DIVIDEND POLICY AND FINANCIAL PERFORMANCE OF INSURANCE COMPANIES LISTED IN NAIROBI SECURITIES EXCHANGE, KENYA

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ABSTRACT

The profit of a firm can be paid out as dividends or be re-invested. There are a number of reasons why the firm should pay dividends or not. Investors pay attention to dividends and therefore the dividend policy behaviour is still an issue of concern in finance literature. Whereas some of the insurance companies have been performing well in terms of assets growth and profitability, there are other listed insurance companies whose return on assets has been dwindling over the years under study. This was partly attributed to poor dividend policy. The research aimed at filling the research gap by establishing the importance of effective dividend policy and the link existing between dividend policy and insurance companies’ financial performance. The goal guiding the study are; to determine the influence of dividend payout ratio, retained earnings, and dividend yield on financial performance of insurance companies listed in the Nairobi Securities Exchange. A descriptive design was adopted. Secondary data from financial statements of the Nairobi Securities Exchange listed insurance companies for the period 2013-2018 was collected. Descriptive statistics and regression model using SPSS software version 2 was used for the data analysis. The study concluded that dividend payout does not affect the performance of insurance companies listed in Nairobi securities exchange, retained earnings has a positive significant effect on financial performance of insurance companies listed in Nairobi securities exchange, and that dividend yield has a positive effect on the performance of insurance companies listed in Nairobi Securities Exchange in financial terms. The study recommends that Insurance companies listed in Nairobi securities exchange should ensure that they have a good and robust dividend policy in place that can enhance their level of profitability and also attract investments. The study recommends that Insurance companies listed in Nairobi Securities Exchange should develop policies and laws governing dividend payment and should be strengthened and enforced to ensure a more frequent dividend payment in order to increase their market values through share price increases. It is also recommended that and investment policy should be developed and implemented; this will ensure that the management is not left to decide on how to use the little surplus left but would rather be guided by the investment policy. The board of directors of insurance firms should be prudent in declaring dividends as higher dividend yield could mean that the share price is underpriced which could affect future dividends.

Key Terms: Dividend policy, Financial performance, Assets growth, Profitability, Dividend payout ratio, Retained earnings, Dividend yield

INTRODUCTION

The emergence of financial institutions in the financial markets has provided savers and investors alike with an avenue to invest their resources and source of finance for investment respectively (Chan & Wong, 2015). Savings and Credit Cooperatives (SACCOs) form an
integral part of the financial sector in all parts of the world. They offer intermediation services by providing a platform where individuals and institutions can save their money and investors access capital. However, in pursuit of their objectives, these SACCOs are exposed In empirical studies on financials, dividend policy has remained a topic of debate. There are theoretical models that have been developed to guide managers on the factors that ought to be considered in making decisions on dividend policy. The income of a firm is can be put into use by paying debts, acquiring securities, investing in operating assets and/or distributing to shareholders also known as dividends. There are a number of reasons whether a firm ought to pay or should not pay dividends. Dividends are important to the investors because they are a source of current income to the investor, it is helpful in maintaining shares market price and providing a clear certainty about the financial status of a company. Increased dividend payouts positively affect companies. Companies with a history of stable dividend payout are negatively impacted by lowering dividend distribution. Declaring new dividends is perceived favourable in comparison to not having any form of dividends (Gill, Biger & Tibrewala, 2010).

Amidu and Abor (2006) observe that there are a number of reasons whether a firm ought to pay or should not pay dividends, however on the other hands the Dividend Irrelevance Theory was developed by Miller and Modigliani which posits that in perfect capital markets dividend payout does not affect the value of a company, hence irrelevant. Dividend policy plays a crucial role since it decides the funds to be retained for investment by a company and the amount of funds paid to the shareholders as dividends (Ross, Westerfield & Jaffe, 2002). It also shows the stakeholders the firm’s performance. Firm investments determine the future earning and potential dividends and affect cost of capital (Swee, Zakaria & Hui, 2007).

Dividend policy is described as the policy used by a company to structure shareholders dividend payout. The indicators of dividend policy are dividend yield; this is the ratio of a company’s annual dividend to its share price. Dividend yield is also referred to as the estimate dividend- only return of a stock investment. With the assumption that dividend neither raises or lowers, the yield will increase with a fall in stock price, and decrease with a rise in stock price. Since dividend yield is affected with stock prices, when stocks are falling quickly, it will look unusually high. Earnings per Share (EPS) is the portion of profit of a company allocated to each common stock share that is outstanding, showing the financial status of a company. EPS is the net income of a company that can earn per share if and when the shareholders are paid all the profits. In addition, EPS is used to show the financial performance of a company and is considered a determinant of stock value.

Charumathi (2012) posits that the ration of dividend payout of a company gives investors an idea of the funds returned to shareholders in comparison to the funds used by a company for reinvestment, to pay off debt, or to add cash reserves. The figures at the bottom of a financial statement of a company are easily used to calculate the ratios. This is different to dividend yield which makes the comparison on dividend payment to the current company’s stock price.
In Kenya, the penetration of insurance companies has remained very low compared to other countries with a total of six listed insurance companies. The companies have been undertaking the risks by pooling premiums despite being few in number. Economic development is facilitated through specific varying financial services from financial planning, risk absorption, and securing the risks of companies. This has led to job security, financial independence, and improving economic status (Charumathi, 2012). The major aim of companies is to maximize shareholder’s wealth with respect to three objectives; the function of investment, financial decisions, and dividend policy (Pandey, 2010).

Different researchers have differing views on the influence of dividend policy on the long-term companies’ financial performance. A survey study was undertaken by Dhanani (2005) to assess the views of corporate management on dividend policy. The survey revealed that dividend policy improved the market value of companies. Farsio, Geary and Moser (2004) observed that some studies have that made the conclusion that there exists a relationship between dividends and earnings for short time periods, thus do not offer reliable information to potential investors. As such dividends cannot be used in predicting future earnings. This study is aims at determining the correlation between dividend policy and the financial performance of NSE insurance companies.

**Insurance Companies Listed in NSE**

In Kenya, the insurance industry has been in operations for over 60 years, the first insurance company was operated and owned by the British insurers in the colonial period. By December 2018 the NSE had listed six companies categorized into 10 sectors; automobile and accessories, Investment, banking, telecommunication and technology, agricultural, commercial services, construction allied, insurance, manufacturing, energy and petroleum. By 2017, the insurance industry had made large progress strides having 52 major players creating jobs to thousands of Kenyan citizens (NSE report, 2018). Other key players in the industry include motor assessors, brokers, agents, and loss adjusters (AKI Report, 2017).

IRA posits that the minimum capital required for a general insurance company is Ksh 300 million while a life insurance company requires a minimum capital of Ksh 150 million (Turana, 2010). The regulations guiding the operations of these companies facilitate their growth thus improved performance. Thirty years ago, the industry would have recorded poor performance if it had lacked the supervisory bodies. This is because some of the companies would have been deemed companies without meeting the minimum requirements. The experience and the norm of the industry is that one insurance company is places under receivership after four years since 1985.

According to AIB Capital report on insurance industry in June 2018, despite the increase in gross premiums in 2017 there was a profit drop of 35.4% from KES 5.85 billion in 2016 to KES 3.78 billion in 2017. This resulted in decline in ROA and ROE to 1.36% and 8.29% from 2.69% and 14.36% respectively. The funds of shareholders increased at a decreasing
Currently the industry is facing stiff competition from the opening of insurance.

The gross premium for life insurance and non-life insurance were Ksh.59.97 billion and Ksh.100.24 billion representing 15.7% growth in comparison to 2013 (AKI annual report 2015). Currently the industry is facing stiff competition from the opening of insurance markets in Uganda and Tanzania and from globalization.

Statement of the Problem

Dividend policy plays a vital role in financial management of insurance firms in Kenya. In Kenya, the stockholders have observed numerous quoted corporations’ market price increasing and continually pay dividends only for those firms to be endangered with monetary trials that have led many of them to being barred from transacting in the securities market. The question if the stockholders must depend on the dividend reimbursement as a business’s feasibility is still an issue of concern among insurance firms.

A 35.4% drop in profits from 5.85 billion in the year 2016 to 3.78 billion in 2017 resulted in decreased ROA and ROE to 1.36% and 8.29% from 2.69% and 14.36% respectively (IRA, 2018). Despite the gross premiums increase, higher outward reinsurance premiums resulted in a decline on retention ratio (IRA, 2018). This shows the reduction of net risks retained by financial resources of insurers. Combined ratio eased on a decline of incurred claims. In 2017, the general insurance industry recorded a loss of 61.5% ratio in comparison to the universal benchmark of 50% to 70%, this represented a 1.2% drop in the loss ratio from 2016. Medical and Motor Private Classes registered loss ratios above the universal benchmark at 72.6% and 72.1% respectively (IRA, 2018).

Managers face a big dilemma on whether to pay a small, large or zero dividend or to retain the funds for reinvestment for the growth of a firm. The dilemma emanates from the management’s need to ensure shareholders satisfaction and to meet the uncertainties from the influence of dividend payout on the firm’s market value. The dividend policies adopted by managers can either affect share prices of a firm either positively or negatively (Luvembe, Njangiru & Mungami, 2014).

Studies on the impact of dividend payment ratio on value of firms but the studies have yielded mixed results. Umar and Musa (2013) unveiled an insignificant connection between dividend payout ratio and share value of firms. Oyinlola and Ajeigbe (2014) did an examination on the influence of dividend policy on the stock values of Nigeria’s listed companies and made the conclusion that both dividend payments as well as retained earnings determined the market value per share of the businesses.

Ochuodho and Murekefu (2012) undertook a research with the aim of assessing the type of connection between dividend payout and performance of companies. Masara (2015) studied the association between the value of NSE listed commercial banks and...
dividend payout. The research was based on commercial banks. Otieno (2015) undertook a research on the influence of dividend policy on stock returns of commercial banks listed in the NSE. He focused on banks only and their stock returns. Githinji (2016) researched the influence of dividend policy on the value of NSE listed companies and observed that dividend payout ratio has an effect that is weak and positive on the firms' value. Hence, the goal of this research is to fill the research gap by determining the influence of dividend policy and financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya.

**Research Hypotheses**

**HO₁**: Dividend payout ratio has no influence on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya.  
**HO₂**: Retained earnings have no influence on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya.  
**HO₃**: Dividend yield has no influence on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya.

**THEORETICAL REVIEW**

Some investors prefer to be paid high dividends while others prefer capital gains. Various theories have been developed stipulating that dividends are relevant while others stipulate the irrelevance of dividends in market value and company’s performance. The theories anchoring this research are: the Dividend Irrelevance Theory, Agency Theory, Stakeholder’s Theory, and the Signaling Theory.

**Dividend Irrelevance Theory**

Franco Modigliani and Merton Miller developed this theory in 1961. According to this theory the dividend policy of a company is irrelevant to its shares market value in a perfect market. From the perspective of a rational investor, one cannot favour dividends or capital gains against the other since a company’s value relies on its investments and the profitability and not the dividend policy. A company’s value relies on generated income from assets, and not a split between retained earnings and dividends.

According to Stulz (2000) the dividend irrelevance theory has several supporters based on the premise that a company’s dividend policy is not important especially to the investors and should not be considered. In the real world the market is not perfect. Using this theory, dividend policy is insignificant for this study.

Williams (1988) stated that dividend increments signaled good news and vice versa. However, this is limited by the following assumptions: Perfect capital markets which exist without taxes both corporate and personal, investment policy is independent of its dividend policy, no transaction costs, rational behavior among investors as well as freely available information and the lack of
risk and uncertainty. The theory explains the influence of dividend policy on a company’s value, thus relevant to this study.

Agency Theory

Jensen, and Meckling, (1976) were the initial developers of the agency theory. They observed that a gap existed between the control and ownership of large sized companies due to a decrease in equity ownership. The owners of a company are the shareholders and it is the role of management to run the company operations to ensure profitable returns to shareholders. However, in other instances, managers normally pursue their own interests rather than those of the shareholders.

The assumption of the agency theory is that a company is composed of different people all of whom are looking to meet their own interests. Jensen and Meckling (1976) stated that agency relationship as a contractual agreement between a principle and an agent; the agent work on behalf of the principle. The agent is granted the power by the principle to make decisions on the principle’s behalf. However, agency conflict is prone to occur in the event of an agency relationship. This is when the agent undertakes actions that will not benefit the principle rather the interests of the agent only. These conflicts result in an increase in agency costs as indicated by Ho (2003). In such situations a company may opt to increase dividends in order to decrease agency costs through the distribution of free cash flow. Moreover, markets are accepting to such information. Research indicates that ratios of dividend payouts are well explained using the reduced agency costs by increasing dividend payout.

Jensen and Meckling (2006) observed a connection between shareholders and corporate managers is fraught with conflicting interests. The payout of dividends to shareholders creates the major conflict. Cash payouts to shareholders reduces resources in the hands of managers and therefore reducing their power making it more likely that they will look elsewhere in order to obtain new capital. At times the managers divert from their responsibility of running an organization to meet the interests of the shareholders and start meeting their own interests.

Stakeholder Theory

The stakeholder theory (ST) is a managerial theory developed by Edward Freeman (1984) and sees a firm as network of stakeholders. The firm’s purpose in this theory is for value creation and trade, for the appropriate stakeholder. To expound on this theory, Wheeler et al. (2002), carried out a study on stakeholder theory showing a combination of two distinct disciplines which included the sociological and organizational disciplines, claiming that, stakeholder theory is used to show a group of people who have an effect on the success of an organization or even its failure. Different scholars who have studied the stakeholder theories indicate that managers work closely with suppliers, employees, business partners and other people to steer a company forward.
Sundaram and Inkpen (2004), agreed on the fact that stakeholder theory attempts to address issues of stakeholders that deserve management’s attention, hence good relationship between managers of a firm and stakeholders will yield positive returns leading to high dividend payout. The relevance of the theory to this research is that it clearly shows how the commercial banks management are linked with their stakeholders. A more diverse board will have better ideas thus creating good relationship between the stakeholders and the Management. Stakeholders’ involvement in decision making in companies is connected to improved performance and competitive advantage (Turnbull, 1997).

**Signaling Theory**

Modigliani and Miller (1961) are the developed of this theory. They posited that dividend has a signaling effect. Supporters of the signaling theory say that current and potential investors predict a company’s profits which is impacted by the dividend rate, thus dividend has a signaling effect. Companies distribute dividends to shareholders and it is perceived that high dividend payouts positively influences the shareholders’ profitability. The signaling effect of dividends comes from the fact that the dividend payout offers information about the market and the company. Investors use announcements as sources of information to predict the company’s position with respect to profitability (Ajanthan, 2013).

From the theory, a dividend policy can be viewed as a source of information for potential investors on the positioning of a company. Irregularities in information sharing is reduced through announcements of cash dividends since it allows shareholders to get information about the assessment of the company by managers. Investors, thus may use the shared information in analyzing the share price of the company. The argument of this theory is grounded on the information irregularities present between the investors and management with respect to the current and future positioning of a company that is not accessible to external environment. As such this theory proposes the relevance of dividend policy (Al-Kuwari, 2009).

**RESEARCH METHODOLOGY**

A descriptive design was used for the research. This design focuses on describing a specific phenomenon. A descriptive research portrays the qualities of specific groups, containing particular attributes and make forecasts (Mugenda & Mugenda, 2003). Hence, the design is suitable in conducting this study.

The research targeted 6 insurance companies listed in the NSE for the period 2013-2018 to determine the link between dividend policy and the NSE listed companies’ financial performance. There were 108 panels to be analyzed. This research carries out a census survey of all the six insurance companies listed in Nairobi Stock Exchange. Most of the firms in our sample have declared dividends between the year 2013 and 2018. These insurance companies are also required to have sufficient financial statements.
This study collected secondary data on the six NSE listed insurance companies using the table under Appendix I. Published financial reports of the insurance companies were used to collect secondary data. Further information was requested from Nairobi Stock Exchange and Capital market authority offices and it was used to compute the relevant ratios required in the study. The financial statements covered a six year period from 2013 to 2018. Annual financial reports of six NSE listed insurance companies were collected for each of the insurance company in the sample. The researcher also requested copies of capital markets annual reports for the years under study in order to get further information on performance of the industry.

The collected data was assessed for omission and commission. SPSS version 21 was applied in data analysis. A quantitative approach notably descriptive statistics and regression analysis was adopted in the data analysis. The research adopted panel regression model in to effectively analyze the effect of dividend payout on financial performance. Correlation analysis was also performed to determine the relationship between dividend policy and financial performance of insurance companies listed in NSE. The panel regression model developed for this study was as follows:

\[
Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon
\]

Where:
- \(Y\) - Financial performance measured by return on investment (ROI).
- \(X_1\) - Dividend Payout (stockholders dividends/stock firm income)
- \(X_2\) - Retained earnings (Beginning Period RE+Net Income (or Loss) –Cash Dividends–Stock Dividends/Net income)
- \(X_3\) - Dividend yield (annual dividend / the current stock price)
- \(\epsilon\) - Error of Prediction.
- \(\beta_0\) - Intercept of the regression equation which represents the performance of the firm when no dividends are paid.

The analytical model to be adopted in the study is the panel regression analysis, which sought to develop an adequate predictive model that shows the connection between the dependent and independent variables. To validate this relationship diagnostics test, play a pertinent role by assessing whether the regression assumption has been violated. A violation of any assumption influences the adequacy of the model. Diagnostics were carried out to meet the assumptions of regression.

**Tests of Normality:** To test for normality the researcher used Shapiro-Wilk’s W test. Normality is attributed to zero skewness and a meso-kurtic graph. To confirm normality with a statistical test, the Shapiro-Wilk statistic was computed and significance of normality violation tested. Normality is confirmed with a p-value of the Shapiro-Wilk statistic more than 0.05 (P>0.5).

**Test for Multicollinearity:** Variance Inflation Factor (VIF) will be used to test for multicollinearity among independent variables. If VIF is greater than 10 (VIF > 10), then multicollinearity is present. If VIF is between 5 and 10, (5 ≤ VIF ≤ 10), this illustrates moderate multicollinearity and if less than 5 (VIF < 5) it shows little (insignificant) multicollinearity.
**Heteroscedasticity:** This infers to the situation where the error term variation isn’t comparable for all the present observations. According to multiple regressions the error term variation is comparative for all observations. The research utilized the Breusch-Pagan test, to test the null hypothesis. A p-value less that the significance level (0.05) of the study drives the researcher to make the assumption of equality of variance is not met.

**RESEARCH FINDINGS**

**Diagnostic test**

**1. Normality test:** The level of significance in the study will be compared to the computed significant value using both skewness and kurtosis so as to make effective conclusions using the test. Residuals will be indicated to be normally distributed if the level of significance is lower than that of the computed significant value. The data will be said to depart form the normal distribution if its level of significance is lower than the computed significant value (Kline, 2011).

![Table 1: Tests of Normality](image)

<table>
<thead>
<tr>
<th></th>
<th>Kolmogorov-Smirnov*</th>
<th>Shapiro-Wilk*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Statistic</strong>&lt;sup&gt;1&lt;/sup&gt;</td>
<td>df&lt;sup&gt;1&lt;/sup&gt;</td>
<td>Sig.&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Dividend Pay-Out</td>
<td>0.143</td>
<td>0.013</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>0.136</td>
<td>0.027</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>0.121</td>
<td>0.040</td>
</tr>
</tbody>
</table>

a. Lilliefors’ Significance Correction

From the finding on the Kolmogorov-Smirnov and Shapiro-Wilk test on normality, the study found that significance in both test were less than 0.05 which is leads to the rejection of the null hypothesis that data on firm’s characteristics under three variables (dividend pay-out, retained earnings and dividend yield) were not normally distributed.

**2. Multi Collinearity Test:** Problem may arise when two or more predictor variables are correlated. Heteroscedasticity means that previous error terms are influencing other error terms and this violates the statistical assumption that the error terms have a constant variance. Greene (2003) argues that the prediction is not affected, but interpretation and conclusions based on the size of the regression coefficients, their standard errors, or the associated z-tests, may be misleading because of the potentially confounding effects of multi-collinearity. In the presence of multi-collinearity, Mason and Perreault (2011) demonstrate that the coefficient estimates may change erratically in response to small changes in the model or the data. However, decision to finally drop an item also depends on a second step, where the variance inflation factor (VIF) is applied according to Greene (2013) and Baum (2006). The VIF detects multi-collinearity by measuring the degree to which the variance has been inflated. A VIF greater than 10 is thought to signal harmful multi-collinearity as suggested by Baum (2006).
Table 2: Summary of Collinearity Statistics

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>Dividend Pay-Out</td>
<td>0.824</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>0.786</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>0.634</td>
</tr>
</tbody>
</table>

The VIF (Variance Inflation Factor) was checked in all the analysis which is not a cause of concern according to Baum (2006) who indicated that a VIF greater than 10 is a cause of concern. The basic assumption is that the error terms for different observations are uncorrelated (lack of autocorrelation).

3. Homoscedasticity: Homoscedasticity assumes “that the dependent variable(s) exhibit an equal level of variance across the range of predictor variable(s)”. Homoscedasticity is one of the assumptions required for multivariate analysis. Although violation of homoscedasticity might reduce the accuracy of the analysis, the effect on ungrouped data is not fatal (Tabachnick and Fidell, 2007). Levene test was employed to assess the equality of variances for the three variables calculated (dividend payout, retained earnings and dividend yield). Regression analysis assumes that variances of the populations from which different samples are drawn are equal. From table 4.4, the resulting P-value of Levene's test is less than the conventional 0.05 critical value, indicating that the obtained differences in sample variances are likely not to have occurred based on repeated sampling from a population with equal variances. Thus, there is significant difference between the variances in the population.

Table 3: Test of Homogeneity of Variances

<table>
<thead>
<tr>
<th>Levene Statistic</th>
<th>df1</th>
<th>df2</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.626</td>
<td>3</td>
<td>107</td>
<td>.003</td>
</tr>
</tbody>
</table>

Correlation Analysis

In order to determine the relationship between the variables under study, the study used Karl Pearson’s product moment correlation analysis. The findings were as shown in the Table 4 below:

Table 4: Correlation Results

<table>
<thead>
<tr>
<th></th>
<th>Financial performance</th>
<th>Dividend Payout,</th>
<th>Retained Earnings,</th>
<th>Dividend Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend Payout,</td>
<td>Pearson Correlation</td>
<td>.122**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained Earnings,</td>
<td>Pearson Correlation</td>
<td>.444**</td>
<td>.258**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>Pearson Correlation</td>
<td>.314**</td>
<td>.011</td>
<td>.289**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.002</td>
<td>.870</td>
<td>.000</td>
</tr>
</tbody>
</table>
A 0.122 correlation factor showed that dividend payout and financial performance of insurance companies listed at the NSE correlated positively and a 0.000 significance value also supported the findings as it was less than 0.006. Further, a 0.444 correlation factor showed that retained earnings and financial performance of insurance companies listed at the NSE correlated positively and strongly and a 0.00 level of confidence. Finally, a 0.314 correlation factor showed that both dividend yield and financial performance of insurance companies listed at the NSE correlated positively and a 0.002 confidence level.

**Regression Analysis**

The predictor variables and their influence was determined using multiple regression analysis that was conducted by the study. The multiple regression’s measurements were coded, entered and computed using the statistical package for social sciences (SPSS V 21.0). Table 5 below shows the presentation of the model summary.

**Table 5: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.560</td>
<td>.313</td>
<td>.291</td>
<td>.58715</td>
</tr>
</tbody>
</table>

The study used coefficient of determination to evaluate the model fit. The adjusted R² also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables.

The model fit was evaluated using the coefficient of determination. Another name for coefficient of multiple determinations is the R², which gives the variance’s percentage which shows the independent and dependent unique joint. A 0.291 was shown by the coefficient of determination (R²) of the model which also showed that performance was affected by other factors at a 29.1% and are explained by the independent variables understudy (dividend payout, retained earnings, dividend yield).

The study further tested the significance of the model by use of ANOVA technique. The findings are tabulated in Table 6 below.

**Table 6: Summary of One-Way ANOVA results**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>21.48</td>
<td>3</td>
<td>7.16</td>
<td>20.75</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>35.88</td>
<td>104</td>
<td>.345</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>57.36</td>
<td>107</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Critical value = 5.658

The findings were found to be ideal in making the study’s conclusions as established by the ANOVA statistics in the regression model that showed a 0.05 significance level as it was less than 5%. The critical value was less than the calculated value (20.75.> 5.628) an indication that dividend payout, retained earnings, dividend yield all have all have a significant influence on financial performance of insurance companies listed at the NSE.
The model of the study was also determined by use of the coefficient table. Table 7 presents the findings.

*Table 7: Regression Coefficients*

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.371</td>
<td>.334</td>
<td>1.110</td>
<td>.000</td>
</tr>
<tr>
<td>Dividend Payout</td>
<td>.313</td>
<td>.096</td>
<td>3.204</td>
<td>.000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>.412</td>
<td>.098</td>
<td>4.204</td>
<td>.000</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>.361</td>
<td>.102</td>
<td>3.539</td>
<td>.000</td>
</tr>
</tbody>
</table>

As per the SPSS generated output as presented in table above, the equation \( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \) becomes:

\[
Y = 0.371 + 0.313X_1 + 0.412X_2 + 0.361X_3
\]

From the regression model obtained above, a unit change in dividend payout while holding other factors constant would positively enhance financial performance of insurance companies listed at the NSE by a factor of 0.371; These findings concur with the study findings by Amidu and Abor (2006), both contend that a dividend is not an expense, and so it does not reduce a company's profits.

Further the study revealed that a unit change in retained earnings while holding the other factors constant would positively enhance the financial performance of insurance companies listed at the NSE by a factor of 0.412, and that a unit change in dividend yield while holding the other factors constant would positively enhance the financial performance of insurance companies listed at the NSE by a factor of 0.361.

A significance level of 5% was used to determine the analysis. Both the probability value and \( \alpha = 0.05 \) were used in finding out how significant the model was in comparing of the predictor variables. A less than \( \alpha \) value shows that the predictor variable was significant and therefore in our case it wasn’t significant. A less than \( \alpha = 0.05 \) was found in all the predictor values showing a level of significance.

One of the key objectives of this study was to establish the link between dividend payout and the financial performance of insurance companies listed at the NSE. Results show that dividend payout insignificant effect on financial performance of insurance companies listed in Nairobi securities exchange, the findings of this study show a positive correlation between dividend payout and ROI of insurance companies listed in NSE (Pearson Correlation = 0.122 P-value =0.006). Test regression results also predict that a unit increase in dividend payout would have a minute effect on financial performance of insurance companies listed in Nairobi securities exchange by a factor of 0.313. These findings concur with the study findings by Amidu and Abor (2006), both contend that a dividend is not an expense, and so it does not reduce a company's profits.
Evidence presented by in descriptive statistic’s also affirm that dividend a firm pays does not affect the value of its shares or the returns to shareholders because the higher the dividend, the less the shareholder receives in capital appreciation, no matter how the firm’s decisions turn out. This assumes that a firm dividend paid does not affect the firm’s decision; it either reduces the amount of cash equivalents held or increases the amount of money raised by issuing securities. These findings are in support of the study findings by Jensen and Meckling (2016) firm’s value is dependent on its expected cash flows and risk class which is subsequently determined by a firm’s investment policy, in this light of knowledge, there can’t be optimal dividend policy because dividend policy doesn’t affect the the firm’s value of the firm.

Results show that retained earnings has a significant effect on financial performance of insurance companies listed in Nairobi securities exchange, the findings of this study show a positive correlation between retained earnings and ROI of insurance companies listed in NSE (Pearson Correlation = 0.444 P-value = 0.000). Test regression results also predict that a unit increase in retained earnings would enhance effect on financial performance of insurance companies listed in Nairobi securities exchange by a factor of 0.412. These findings concur with the study findings by Thuranira (2014). Retained earnings are a positive sign of the company’s performance with growth-focused companies often focusing on maximizing these earnings. However, there are some cases in which businesses need to adjust their retained earnings using debit and credit methods.

Evidence presented by in descriptive statistics also affirms that it was revealed that dividend payout had an effect on performance of firms (R = 0.725 & R2 = 0.526). The correlation found was positive and strong. The study recommended that dividend payout decision is important to enhance firm profitability. The study however was only purely based on listed trading companies. This study only focused on Euronext group and did not include other financial institutions. These findings are in support of the empirical contention by Yemi and Seriki (2018), that the retained earnings are positively related with firm’s growth and profitability.

Results show that dividend yield has a positive effect on financial performance of insurance companies listed in Nairobi securities exchange, the findings of this study show a positive correlation between dividend yield and ROI of insurance companies listed in NSE (Pearson Correlation = 0.314 P-value = 0.000). Test regression results also predict that a unit increase in dividend yield would enhance the financial performance of insurance companies listed in Nairobi securities exchange by a factor of 0.361. These findings concurs with the study findings by Njoroge (2001) concluded that that in making dividend decisions forms a very important variable is the return on the asset.

Evidence presented by in descriptive statistics also affirms that insurance company’s try to maintain fairly constant payout over time. Because of the reluctance to reduce dividends, payout ratios tend to increase when profits are depressed and
decrease as profits increase. Increases in share price reduce the dividend yield ratio even though overall investment return from owning stock may have improved substantially. Conversely, a drop in share price shows a higher dividend yield but may indicate the company is experiencing problems and lead to a lower total investment return. These findings are in support of the empirical contention by Zakaria and Tan (2007) the research revealed that dividend yield had negative coefficients revealing stock returns in Trading/Services companies for the period 1993-1996.

Results show that the financial performance of insurance companies listed in Nairobi securities exchange by registered a positive trend in the years 2013 up to 2016 however a sharp decline in performance was registered in year 2017.

**Conclusion of the Study**

This study concludes that dividend payout does not significantly affect the financial performance of insurance companies listed in Nairobi securities exchange, dividend is not an expense, and so it does not reduce a company's profits. Nearly all the insurance companies listed in NSE registered a significant increase in dividend payout from the year 2013 up to 2016 before declining sharply in the year 2017, and that firm’s value is dependent on its expected cash flows and risk class which are subsequently determines firm’s investment policy, in this light of knowledge, there can't be optimal dividend policy because dividend policy does not affect the financial performance of a firm.

This study concluded that retained earnings has a positive significant effect on financial performance of insurance companies listed in Nairobi securities exchange, retained earnings constitute an easily accessible source of financing in the investment requirements and that the retained earnings are positively related with firm’s growth and profitability. This study concluded that dividend yield has a positive effect on the performance of insurance companies listed in NSE in financial terms, Retained earnings are a positive sign of the company's performance with growth focused companies often focusing on maximizing these earnings. However, there are some cases in which businesses need to adjust their retained earnings using debit and credit methods.

**Recommendations of the Study**

Insurance companies listed in Nairobi securities exchange should ensure that they have good and robust dividend policy in place that can enhance their level of profitability and also attract investments.

The study recommends that Insurance companies listed in NSE should develop policies and laws governing dividend payment and should be strengthened and enforced to ensure a more frequent dividend payment in order to increase their market values and return on investment. It is also recommended that an investment policy should be developed and implemented, this will ensure that the management is not left to decide on how to use the little surplus left but would rather be guided by the investment policy.
The board of directors of insurance firms should be prudent in declaring dividend as higher dividend yield could mean that the share price is underpriced which could affect future dividend.

Since dividends drives profitability and dividends influence the share prices of the listed Insurance firms, managers may use dividend payments to convey information on the competitiveness of their firms. The research therefore recommends that the management of insurance firms should worry about dividend payment and retained earnings in long term since the policy adopted always has a significant affect the firm’s financial performance.

REFERENCES


