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OWNERSHIP AND FINANCIAL PERFORMANCE IN SIERRA LEONE'S INSURANCE SECTOR: A COMPARATIVE STUDY OF NATIONAL INSURANCE COMPANY AND RELIANCE INSURANCE TRUST CORPORATION

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Abstract:
Most reports describe public enterprises in Sierra Leone as inefficient. This study evaluated the National Insurance Company (NIC), which is a state-owned entity, against Reliance Insurance Trust Corporation (RITCORP), which is a private insurer in Sierra Leone, through their financial statements and other company records spanning from 2020 to 2024. The study assessed their liquidity, profitability, solvency, financial risk, and shareholder return expectations through ratio analysis, Altman's Z-Score, Gordon's Growth Model, and Net Present Value (NPV) assessments. RITCORP demonstrated superior performance compared to NIC through its better profitability, consistent dividend payments, and stable financial condition, yet NIC struggled with liquidity problems, negative equity returns, and high bankruptcy risk. The study demonstrates that governance structure, together with operational autonomy, produces major effects on financial performance. The research demonstrates that ownership structure directly affects both financial strategy and performance results in the insurance industry. The study suggests that public insurers need better investment appraisal methods and stronger governance systems. The research faces two main limitations. The scope is limited to only two companies: one privately owned and the other government owned. This small sample may not reflect the state of most government and private entities, and hence any attempt to generalise the results should be done with caution. Future studies could increase the sample size while adding a macroeconomic dimension by including political stability and inflation.

JEL: G22, G32, G35, G31, L33, O16

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1. Introduction

Investment and dividend decisions constitute two of the most fundamental pillars of financial management, directly shaping a firm's performance, sustainability, and the returns it provides to its shareholders. For insurance companies in particular, these decisions can influence not only profitability but also liquidity, solvency, and overall strategic direction (Eling & Jia, 2019). In Sierra Leone, where capital markets remain underdeveloped and financial instruments are limited, such decisions take on heightened importance. The insurance sector serves as a major channel for risk pooling and investment mobilization, and therefore, its financial practices have critical implications for economic development and stability (Kamara & Kamara, 2023).

The National Insurance Company (NIC) and the Reliance Insurance Trust Corporation (RITCORP) are among the most prominent indigenous players in Sierra Leone's insurance landscape (Gbenro *et al.*, 2023). Their investment and dividend policies serve as a window into the broader financial dynamics of the country's insurance sector. While both companies offer composite insurance services, including life and general coverage, their approaches to capital deployment and shareholder returns differ considerably (Johnson *et al.*, 2025). Understanding these differences is not only valuable for investors and policymakers but also for scholars seeking to understand financial decision-making in frontier economies.

The current study addresses a significant gap in the literature by focusing on the intersection of investment and dividend decisions within the context of Sierra Leone's insurance industry. Numerous studies have explored financial behaviour in developed and emerging markets (Bhatia *et al.*, 2021; Pitthan & De Witte, 2021; Ranyard *et al.*, 2017; Shawdari *et al.*, 2025), but relatively few have examined the application of such principles in post-conflict, developing nations with limited access to international capital markets. As evidenced in the literature that firms in developing countries tend to rely more heavily on internal financing and retain earnings due to the limited development of stock markets. However, they fall short in exploring how such firms simultaneously balance dividend policies and investment needs.

Further, the relevance of dividend policy remains one of the most debated topics in corporate finance. The foundational theory by Miller and Modigliani (1961) argued that under conditions of perfect capital markets, dividend policy is irrelevant to a firm's valuation. However, in contexts like Sierra Leone, where imperfections such as asymmetric information, taxation, and transaction costs abound, this theory has limited applicability. DeAngelo and DeAngelo (2006) extended this debate by arguing that once free cash flow and retention policies are introduced, dividend policy becomes increasingly relevant. This study contributes to this discourse by empirically examining

whether dividend policies at NIC and RITCORP align with the realities of their financial environments.

The specific focus on NIC and RITCORP is driven by their strategic importance and long-standing presence in Sierra Leone's insurance sector. NIC, being a public sector entity, is often perceived to have broader developmental mandates, while RITCORP operates under more commercial imperatives (Jofre-Bonet & Kamara, 2018). This distinction offers a unique comparative basis for assessing how institutional frameworks and ownership structures influence financial strategies. Furthermore, both companies have experienced varying degrees of profitability, liquidity stress, and regulatory scrutiny over the years—factors which significantly impact their investment and dividend behaviours (Koroma *et al.*, 2024).

The importance of this study is also underscored by macroeconomic trends in Sierra Leone. The economy continues to face structural challenges such as currency volatility, low domestic savings, and undercapitalized financial institutions (Bangura *et al.*, 2021). According to Prasad *et al.* (2001), such macroeconomic conditions constrain financial intermediation and reduce the ability of firms to rely on external funding. As such, companies are often compelled to make judicious use of internally generated funds, intensifying the trade-off between reinvestment and dividend payout.

In this context, understanding how NIC and RITCORP make strategic financial decisions offers valuable insights into corporate governance, risk appetite, and shareholder management in resource-constrained environments. For instance, are dividends paid out to maintain investor confidence even at the expense of necessary investments? Or are retained earnings prioritized for growth despite pressure from shareholders for immediate returns? This study answers these questions through a combination of empirical financial analyses and stakeholder feedback.

Another key contribution of this research lies in its methodological approach. By combining ratio analysis, Z-score modelling, and regression techniques with qualitative insights from interviews and organizational records, the study provides a multidimensional understanding of financial decision-making. It also integrates global theories of corporate finance with local practices, thereby offering a contextualized view that bridges the gap between abstract models and practical realities.

Moreover, this research speaks to broader policy implications. In a country where the capital market is nascent and largely illiquid, insurance companies like NIC and RITCORP often function as quasi-financial intermediaries, channelling long-term savings into investments. Thus, their financial health has ramifications beyond corporate performance—it affects credit availability, infrastructure development, and national financial stability. By identifying the strengths and weaknesses in their investment and dividend policies, this study may inform regulatory reforms and capacity-building initiatives within the sector.

Lastly, this research offers critical insights for institutional investors, regulators, and academic researchers. It sheds light on how dividend and investment strategies are

designed and executed in settings marked by institutional voids, regulatory bottlenecks, and economic uncertainty. For financial institutions seeking to expand into similar frontier markets, understanding the operational constraints and strategic trade-offs faced by NIC and RITCORP can serve as a guide to formulating effective market entry and investment strategies.

In summary, this study fills a significant gap in the literature on financial decision-making in under-researched settings. By analysing the investment and dividend decisions of NIC and RITCORP, it advances our understanding of how indigenous insurance firms operate in constrained financial environments. The findings contribute both theoretically and practically to the fields of corporate finance, insurance economics, and development studies.

2. Theoretical and Conceptual Frameworks

This study is underpinned by a combination of classical and contemporary financial theories that explain investment and dividend decisions within corporate entities. Central to the theoretical foundation are the Dividend Irrelevance Theory by Miller and Modigliani (1961), the Residual Dividend Theory, and the Pecking Order Theory by Myers and Majluf (1984). These are complemented by Stakeholder Theory, which emphasizes the balancing of interests between shareholders and other parties such as employees, regulators, and clients in corporate financial decisions.

Miller and Modigliani's Dividend Irrelevance Theory posit that in a perfect capital market; the firm's value is not affected by its dividend policy. However, this study argues that the assumptions of perfect markets—such as no taxes, no transaction costs, and symmetric information—do not hold in Sierra Leone's context. Therefore, dividend policy becomes relevant due to factors such as market imperfections, taxation, and the absence of a vibrant capital market.

The Residual Dividend Theory suggests that dividends should only be paid after all acceptable investment opportunities have been funded. This theory is particularly applicable in a developing economy where firms must prioritize growth and reinvestment. Firms like NIC and RITCORP may need to retain earnings to fund investments that align with long-term objectives and market positioning.

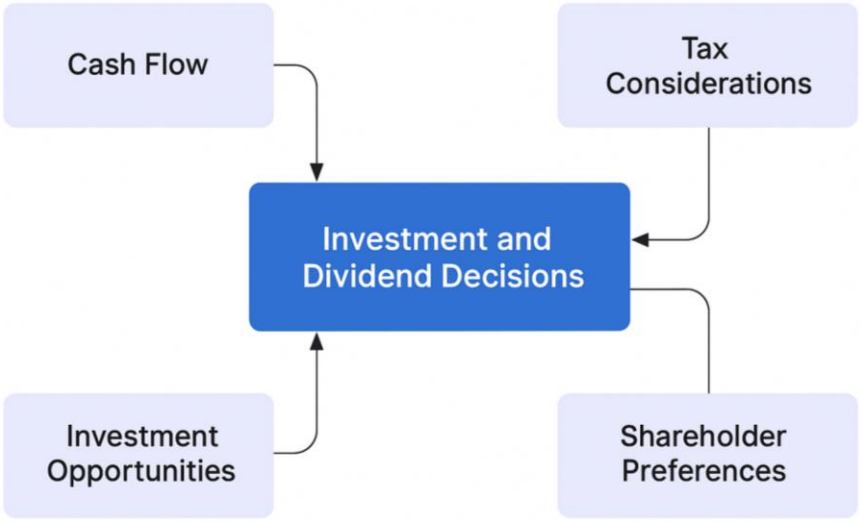
The Pecking Order Theory reinforces this by stating that firms prefer internal financing (retained earnings) over external financing due to issues of asymmetric information and the high cost of issuing new equity or debt. This preference is evident in Sierra Leone, where access to external financing is limited and costly.

The conceptual model that guides this study integrates these theoretical underpinnings into a framework that links key financial decisions with organizational outcomes. It hypothesizes that:

- Dividend Decisions — measured through dividend payout ratio and dividend per share — influence investor satisfaction, share price, and perceived firm performance.
- Investment Decisions — assessed via capital budgeting indicators such as Net Present Value (NPV) and cost of capital — impact long-term growth, operational sustainability, and stakeholder value.
- Financial Performance Metrics — including Earnings Per Share (EPS), Return on Equity (ROE), and Working Capital Ratios — act as mediators between dividend/investment decisions and firm sustainability.
- External Moderators — such as tax policy, exchange rate volatility, and regulatory frameworks — shape the effectiveness of investment and dividend strategies.

Graphically, the model is represented in Figure 1 below.

Figure 1: Conceptual Model



Source: Author's construction based on theoretical literature

3. Material and Methods

This study adopted a mixed-methods approach grounded in both quantitative and qualitative research designs to investigate the investment and dividend decisions of the National Insurance Company (NIC) and the Reliance Insurance Trust Corporation (RITCORP) in Sierra Leone. The research employed a descriptive cross-sectional survey framework, allowing for the examination of financial behaviours over a defined period and across two comparative corporate entities.

The research utilised a descriptive cross-sectional design, which facilitated the collection and analysis of both primary and secondary data at a single point in time. This approach was suitable for capturing the prevailing financial practices, stakeholder perceptions, and outcomes associated with investment and dividend decisions.

The target population for this study consisted of management and senior staff of NIC and RITCORP, as well as selected clients and regulators with direct exposure to the companies' financial strategies. A purposive sampling technique was used to identify 10 respondents with relevant knowledge and experience in corporate finance, investment planning, and dividend policy. 3 from NIC, 3 from RITCORP, 2 clients and 2 regulators. Primary data were obtained through interviews. The interviews included open-ended questions focused on investment strategy, dividend policy, financial performance, and external influences such as tax and exchange rate policies. Interviews were conducted with finance directors, chief accountants, and key operational staff to obtain in-depth qualitative insights. Secondary data were extracted from audited financial statements of NIC and RITCORP for the periods spanning 2020 to 2024. These documents provided key financial indicators, including earnings per share (EPS), net present value (NPV), cost of equity, dividend per share (DPS), current ratios, and working capital.

Quantitative data were analysed using various financial and statistical tools. Ratio analysis was used to assess liquidity, profitability, and solvency. Altman's Z-score Model was applied to determine the financial health and bankruptcy risk of both firms. Cost of Equity was calculated using Gordon's Growth Model to estimate the expected returns by shareholders. Net Present Value (NPV) analysis was conducted to appraise the viability of investment decisions based on projected cash flows and cost of capital.

For ratio analysis, liquidity was measured by the current ratio (CR), which is current assets divided by current liabilities (Husna & Satria, 2019). Profitability was measured by return on assets (ROA) and return on equity (ROE), which are earnings before interest (EBIT) divided by total assets and EBIT divided by equity, respectively (Lisek *et al.*, 2020). Solvency was measured by debt to asset ratio, which is the difference between total assets and equity, divided by total assets (Njagi & Kombo, 2014). Altman's Z-Score (Altman *et al.*, 2017) (emerging market version for non-manufacturing firms) was calculated as:

$$Z = 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$$

Where:
X_1 is working capital divided by total assets
X_2 is retained earnings divided by total assets
X_3 is EBIT divided by total assets
X_4 is the book value of equity divided by total liabilities

Cost of equity was calculated using Gordon's Growth Model (Brigham & Gordon, 1968):

$$K_e = \left(\frac{D_1}{P_0}\right) + g$$

Where:
K_e is cost of equity

D_1 is expected dividend per share (DPS)next year (approximated with the current year's DPS
P_0 is the current market price per share
g is the dividend growth rate and is calculated as:

$$g = \left(\frac{DPS_{final}}{DPS_{final}}\right)^{1/n} - 1$$

NPV was calculated using the formula (Arnold, 2014):

$$\sum_{t-1}^{n} \left(\frac{Cash\ Flow_t}{(1+K_e)^t}\right) - Initial\ Investment$$

Where:
Cash Flow_t is EBIT in year t used as a proxy
K_e is the average cost of equity
n is the number of years, which is 5 in this case
Initial Investment is estimated capital outlay at t = 0

For this study, the qualitative analysis complemented the quantitative financial metrics by providing deeper insights into organizational behaviours, perceptions, and decision-making processes. Thematic analysis was applied to the interview transcripts obtained from key personnel at NIC and RITCORP (e.g., finance directors, accountants, and senior management), clients, and regulators. This involved transcribing interviews verbatim, coding the data to identify patterns or recurring themes related to investment strategies, dividend decision rationales, risk management, and financial constraints, and interpreting themes in the context of organizational goals, market challenges, and regulatory frameworks (Nowell *et al.*, 2017).

To ensure validity, the interview guide was pre-tested with a small sample group, and adjustments were made accordingly. Reliability was ensured by using standard financial indicators and models widely accepted in corporate finance research. Additionally, triangulation of data sources, primary and secondary data, helped to enhance the robustness and consistency of findings.

4. Results and Discussion

4.1 Quantitative Analysis

The current ratio of RITCORP in Table 1 below indicates higher current asset availability to meet short-term responsibilities than NIC. The current ratio of RITCORP exceeded 1.1 during the period of 2020 to 2024, while reaching 2.53 in 2021, indicating superior liquidity. RITCORP had a superior ability to pay off liabilities with available current assets that reduced its exposure to short-term solvency risks. During the years 2020 and

2021 the current ratio of NIC remained above 1.0, but the following years experienced a downward trend, with a ratio of 0.78 in 2022 and 0.68 in 2023. The company demonstrates poor liquidity management and probably mismanages its working capital.

The structural differences between the two companies might have resulted in this difference. RITCORP, being a private company, maintains better control of receivables and focuses on cash flow timing since profit-driven companies tend to do so. NIC operates as a state-owned enterprise, and its bureaucratic delays and procurement limitations make it less agile for managing short-term obligations. Research by Alhassan *et al.* (2015) Ghanaian insurers support this conclusion by showing that private insurers achieve better liquidity management because they possess market orientation and operational autonomy, which public insurers do not.

ROA (Return on Assets) and ROE (Return on Equity) were used to evaluate profitability. The ROA values of RITCORP remained positive throughout the five years, with the highest at 0.11 in 2021, showing the asset base generated earnings continuously. The Return on Equity of RITCORP reached 4.54 in 2020 to demonstrate effective profit generation from shareholder equity. The ROA and ROE for NIC turned negative during 2022 and 2023, with the lowest ROE at -0.23 and -0.23 during these years. NIC failed to produce returns on assets and simultaneously destroyed shareholder value through its operations.

RITCORP proved more adept at achieving profit targets through its investment approaches because NIC failed to effectively utilize its capital resources. The observed results support Aivazian, Booth, and Cleary (2005) research, which demonstrates that developing country government-owned firms tend to have lower profitability because of inefficient operations, political intervention and performance incentives. Akande *et al.* (2022) provided additional evidence about private insurance companies in Nigeria achieving better ROA and ROE because of market forces and performance evaluation systems.

Solvency ratios based on the debt-to-asset ratio represent the ratio of assets financed through debt in a company. During the five-year period, RITCORP maintained a debt-to-asset ratio of 96%, and NIC maintained an average ratio of 92%. The high leverage levels differ between the two companies. The financial structure of RITCORP indicates a deliberate strategy to increase equity returns through leverage because its ROE remained stable at a high level. NIC faces a situation of excessive debt financing with unproductive returns that heighten the possibility of default and weaken financial stability due to its negative profitability.

The results match the findings from developing market research. According to Ogohi (2014), public and private firms from countries with underdeveloped capital markets use debt as their primary financing source because they lack sufficient equity market options. Firms with disciplined governance structures typically generate value through their leverage initiatives since they are usually private entities. Tsunabavyon and

Ogbole (2014) revealed in his research that private firms in Nigeria achieve better value from higher leverage when they have strong asset utilization and profitable operations.

RITCORP demonstrates superior performance to NIC based on every financial indicator, including liquidity and profitability, as well as leverage management. Financial health between companies depends primarily on their ownership structure, combined with governance efficiency and market orientation. RITCORP's superior ratios stem from its financial management expertise, together with its ability to make swift decisions through performance systems which operate based on incentives found in private firms. NIC's weak financial performance matches the typical challenges faced by state-owned enterprises, which include bureaucratic delays, deviation from mission goals and insufficient market signal response.

The study findings match existing empirical research findings. Zinyoro and Aziakpono (2023) in their review of empirical literature in Africa, they observed that public insurers in Sub-Saharan Africa perform worse than private insurers because of operational inefficiencies, together with low operational flexibility and weak accountability systems. The quantitative ratios in this study support existing literature findings, which demonstrate the need for restructuring, partial privatization or enhanced corporate governance for public financial institutions.

Table 1: Liquidity, Profitability and Solvency Ratios

Year	NIC				RITCORP			
	CR	ROA	ROE	DAR	CR	ROA	ROE	DAR
2020	1.28	0.05	0.61	0.92	1.14	0.08	1.88	0.96
2021	1.16	0.04	0.57	0.92	1.6	0.06	1.68	0.97
2022	0.93	-0.02	-0.22	0.92	1.76	0.08	2.66	0.97
2023	0.7	-0.02	-0.23	0.93	1.63	0.1	4.06	0.98
2024	0.78	0.01	0.24	0.94	1.38	0.09	4.53	0.98

The results of the Altman Z-Score model in Table 2 below, which predicts corporate bankruptcy probabilities, showed both NIC and RITCORP staying inside the financial distress zone ($Z < 1.81$) throughout the five-year period. The Z-Scores for NIC became extremely negative during 2009 and 2010, reaching -0.06, which indicates that the company faced severe financial distress and would likely fail unless it implemented recovery measures. Although RITCORP showed scores below the safety threshold, its values stayed positive with a range from 0.67 to 1.44 throughout the analysed period, which indicated better survival chances compared to NIC.

The Z-Score's working capital to total assets (X1), retained earnings to total assets (X2), EBIT to total assets (X3) and equity to total liabilities (X4) reveal why NIC performed poorly. The middle years (2009–2010) saw NIC report negative or weak EBIT and retained earnings, which heavily impacted its X2 and X3 ratios. The company experienced negative working capital during the same years because it struggled with liquidity issues and poor asset management. The recorded negative profitability and low current ratios matched the figures presented in the broader ratio analysis.

Throughout the entire period, RITCORP maintained positive EBIT levels together with increasing retained earnings, which boosted its X2 and X3 ratios. The firm demonstrated recovery potential through strategic reforms, which included cost control and better capital management, even though it operated below the "safe" Z-score zone.

The research matches existing academic studies about financial stability in insurance and financial institutions of emerging economies. The Z-score analysis by Akinlo and Asaolu (2012) showed that multiple state-owned enterprises (SOEs) and small private insurance firms in Nigeria had Z-scores below the distress threshold because of universal sector challenges, including insufficient capital, restricted investments and reliance on conventional insurance products.

The research by Andoh *et al.* (2023) about Ghanaian financial institutions revealed that private firms under performance oversight (like RITCORP) maintained higher Z-scores and better financial stability compared to public firms impacted by governance issues and political interference that affected NIC. The International Finance Corporation (2018) reports that Z-scores below 1.8 occur frequently in public-sector insurance firms throughout Sub-Saharan Africa because many countries lack financial infrastructure and access to capital markets. The government ownership of NIC leads to soft budget constraints as well as low operational autonomy and delayed reforms that cause ongoing financial distress, according to this case.

NIC faces a major threat of insolvency because of its Z-score results, which indicate no improvement will come from structural changes. The Z-score remaining in negative territory during crucial years reveals that NIC faces deep problems that affect its strategic direction as well as its governance systems. The Z-scores of RITCORP indicate financial discipline, while the company demonstrates resilience, though its scores remain below the safety threshold, which can improve with enhanced risk management and investment planning.

The financial sustainability difference between these two companies demonstrates how ownership structure, together with financial autonomy influence a firm's ability to sustain itself. Research by Rashid (2020) demonstrates that private insurers in developing markets perform better than public insurers when they operate under market rules while remaining free from political interference.

The Altman Z-Score evaluation demonstrates that NIC displays greater financial vulnerability than RITCORP, although RITCORP faces financial risks as well. The study results validate research findings about similar African and emerging market situations and demonstrate the immediate need for change in public insurance enterprises. NIC should achieve financial stability through financial restructuring and enhanced investment evaluation methods, and corporate governance improvements. RITCORP should pursue strategic investment along with market expansion to achieve financial safety.

Table 2: Altman Z-Score Using Gordon's Growth Model

Year	NIC Z-Score	RITCORP Z-Score
2020	0.83	0.81
2021	0.63	1.05
2022	-0.06	1.58
2023	-0.58	1.71
2024	-0.26	1.3

The Gordon Growth Model, which is also known as the Dividend Discount Model (DDM) computes the cost of equity by adding the dividend yield to the expected growth in dividend payments, as shown in the results in Table 3 below. RITCORP's cost of equity ranged from 21.84% to 24.42% in the analysis, while NIC's cost of equity was either negative or zero in most years, except in 2024 when it was 0.32%.

The high cost of equity for RITCORP means that investors require higher returns to compensate for the risks of holding the stock but also reflects the investor confidence in the firm's ability to pay dividends and grow the business. RITCORP's increasing dividend payments indicate that the company is expected to grow and become more profitable, which validates the Gordon Model's assumptions. NIC's cost of equity is close to zero or negative in most years, which raises red flags because it indicates that investors do not expect any returns, mainly because of the irregular or non-existent dividend payments and poor financial performance.

The huge disparity in the companies' data emphasizes that dividend policy directly influences investor perceptions of firm value and market expectations. The residual dividend policy theory advocates for the distribution of dividends after meeting optimal investment requirements, which RITCORP has been able to maintain. This method of payment is beneficial to investors as it also allows for reinvestment.

The characteristics of dividend irrelevance in NIC are not due to Modigliani and Miller's (Miller & Modigliani, 1961) efficient market assumptions, but rather due to the practical issues of poor earnings, negative retained earnings, and inconsistent dividend payouts. The Gordon Model fails to hold in such cases, especially when the dividend payments are irregular or non-existent. The negative or zero cost of equity for NIC is a result of market disappointment with its financial setup rather than a theoretical prediction.

The results from this research are supported by other empirical investigations. The study by Akande *et al.* (2022) on Nigerian insurers found that private firms with stable dividend policies had higher costs of equity because investors were more interested and market signals were more effective. Singhal *et al.* (2020) also found that private insurers in Asia used dividends to control investor expectations and market value, which in turn raised their cost of capital.

According to Arko *et al.* (2014), in Africa, public enterprises face challenges with dividend signalling because of the conflicting demands of profit distribution and government policy obligations, which aligns with the situation of NIC. The conflict

between fiscal demands and non-commercial priorities is reflected in NIC's dividend record and negative retained earnings because fiscal demands and non-commercial priorities undermine market-based financial metrics.

The cost of equity results has both theoretical and practical implications. RITCORP needs to perform better financially and keep its dividend payments stable because of the high cost of equity in a market with limited stock trading and no alternative investments. This also shows that investors trust the company more and are more engaged, which can be beneficial for future equity capital raises.

The extremely low or negative cost of equity for NIC is a concern. It shows both poor performance and a break with what shareholders expect. The results indicate that NIC will face continued high financing constraints unless it reorganizes its financial approach by making its profits more consistent, providing regular dividends, and being more transparent. This is in line with the World Bank's (2017) advice that public insurers in developing countries should depoliticize financial management and use private sector efficiency models to survive.

The Gordon Growth Model results demonstrate how dividend policy, together with firm performance, directly affects what shareholders expect from their investments. The strong and consistent dividend growth of RITCORP made it more attractive to investors, which led to a higher cost of equity. The poor financial management, combined with inconsistent dividend payments at NIC, made the company unattractive to investors, which resulted in a nearly non-existent cost of equity. The research findings align with international and regional studies and should lead to thorough strategic assessments, particularly for state-owned insurance firms operating in limited market conditions.

Table 3: Cost of Equity

Year	NIC Cost of Equity	RITCORP Cost of Equity
2020	-14.64	22.02
2021	-14.24	21.84
2022	0	22.11
2023	0	23.49
2024	-15.03	24.42

The NPV analysis determined investment feasibility by discounting projected cash flows (approximated through EBIT) using the average cost of equity for each company across five years. The results are in Table 4 below. The financial evaluation demonstrated that NIC, together with RITCORP, generated negative NPV values, but NIC produced substantially lower results than RITCORP. The projected returns from these investments did not meet their capital cost requirements, which suggests these projects resulted in value destruction instead of value creation from 2020 to 2024.

NIC's negative NPV became more concerning due to its weak EBIT and unstable financial condition. The ongoing pattern of zero or negative profits demonstrates that the

company lacked proper financial analysis and cost-benefit evaluation before starting new investments. The negative NPV at RITCORP became less severe because the company maintained growing EBIT values during the study period, indicating potential future positive financial performance through appropriate investment decisions.

The negative NPVs reveal extensive problems in both firms' capital budgeting processes, particularly in NIC. The main factor behind NIC's unfavourable NPV stems from public sector investment decisions which base their choices on social and political factors instead of financial gains. The interviews verified that NIC conducted specific investments to comply with government orders and sustain employment levels instead of pursuing shareholder value growth. The financial discipline at state-owned enterprises faces a challenge from soft budget constraints (Harris *et al.*, 2020) because employees believe the government will rescue them from financial losses.

RITCORP's results demonstrate improved investment appraisal techniques despite some continuing issues. The company demonstrates financial performance indicator alignment through dividend payments and EBIT, which indicates a more effective investment-profit relationship, yet might have faced market restrictions, high funding expenses and insufficient post-investment tracking.

The study findings support previous academic research conducted in other developing markets. (Akinlo & Asaolu, 2012) studied Nigerian insurance companies and discovered that numerous firms operated without defined capital budgeting systems, which produced negative NPV results from investments despite their positive intentions. (Leykun, 2020) research on East African insurers identified three main investment decision factors that led to suboptimal choices: poor data analytics, incorrect cash flow projections and underestimation of capital expenses.

The public sector research conducted by (Devereux & Vella, 2014) demonstrated that government-owned firms tend to generate negative NPV performance because of operational inefficiencies combined with project delays and insufficient commercial oversight. The results show that NPV financial performance analysis produces negative results for NIC because the application of private sector financial tools remains limited by inadequate governance structures.

The negative NPV outcomes demonstrate the requirement for both companies to establish a more systematic investment assessment procedure. RITCORP should improve investment efficiency by implementing higher hurdle rates together with sensitivity analysis and post-audit oversight systems. The implications of this situation are more extensive than what NIC can handle. The company requires fundamental financial and governance restructuring to establish financial viability as the primary investment decision factor instead of social mandates.

Both organizations would achieve greater value from training sessions, which would teach them about corporate finance, alongside forecasting techniques and risk-adjusted discount rate usage, and lifecycle investment analysis methods. The negative

NPV outcomes require regulators to implement stronger oversight mechanisms that protect insurance companies from taking on capital projects which lead to financial risks. The NPV analysis in Table 4 below proves that both NIC and RITCORP failed to achieve sufficient investment returns throughout 2020–2024 to justify their capital expenses but NIC demonstrated more significant value reduction. The findings indicate deep governance and financial control problems that mainly affect firms owned by the state. The study supports existing research from both the regional and international levels, which leads to recommendations for internal evaluation of investment planning systems and strategic project selection that focuses on returns.

Table 4: NPV Analysis

Company	Estimated Initial Investment (SLL)	Average Cost of Equity	NPV (SLL)
RITCORP	1,000,000	22.78	-93832.9
NIC	1,200,000	-8.78	-802280

4.2 Qualitative Analysis

4.2.1 Theme: Investment Discipline and Motivation

The Net Present Value (NPV) analysis showed that both firms had negative NPVs from 2020–2024, indicating that their investment strategies might not be aligned with value creation. However, NIC's NPV was much more negative than RITCORP's, and its Altman Z-score was in the distress zone throughout the period and even turned negative in 2022 and 2023. This indicates that the investment is not viable, and the company is not well-managed. The interview findings show that as a state-owned enterprise, NIC makes investment decisions that are politically driven in order to meet the broader public service goals rather than to maximize shareholder value. There was also a mention of bureaucratic delays and weak cost-benefit analyses in project evaluations. On the other hand, RITCORP's investment decisions were reported to be profit-driven and were guided by market research and internal rate of return thresholds. These qualitative themes explain why RITCORP's financial health was better than that of NIC, even though it was still not very good. Studies such as (Mbo & Adjasi, 2017) and (Mbo & Adjasi, 2016) found that state-owned enterprises in developing countries often pursue non-economic objectives, leading to lower financial efficiency.

4.2.2 Theme: Dividend Signalling Versus Capital Retention

The Gordon's Growth Model produced equity cost estimates that exceeded 20% for RITCORP because investors maintained high expectations and market confidence due to the company's consistent dividend payments. The cost of equity for NIC became unstable and even turned negative during periods when the company did not pay dividends. RITCORP management emphasized through interviews that dividend stability functions as a tool to maintain investor loyalty since the stock market lacks liquidity. The company used dividend payments as a sign of financial strength, although this approach reduced its ability to reinvest funds. The management team at NIC preferred to keep profits

(despite minimal returns) because government rules limited their options, and public investors did not apply significant pressure. The residual dividend theory proves relevant for RITCORP, while NIC's dividend policy becomes irrelevant because of Miller and Modigliani's (Miller & Modigliani, 1961) theory, which applies only when market conditions are restricted. The research by Glen *et al.* (Glen *et al.*, 1995) and (Jabbouri, 2016) support this finding because they demonstrated that emerging markets use dividend payments as ceremonial gestures when capital markets remain underdeveloped.

4.2.3 Theme: Operational Autonomy and Governance Structure

RITCORP maintained a current ratio above 1.1 throughout all years, which demonstrated its ability to manage short-term liquidity effectively. NIC showed a current ratio below 1.0 starting from 2009, which indicated ongoing liquidity problems. RITCORP's governance structure, according to staff interviews and policy documents, operates with a lean design, which enables fast financial decisions and strong management of receivables and liabilities. The procurement regulations at NIC were complex, and the company lacked freedom to make capital budgeting decisions because it needed ministry approval before proceeding. The themes support the conclusion that NIC faces institutional problems with liquidity and solvency instead of financial issues alone. These studies (Habir, 2021; Le *et al.*, 2021; Rambe & Hinson, 2024) reported about developing countries and emerging markets SOEs, and reached similar conclusions when they observed that centralised control creates delays in financial interventions.

4.2.4 Theme: Perceived Financial Health Versus Actual Risk

The financial distress zone included both companies according to Altman Z-scores ($Z < 1.81$), although NIC's scores became significantly more negative during 2022 to 2024. NIC maintained its operations without significant restructuring while RITCORP took steps to reduce costs. The management team at NIC believed that implicit government guarantees would protect them from financial distress, so they did not feel the need to address warning signs. RITCORP took immediate action on early warning indicators because it operated in exposed markets without any expectation of government assistance. The behavioural asymmetry between private firms and state-owned enterprises leads to better fiscal prudence in private companies. Mbo and Adjasi (2017) and Le *et al.* (2021) reached similar conclusions in their studies about how soft budget constraints cause public firms to disregard financial distress signals until they reach a critical point.

The thematic analysis enhances the quantitative results by identifying the fundamental institutional elements, behavioural patterns and governance mechanisms which produced the financial results observed in NIC and RITCORP. The analysis demonstrates that RITCORP's private ownership structure enables efficient market-driven strategies, yet NIC's public ownership results in performance degradation because of conflicting policy requirements and limited autonomy and risk protection mechanisms. The combined analyses demonstrate that corporate governance, together

with financial discipline, play a vital role in developing sustainable insurance-sector expansion in developing economies.

5. Conclusion

The study compared financial performance between the government-owned National Insurance Company (NIC) and the privately owned Reliance Insurance Trust Corporation (RITCORP) through their investment and dividend choices from 2020 to 2024. The analysis of ratios and Altman Z-scores together with Gordon's Growth Model and NPV calculations showed RITCORP outperformed NIC in financial health and profitability and dividend stability, but NIC struggled with liquidity problems, negative profitability and high bankruptcy risk. The thematic analysis demonstrated that ownership structure, together with governance and policy mandates, significantly affected financial performance. The study had two main limitations because it used historical financial data from only two firms and substituted EBIT for cash flows in its analysis. Future research needs to analyse financial decisions through a larger insurance company sample while including macroeconomic factors like inflation and interest rates and gathering qualitative data from regulators and policy makers to enhance understanding of institutional and sector-wide dynamics.

6. Recommendations

Based on the empirical and qualitative findings of the study, the following recommendations are proposed to ensure that the insurance sector in Sierra Leone in general and in particular the National Insurance Company (NIC) as well as other state-owned enterprises improve their financial performance and corporate governance practices.

According to study, state-owned insurance institutions require strong corporate governance and more autonomy given to their management. The NICS suffered more from liquidity constraints than RITC, recorded losses in a few years and higher likelihood of insolvency. These findings can be attributed to the higher degree of bureaucratic interference and political pressures and lack of swift management decision-making. Strengthening the corporate governance in state-owned insurance institutions requires clear steps including setting up independent boards, offering performance-based contracts to management and increasing transparency and accountability at the boardroom level. In addition, management in state-owned insurance institutions would benefit from higher degree of autonomy, that is financial and operational, so that they can act more rapidly to the changes in market conditions and opt for profitable options that they may not be able to do now.

Second, it is argued that state-owned insurance companies need to exercise greater care and use more appropriate criteria in evaluating large investments such as projects

for real estate and other long-term asset investments. An NPV analysis was used to indicate the extent of value destruction during the period of study in the case of the two companies that were evaluated. It was found that the two companies had on the average negative NPVs over the whole period, but the magnitude of value destruction was much higher in the case of NIC than in the case of OIC due to mainly poor evaluation criteria and political considerations of investments. In this regard, it is recommended that modern capital budgeting techniques are introduced and adhered to in all investment decisions of the two companies and also that post-investment auditing is carried out in respect of investments decided upon using the recommended criteria with a view to ensuring that such investments are in the interest of the shareholder and the company in general and to their overall welfare.

Third, public insurers are expected to uphold better practices in terms of dividend policies so as to enhance investor confidence. Reliance Insurance Trust Corporation had fairly stable dividend payments over the period, which contributed to higher investor expectations and a cost of equity. For instance, NIC had unstable dividend payments that were so low that they often resulted in investor expectations that were low or even negative, a reflection of low credibility of the firm. In line with this, we recommend that public insurers establish dividend policies that are more in line with their profitability levels and long-term investment goals. A balance residual dividend policy, for instance, can be used whereby firms pay dividends only if they have sufficient profit reserves after meeting all investment opportunities.

Fourth, capacity building in financial management and risk assessment should be carried out within the insurance companies. The findings show that the insurance companies, especially NIC, had poor financial management skills due to inadequate capacity in areas such as budgeting, forecasting and risk assessment. It is therefore recommended that training in corporate finance, actuarial science, investment planning and strategic financial planning be carried out to enhance the capacity of finance managers and other executives so that they are in a position to strengthen the insurance companies' financial management skills and consequently manage liquidity, solvency and profitability risks efficiently.

Most importantly, there is a need for government regulators to ensure there is proper supervision and at the same time foster a highly competitive insurance market. Firstly, regulators need to enforce more stringent reporting methods as well as the capital required by insurers. The prevalence of distressed indicators including low Altman Z-Scores for both the companies strongly points towards some underlying struggles in the insurance industry. This necessitates increased capital and risk controls to improve the stability of the industry. In addition to the regulations, private investment and competition as well as increased strategic alliances can also ensure higher productivity, competition and higher standards of conduct amongst insurers.

It is our recommendation that Sierra Leone's Insurance Regulatory Commission (SIRC) takes concrete steps to implement the Commission's Own Inspection findings. If

the Commission's Own Inspection recommendations are fully implemented it is our view that the overall governance of the insurance sector, as well as the level of financial responsibility and soundness of insurance company investment decisions, is likely to improve. This could lead to a more efficient and stable operations of the public and private insurance companies in Sierra Leone. A number of steps are required to achieve more efficient management of Sierra Leone's insurance companies and improved governance in the sector, and these are highlighted throughout the Commission's Own Inspection report.

Conflict of Interest Statement
The authors declare no conflict of interest.

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