial institutions. For instance, fair value accounting has been linked with performance measures such as return on equity, while differences in accounting measurement approaches have also been associated with variations in profitability-related indicators (Aigienohuwa & Ohonba, 2023; Olabode & Ajao, 2023). Similarly, fair value measurement has been associated with financial reporting quality among Nigerian insurance businesses (Osanyinbi et al., 2023). Therefore, examining fair value accounting provides a basis for understanding how fair value measurement, disclosure and the recognition of gains and losses may influence the financial performance of insurance companies in Nigeria.

Theoretical Review

Agency Theory

Agency Theory explains the relationship between owners and managers of an organisation and recognises that their interests may differ. Managers often possess more information about the organisation than shareholders, creating information asymmetry and potential conflicts of interest (Jensen & Meckling, 2019). Fair value accounting can help reduce this problem by providing information about the current values of assets and liabilities and requiring disclosure of valuation methods (IFRS Foundation, 2023). For insurance companies, transparent fair value reporting can improve accountability by enabling shareholders, regulators and policyholders to assess the financial position and performance of the company (Adegboyegun et al., 2020). The theory is therefore relevant

to this study because it explains how fair value accounting can improve transparency between insurance company managers and stakeholders.

Information Asymmetry Theory

Information Asymmetry Theory explains situations where one party possesses more information than another. In financial reporting, managers generally have greater knowledge of an organisation's financial condition than external users (Akerlof, 2020). Fair value accounting can reduce this information gap by providing current information about the value of assets and liabilities. Fair value disclosures also provide information about valuation techniques, inputs and the fair value hierarchy, enabling users to assess the reliability of reported amounts (IFRS Foundation, 2023). This is particularly important for insurance companies because investors and policyholders require information about the value of investments and the financial position of insurers. Osanyinbi et al. (2023) found that fair value measurement was significantly related to financial reporting quality among Nigerian insurance businesses.

Decision Usefulness Theory

Decision Usefulness Theory emphasises the importance of accounting information in assisting users to make economic decisions. Financial information is useful when it helps investors, creditors, regulators and other stakeholders assess an organisation's financial position and performance (Olabode & Ajao, 2023). Fair value accounting supports this theory by providing information that reflects current economic conditions rather than relying entirely on historical costs. Fair value disclosures further improve usefulness by explaining how reported values are determined (IFRS Foundation, 2023). For insurance companies, such information can assist stakeholders in evaluating investment values, profitability and financial strength. The theory therefore supports the examination of fair value accounting as a factor that may influence the financial performance of insurance companies.

Positive Accounting Theory

Positive Accounting Theory focuses on explaining accounting choices made by managers and recognises that managers may have incentives to influence reported financial results (Watts & Zimmerman, 2020). Fair value accounting is relevant to the theory because some measurements, particularly those involving limited market information, require valuation techniques and professional judgement. Such judgement may affect the values reported in financial statements (Oyewo, 2021). Fair value gains and losses can also influence reported profitability and equity. The theory therefore provides a basis for examining how fair value measurement and valuation practices may affect the financial performance reported by Nigerian insurance companies.

Stakeholder Theory

Stakeholder Theory argues that organisations should consider the interests of groups affected by their activities, including shareholders, customers, employees, creditors and regulators (Freeman et al., 2020). Insurance companies have numerous stakeholders who require reliable information about their financial position and ability to meet obligations. Fair value accounting can promote transparency by providing information about current asset values, valuation methods and the assumptions used in determining fair values (IFRS Foundation, 2023). Adequate disclosure can therefore help stakeholders evaluate the financial position and performance of insurance companies. The theory is relevant to this study because it explains the importance of transparent fair value reporting to the various stakeholders of Nigerian insurance companies.

Empirical Review

Empirical studies have examined the relationship between fair value accounting and different aspects of corporate reporting and financial performance, although findings have varied across industries and research settings. Osanyinbi, Siyannbola, Omoniyi and Iregba (2023) examined fair value measurement and financial reporting quality among selected insurance businesses in Lagos State using questionnaire data obtained from professional accountants and analysed with SPSS. The study found that fair value measurement had a significant relationship with financial reporting quality and that the measurement of fair value at different hierarchy levels significantly influenced reporting quality. The findings suggest that appropriate fair value measurement can improve the usefulness and credibility of financial information within the insurance industry. Similarly, Oyewo (2020), in examining post-implementation challenges of IFRS 13 from the perspective of auditors in Nigeria, found that inadequate information for valuing items was one of the most serious challenges associated with fair value measurement. The study, which involved 277 auditors, indicates that the effectiveness of fair value accounting may depend considerably on the availability of reliable valuation information and professional expertise.

Research conducted outside the banking sector has also produced mixed but generally relevant evidence. Nnah (2024) examined fair value accounting practices and the financial performance of listed manufacturing firms in Nigeria using secondary data from selected firms and reported a relationship between fair value accounting practices and financial performance. Similarly, Olabode and Ajao (2023) compared profitability under fair value and historical cost accounting regimes and showed that the choice of measurement basis could produce differences in reported profitability. More recently, Opuene and Amadiwo (2025) investigated fair value accounting and financial performance of listed oil and gas companies in Nigeria and found that fair value components had significant effects on

earnings per share, although the direction of the effect differed across non-current assets, current assets and liabilities.

The empirical evidence indicates that fair value accounting can influence financial reporting quality, firm value and financial performance, but the direction and significance of the relationship are not uniform. Existing Nigerian studies have largely concentrated on banks and manufacturing or other non-insurance sectors, while relatively limited attention has been given to the direct effect of specific fair value accounting dimensions on the financial performance of insurance companies.

Methodology

Research Design

The research adopted a quantitative approach and an ex-post facto study design. The design was considered appropriate because the study used existing financial information to examine the effect of fair value accounting on the financial performance of insurance companies in Nigeria. The variables had already occurred and were therefore not subject to manipulation.

The population of the research comprised 22 insurance companies listed on the Nigerian Exchange Group (NGX) during the period covered by the study. The listed insurance companies constituted the population because they publish annual reports and financial statements containing information relevant to fair value accounting and financial performance.

Purposive sampling technique was adopted to select the insurance companies from the population of 22 listed insurance companies. The selection was based on the availability of complete annual reports and financial information required for measuring the variables throughout the study period. Companies with incomplete information relevant to the study were excluded.

The research used secondary data obtained from the published annual reports and financial statements of the selected insurance companies for the study period. The required information was extracted from the statements of financial position, statements of profit or loss and other comprehensive income, and relevant notes to the financial statements. The information extracted included fair value financial assets, fair value disclosures, fair value hierarchy levels, valuation techniques, fair value gains and losses, profit after tax and total assets.

Model Specification

The research examined the effect of fair value accounting on the financial performance of insurance companies in Nigeria. The functional relationship between the dependent and independent variables was expressed as:

$$FP = f(FVM, FVD, FVH, VT, FVGL)$$

The econometric model was specified as:

$$FP_{it} = \beta_0 + \beta_1 FVM_{it} + \beta_2 FVD_{it} + \beta_3 FVH_{it} + \beta_4 VT_{it} + \beta_5 FVGL_{it} + \varepsilon_{it}$$

Where:

FP = Financial Performance

FVM = Fair Value Measurement

FVD = Fair Value Disclosure

FVH = Fair Value Hierarchy

VT = Valuation Techniques

FVGL = Fair Value Gains and Losses

β_0 = Constant term

β_1 – β_5 = Coefficients of the independent variables

ε = Error term

i = Individual insurance company

t = Study period

Results and Discussion

Descriptive Statistics

The descriptive statistics provide an overview of the characteristics of the variables used in the study. The analysis covers financial performance (FP), fair value measurement (FVM), fair value disclosure (FVD), fair value hierarchy (FVH), valuation techniques (VT), and fair value gains and losses (FVGL). The mean shows the average value of each variable, while the standard deviation indicates the extent to which individual observations differ from their respective means. The minimum and maximum values show the lowest and highest observations recorded during the period of the study. The analysis is based on 100 firm-year observations from the selected insurance companies.

Table 1: Descriptive Statistics of the Variables

Variable	Mean	Std. Dev.	Minimum	Maximum
FP	0.0999	0.0308	0.0247	0.1857
FVM	0.4321	0.1785	0.1533	0.7421
FVD	0.6989	0.1466	0.4535	0.9428
FVH	0.3588	0.1467	0.1025	0.5950
VT	0.6456	0.1467	0.4072	0.8953
FVGL	0.0115	0.0364	-0.0750	0.0976

Source: Author's Computation, 2026.

Interpretation:

The results in Table 1 show that financial performance, measured by return on assets, recorded a mean value of 0.0999, indicating that the selected insurance companies generated an average return on assets of approximately 9.99% during the period covered by the study. The minimum ROA of 0.0247 and maximum of 0.1857 indicate

considerable differences in the ability of the selected companies to generate returns from their asset base. The standard deviation of 0.0308 further indicates a moderate level of variation in financial performance among the observations.

Fair value measurement recorded a mean of 0.4321, with a minimum of 0.1533 and maximum of 0.7421. This indicates that the proportion of assets measured at fair value varied considerably across the selected insurance companies. Fair value disclosure recorded a relatively high mean of 0.6989, suggesting that the companies disclosed a substantial proportion of the relevant fair value information considered in the study. Its maximum value of 0.9428 indicates that some companies provided a considerably higher level of fair value-related disclosure than others.

Fair value hierarchy had a mean of 0.3588, while valuation techniques recorded a mean of 0.6456. The result suggests that the use or disclosure of valuation techniques was relatively more pronounced than the proportion represented by the selected fair value hierarchy measure. Fair value gains and losses recorded a mean of 0.0115. The minimum value of -0.0750 indicates that some observations recorded fair value losses, while the maximum value of 0.0976 indicates that other observations recorded substantial fair value gains.

Correlation Analysis

The correlation analysis was conducted to establish the direction and strength of the relationship between fair value accounting variables and financial performance. Pearson correlation coefficients were used for the analysis. A positive coefficient indicates that the variables move in the same direction, while a negative coefficient indicates an inverse relationship. The correlation results also provide an initial indication of whether serious relationships exist among the explanatory variables before the regression analysis.

Table 2: Correlation Matrix

Variables	FP	FVM	FVD	FVH	VT	FVGL
FP	1.000	0.205	0.211	-0.241	0.123	0.378
FVM	0.205	1.000	-0.034	-0.038	-0.212	-0.073
FVD	0.211	-0.034	1.000	-0.146	-0.012	-0.017
FVH	-0.241	-0.038	-0.146	1.000	-0.215	-0.075
VT	0.123	-0.212	-0.012	-0.215	1.000	0.099
FVGL	0.378	-0.073	-0.017	-0.075	0.099	1.000

Source: Author's Computation, 2026.

The results in Table 2 indicate that fair value measurement has a positive relationship with financial performance, with a correlation coefficient of 0.205. This suggests that higher

fair value measurement is associated with higher financial performance among the selected insurance companies. Fair value disclosure also has a positive relationship with financial performance, recording a coefficient of 0.211. Although the relationship is positive, the coefficient indicates that the relationship is relatively weak.

Fair value hierarchy has a negative relationship with financial performance, with a coefficient of -0.241. This suggests that greater reliance on the fair value hierarchy measure adopted in the study is associated with lower financial performance. Valuation techniques have a positive but weak relationship with financial performance, recording a coefficient of 0.123. Fair value gains and losses recorded the strongest positive correlation with financial performance at 0.378. This suggests that changes in fair values have a comparatively stronger association with the performance of the insurance companies.

Regression Model Summary

Multiple regression analysis was employed to determine the combined effect of fair value measurement, fair value disclosure, fair value hierarchy, valuation techniques, and fair value gains and losses on financial performance. The model summary presents the correlation coefficient (R), coefficient of determination (R^2), adjusted R^2 and standard error of the estimate. The R^2 indicates the proportion of changes in financial performance explained collectively by the independent variables.

Table 3: Regression Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	0.538	0.289	0.251	0.0266

Source: Author's Computation, 2026.

Interpretation:

Table 3 shows an R-value of 0.538, indicating a moderate positive relationship between the combined fair value accounting variables and financial performance. The R-square value of 0.289 indicates that approximately 28.9% of the variation in financial performance is jointly explained by fair value measurement, fair value disclosure, fair value hierarchy, valuation techniques, and fair value gains and losses.

The adjusted R-square of 0.251 indicates that after adjusting for the number of explanatory variables included in the model, approximately 25.1% of the variation in financial performance is explained by the independent variables. The remaining 74.9% may be attributable to other factors not included in the model, such as underwriting risk, firm size, liquidity, capital adequacy, claims management, investment performance and broader economic conditions.

Analysis of Variance

The ANOVA result was used to determine whether the regression model as a whole was statistically significant. The F-statistic tests the joint significance of the explanatory variables in explaining variations in financial performance. A probability value below 0.05 indicates that the model is statistically significant at the 5% level.

Table 4: ANOVA Result

Model	Sum of Squares	df	Mean Square	F-Statistic	Sig.
Regression	0.02708	5	0.00542	7.645	0.000
Residual	0.06659	94	0.00071		
Total	0.09367	99			

Source: Author's Computation, 2026.

Interpretation:

The result in Table 4 shows an F-statistic of 7.645 with a probability value of 0.000. Since the probability value is less than the 0.05 level of significance, the regression model is statistically significant. This means that fair value measurement, fair value disclosure, fair value hierarchy, valuation techniques and fair value gains and losses jointly have a significant effect on the financial performance of the selected insurance companies. The significant F-statistic indicates that the model provides a better explanation of financial performance than a model containing only the constant term.

Regression Coefficients

The regression coefficients provide information on the individual effects of the independent variables on financial performance. The coefficient shows the direction and magnitude of the effect, while the t-statistic and probability value determine whether the individual effect is statistically significant. A probability value below 0.05 indicates significance at the 5% level.

Table 5: Regression Coefficients

Variable	Coefficient (B)	Std. Error	t-Statistic	Sig.
Constant	0.0431	0.0237	1.821	0.072
FVM	0.0444	0.0154	2.877	0.005
FVD	0.0432	0.0185	2.336	0.022
FVH	-0.0312	0.0190	-1.641	0.104
VT	0.0232	0.0192	1.206	0.231
FVGL	0.3194	0.0740	4.314	0.000

Source: Author's Computation, 2026.

Interpretation:

The result in Table 5 shows that fair value measurement has a positive coefficient of 0.0444 and a probability value of 0.005. This indicates that fair value measurement has a positive and statistically significant effect on financial performance. The positive coefficient implies that an increase in fair value measurement is associated with an increase in the financial performance of the selected insurance companies. The result suggests that the recognition of assets and financial instruments at fair values may provide more relevant information and may contribute positively to reported performance.

Fair value disclosure also has a positive coefficient of 0.0432 and a probability value of 0.022. The result indicates that fair value disclosure has a positive and statistically significant effect on financial performance at the 5% level. This suggests that greater transparency in reporting fair value information is associated with improved financial performance.

Fair value hierarchy has a negative coefficient of -0.0312 and a probability value of 0.104. Although the coefficient indicates an inverse relationship with financial performance, the probability value is greater than 0.05. Therefore, the effect is statistically insignificant. This means that the fair value hierarchy, as measured in the study, does not have a significant effect on the financial performance of the selected insurance companies.

Valuation techniques recorded a positive coefficient of 0.0232 and a probability value of 0.231. The positive coefficient indicates that greater application or disclosure of valuation techniques is associated with higher financial performance. However, the probability value exceeds 0.05, indicating that the effect is not statistically significant.

Fair value gains and losses recorded the highest positive coefficient of 0.3194 and a probability value of 0.000. This indicates a positive and statistically significant effect on financial performance. The result suggests that changes in the fair values of assets and liabilities have a substantial influence on the reported financial performance of insurance companies. The estimated regression equation is therefore:

$$FP = 0.0431 + 0.0444FVM + 0.0432FVD - 0.0312FVH + 0.0232VT + 0.3194FVGL + \varepsilon$$

The results show that fair value measurement, fair value disclosure and fair value gains and losses significantly influenced financial performance, while fair value hierarchy and valuation techniques did not have statistically significant effects at the 5% level.

Test of Hypotheses

The hypotheses formulated in Chapter One were tested using the probability values obtained from the regression coefficients. The decision rule was based on a 5% level of significance. The null hypothesis was rejected where the p-

value was less than 0.05 and retained where the p-value was greater than 0.05.

Table 6: Test of Hypotheses

Hypothesis	Variable	Coefficient	t-Statistic	p-value	Decision
Ho ₁	Fair Value Measurement	0.0444	2.877	0.005	Rejected
Ho ₂	Fair Value Disclosure	0.0432	2.336	0.022	Rejected
Ho ₃	Fair Value Hierarchy	-0.0312	-1.641	0.104	Retained
Ho ₄	Valuation Techniques	0.0232	1.206	0.231	Retained
Ho ₅	Fair Value Gains and Losses	0.3194	4.314	0.000	Rejected

Source: Author's Computation, 2026.

Interpretation

The result in Table 6 shows that the first null hypothesis was rejected because fair value measurement recorded a p-value of 0.005, which is less than 0.05. This means that fair value measurement has a significant effect on the financial performance of insurance companies in Nigeria. The second null hypothesis was also rejected because fair value disclosure recorded a p-value of 0.022. This indicates that fair value disclosure significantly affects financial performance.

The third null hypothesis was retained because fair value hierarchy recorded a p-value of 0.104, which is greater than 0.05. Therefore, fair value hierarchy does not have a statistically significant effect on financial performance. Similarly, the fourth null hypothesis was retained because valuation techniques produced a p-value of 0.231. The fifth null hypothesis was rejected because fair value gains and losses recorded a p-value of 0.000, indicating a statistically significant effect on financial performance.

Implications of the Findings

Implication for Insurance Companies

The findings imply that insurance companies should strengthen their fair value measurement and disclosure practices. Since fair value measurement and fair value gains and losses significantly influenced financial performance, appropriate valuation of financial assets and transparent reporting can support better financial management and reporting decisions.

Implication for Management

The findings imply that management should pay greater attention to changes in the fair values of financial assets and

liabilities because fair value gains and losses had the strongest significant effect on financial performance. Management should therefore ensure that valuation processes are properly monitored and that relevant market information is considered when determining fair values.

Implication for Investors and Other Stakeholders

The findings imply that investors and other stakeholders should consider fair value information when assessing the financial performance of insurance companies. Fair value measurement, disclosure, and gains and losses provide useful information about changes in the economic value of assets and can assist stakeholders in making informed investment and business decisions.

Conclusion

The study concludes that fair value accounting is relevant to the financial performance of insurance companies in Nigeria. The findings established that fair value measurement significantly improves financial performance, indicating the importance of appropriate measurement of financial assets and liabilities. Fair value disclosure also had a significant positive effect, showing that transparent disclosure can provide useful information to financial statement users. Fair value hierarchy had a negative but insignificant effect on financial performance, suggesting that classification of fair value measurements alone may not determine profitability. Valuation techniques also had a positive but insignificant effect, indicating that their influence may depend on the nature of assets and the quality of available valuation information. Fair value gains and losses had the strongest positive and significant effect on financial performance among the variables examined. The study therefore concludes that proper application, measurement and disclosure of fair value information can contribute to improved financial reporting and performance in the Nigerian insurance industry.

Recommendations

1. Insurance companies should strengthen their fair value measurement procedures by ensuring that financial assets and liabilities are valued using appropriate and reliable market information.
2. Management of insurance companies should improve the quality and completeness of fair value disclosures in annual reports to promote transparency and provide useful information to investors and other stakeholders.
3. Regulatory authorities should strengthen monitoring of fair value hierarchy classifications and ensure that insurance companies comply consistently with applicable financial reporting requirements.
4. Insurance companies should improve the application of valuation techniques by employing competent

valuation professionals and regularly reviewing the assumptions and inputs used in determining fair values.

5. Management should closely monitor fair value gains and losses because of their significant effect on financial performance and should provide adequate explanations of major changes in fair values in financial reports.

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