

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 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 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 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 at¹ determining¹ the¹ correlation between¹ dividend¹ policy and¹ the¹ financial¹ performance¹ 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, commercial¹ and¹ services, ¹ construction¹ and¹ allied, ¹ insurance, manufacturing, and¹ energy¹ and¹ petroleum. ¹ 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

rate of 1.6% to KES 45.96 billion from KES 45.26 billion during the same time period. 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

Dividend¹ policy¹ plays¹ a¹ vital¹ role¹ in¹ financial¹ management¹ of¹ insurance¹ firms¹ in¹ Kenya. In¹ Kenya, the¹ stockholders¹ have¹ observed¹ numerous¹ quoted¹ corporations¹ 'market¹ price¹ increasing¹ and¹ continually¹ pay¹ dividends¹ only¹ for¹ those¹ firms¹ to¹ be¹ endangered¹ with¹ monetary¹ trials¹ that¹ have¹ led¹ many¹ of¹ them¹ to¹ being¹ barred¹ from¹ transacting¹ in¹ the¹ securities¹ market. The¹ question¹ if¹ the¹ stockholders¹ must¹ depend¹ on¹ the¹ dividend¹ imbursement¹ as¹ a¹ business's¹ feasibility¹ 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).

Studies¹ on¹ the¹ impact¹ of¹ dividend¹ payment¹ ratio¹ on¹ value¹ of¹ firms¹ but¹ the¹ studies¹ have¹ yielded¹ mixed¹ results. Umar and Musa (2013) unveiled¹ an¹ insignificant¹ connection¹ between¹ dividend¹ payout¹ ratio¹ and¹ share¹ value¹ of¹ firms. Oyinlola¹ and Ajeigbe (2014) did¹ an¹ examination¹ on¹ the¹ influence¹ of¹ dividend¹ policy¹ on¹ the¹ stock¹ values¹ of¹ Nigeria's¹ listed¹ companies¹ and¹ made¹ the¹ conclusion¹ that¹ both¹ dividend¹ payments¹ as¹ well¹ as¹ retained¹ earnings¹ determined¹ the¹ market¹ value¹ per¹ share¹ of¹ the¹ businesses.

Ochuodho and Murekefu (2012) undertook a research with the aim of assessing the type of connection between¹ dividend¹ payout¹ and¹ performance¹ of¹ companies.¹ Masara (2015) studied¹ the¹ association¹ between¹ the¹ value¹ of¹ NSE¹ listed¹ commercial¹ banks¹ and¹

dividend payout. The research was only 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 on 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. ¹
- HO₂:** Retained earnings have no influence on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya. ¹
- HO₃:** Dividend yield has no influence on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya. ¹

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, ¹ Agency Cost Theory, ¹ Stakeholder's Theory, ¹ and the Signaling Theory. ¹

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

risk¹and¹uncertainty. The theory explains the influence of dividend policy on a company's value, thus relevant to this study.

Agency Theory

Jensen, and Meckling, (1976) ⁴were⁴the initial developers' of⁴ the⁴agency⁴theory. 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 companies¹ listed¹ in¹ the¹ NSE¹ for¹ the¹ period¹ 2013-2018 to determine the link between¹ dividend¹ policy¹ and¹ the¹ NSE listed companies' financial¹ performance.¹ 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 was¹ used¹ to¹ compute¹ the¹ relevant¹ ratios¹ 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 annual¹ reports¹ for¹ the¹ years¹ under¹ study¹ in order to get further information on performance of the industry.

The¹ collected¹ data¹ was¹ assessed for omission and commission. SPSS version 21 was applied in data analysis. A quantitative approach notably descriptive⁴ statistics⁴ and⁴ regression⁴ analysis was⁴ adopted in⁴ the⁴ data analysis. The⁴ research adopted panel regression model in to effectively analyze the effect of dividend payout on financial performance. Correlation analysis was also be performed to¹ determine¹ the¹ relationship¹ between¹ dividend policy and¹ financial¹ performance¹ of¹ insurance¹ companies¹ listed¹ in NSE. The¹ panel¹ regression¹ model¹ developed¹ for¹ this¹ study¹ was¹ as¹ follows: ¹

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where: ⁴Y- Financial⁴ performance⁴ measured⁴ by⁴ return⁴ on⁴ investment⁴ (ROI).

⁴X_{1it}- Dividend Payout (stockholders dividends/net firm income)

⁴X_{2it}- Retained earnings (Beginning Period RE+Net Income (or Loss) –Cash Dividends–Stock Dividends/Net income)

⁴X_{3it}-Dividend yield (annual dividend / the current stock price)

^ε- Error of Prediction.

^β₀ - Intercept of the regression equation which represents the performance of the firm when no dividends are paid.

The⁴ analytical⁴ model⁴ to be adopted⁴ in⁴ the⁴ study⁴ is the⁴ panel⁴ regression⁴ analysis, which⁴ sought⁴ to⁴ develop⁴ an⁴ adequate⁴ predictive⁴ model⁴ that⁴ shows⁴ the⁴ connection⁴ between⁴ the⁴ dependent⁴ and⁴ independent⁴ variables. To⁴ validate⁴ this⁴ relationship⁴ regression⁴ diagnostics⁴ test, play⁴ a⁴ pertinent⁴ role⁴ by⁴ assessing⁴ whether⁴ the regression assumption⁴ has⁴ been⁴ violated. A⁴ violation⁴ of⁴ any⁴ assumption⁴ influences the⁴ adequacy⁴ of⁴ the⁴ 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 error⁴ term⁴ variation is comparative for⁴ all⁴ observations. The⁴ research utilized the⁴ Breusch-Pagan test, to test the null hypothesis. A p-value less than the significance level (0.05) of the study drives the researcher⁴ to⁴ make⁴ the⁴ assumption⁴ of⁴ equality⁴ of⁴ variance⁴ is⁴ not met.

RESEARCH FINDINGS

Diagnostic test

1. Normality test: The⁴ level⁴ of⁴ significance⁴ in⁴ the⁴ study⁴ will⁴ be⁴ compared⁴ to⁴ the⁴ computed⁴ significant⁴ value⁴ using⁴ both⁴ skewness⁴ and⁴ kurtosis⁴ so⁴ as⁴ to⁴ make⁴ effective⁴ conclusions⁴ using⁴ the⁴ test. Residuals⁴ will⁴ be⁴ indicated⁴ to⁴ be⁴ normally⁴ distributed⁴ if⁴ the⁴ level⁴ of⁴ significance⁴ is⁴ lower⁴ than⁴ that⁴ of⁴ the⁴ computed⁴ significant⁴ value. The⁴ data⁴ will⁴ be⁴ said⁴ to⁴ depart⁴ from⁴ the⁴ normal⁴ distribution⁴ if⁴ its⁴ level⁴ of⁴ significance⁴ will⁴ be⁴ lower⁴ than⁴ the⁴ computed⁴ significant⁴ value⁴ (Kline, 2011).

Table 1: Tests of Normality

	Kolmogorov-Smirnov ^{a4}			Shapiro-Wilk ⁴		
	Statistic ⁴	df ⁴	Sig. ⁴	Statistic ⁴	df ⁴	Sig. ⁴
Dividend Pay-Out	0.143	107	0.013	0.788	107	0.011
Retained Earnings	0.136	107	0.027	0.847	107	0.027
Dividend Yield	0.121	107	0.040	0.814	107	0.018

a. Lilliefors⁴ Significance⁴ Correction⁴

From⁴ the⁴ finding⁴ on⁴ the⁴ Kolmogorov-Smirnov⁴ and⁴ Shapiro-Wilk⁴ test⁴ on⁴ normality, the⁴ study⁴ found⁴ that⁴ significance⁴ in⁴ both⁴ test⁴ were⁴ less⁴ than 0.05 which⁴ is⁴ leads⁴ to⁴ the⁴ rejection⁴ of⁴ the⁴ null⁴ hypothesis⁴ that⁴ data⁴ on firm's characteristics under three variables (dividend pay-out, retained earnings and dividend yield) we're⁴ not⁴ normally⁴ distributed⁴ this⁴ is⁴ an⁴ indication⁴ that⁴ data⁴ on⁴ the variables⁴ were⁴ normally⁴ distributed.

2. Multi Collinearity Test: Problem⁴ may⁴ arise⁴ when⁴ two¹ or¹ more¹ predictor¹ variables¹ are¹ correlated. Heteroscedasticity⁴ means⁴ that⁴ previous⁴ error⁴ terms⁴ are⁴ influencing⁴ other⁴ error⁴ terms⁴ and⁴ this⁴ violates⁴ the⁴ statistical⁴ assumption⁴ that⁴ the⁴ error⁴ terms⁴ have⁴ a⁴ constant⁴ variance. Greene (2003) argues⁴ that⁴ the⁴ prediction⁴ is⁴ not⁴ affected, but⁴ interpretation⁴ of, and⁴ conclusions⁴ based⁴ on, the⁴ size⁴ of⁴ the⁴ regression⁴ coefficients, their⁴ standard⁴ errors, or⁴ the⁴ associated⁴ z-tests, may⁴ be⁴ misleading⁴ because⁴ of⁴ the⁴ potentially⁴ confounding⁴ effects⁴ of⁴ multi⁴ collinearity. In⁴ the⁴ presence⁴ of⁴ multi⁴ collinearity, Mason and Perreault (2011) demonstrate⁴ that¹ the¹ coefficient¹ estimates¹ may¹ change¹ erratically¹ in¹ response¹ to¹ small¹ changes¹ in¹ the¹ model¹ or¹ the¹ data. However, the⁴ decision⁴ to⁴ finally⁴ drop⁴ an⁴ item⁴ also⁴ depends⁴ on⁴ a⁴ second⁴ step, where⁴ the⁴ variance⁴ inflation⁴ factor (VIF) is⁴ applied⁴ according⁴ to⁴ Greene (2013) and Baum (2006). The⁴ VIF⁴ detects⁴ multi⁴ collinearity⁴ by⁴ measuring⁴ the⁴ degree⁴ to⁴ which⁴ the⁴ variance⁴ has⁴ been⁴ inflated. A⁴ VIF⁴ greater⁴ than⁴ 10 is⁴ thought⁴ to⁴ signal⁴ harmful⁴ multi⁴ collinearity⁴ as⁴ suggested⁴ by⁴ Baum (2006).

Table 2: Summary of Collinearity Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
Dividend Pay-Out	0.824	2.426
Retained Earnings	0.786	1.157
Dividend Yield	0.634	2.396

The Variance inflation factor (VIF) 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 the 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 random 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

Levene Statistic ¹	df1 ¹	df2 ¹	Sig. ¹
1.626	3	107	.003

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

		Financial performance	Dividend Payout,	Retained Earnings,	Dividend Yield
Financial performance	Pearson Correlation ¹	1			
	Sig. ¹ (2-tailed) ¹				
Dividend Payout,	Pearson Correlation ¹	.122**	1		
	Sig. ¹ (2-tailed) ¹	.006			
Retained Earnings,	Pearson Correlation	.444**	.258**	1	
	Sig. (2-tailed)	.000	.000		
Dividend Yield	Pearson Correlation	.314**	.011	.289**	1
	Sig. (2-tailed)	.002	.870	.000	

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 a 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

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.560 ^a	.313	.291	.58715

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 under study (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

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.48	3	7.16	20.75	.000 ^b
	Residual	35.88	104	.345		
	Total	57.36	107			

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

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.371	.334		1.110	.000
	Dividend Payout	.313	.096	.301	3.204	.000
	Retained earnings	.412	.098	.355	4.204	.000
	Dividend yield	.361	.102	.248	3.539	.000

As per the SPSS generated output as presented in table above, the equation

$$(Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon)$$

$$Y = 0.371 + 0.313X_1 + 0.412X_2 + 0.361X_3$$

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 α p 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. These⁴ findings⁴ are⁴ in⁴ support⁴ of⁴ the⁴ study⁴ findings⁴ by⁴ Jensen and Meckling (2016) firm's value is dependent on its expected cash flows and risk class which are subsequently determined by a firm's investment policy, in this light of knowledge, there can't be optimal dividend policy because dividend policy¹ does¹ not¹ affect¹ the¹ value¹ of¹ the¹ firm.¹

Results show that retained earnings has¹ a¹ significant¹ effect¹ on¹ financial¹ performance¹ of¹ insurance¹ companies¹ listed¹ in¹ Nairobi¹ securities¹ exchange, the¹ findings of this study¹ show a positive¹ correlation between¹ retained earnings and ROI of insurance companies listed in NSE (Pearson⁴ Correlation⁴ = 0.444 P-value⁴ =0.000). Test⁴ regression⁴ results⁴ also⁴ predict⁴ that⁴ a⁴ unit⁴ increase⁴ in retained earnings would enhance effect¹ on¹ financial¹ performance¹ of¹ insurance¹ companies¹ listed¹ in¹ Nairobi¹ securities¹ exchange by¹ a¹ factor of 0.412. These findings concur with the study findings by Thurairaja (2014) Retained¹ earnings¹ are¹ a¹ positive¹ sign¹ of¹ the¹ company's¹ performance with¹ growth-focused¹ companies¹ often¹ focusing¹ on¹ maximizing¹ these¹ earnings. However, there¹ are¹ some¹ cases¹ in¹ which¹ businesses¹ need¹ to¹ adjust¹ their¹ retained¹ earnings¹ using¹ debit¹ and¹ credit¹ methods.

Evidence presented by in descriptive statistics also affirms that it was revealed that dividend payout had an effect on performance of firms ($R = 0.725$ & $R^2 = 0.526$). 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

Results¹ show¹ that¹ dividend¹ yield¹ has¹ a¹ positive¹ effect¹ on¹ financial¹ performance¹ of¹ insurance¹ companies¹ listed¹ in¹ Nairobi¹ securities¹ exchange, the¹ findings of this study¹ show a positive¹ correlation between¹ dividend yield and ROI of insurance companies listed in NSE (Pearson⁴ Correlation⁴ = 0.314 P-value⁴ =0.000). Test⁴ regression⁴ results⁴ also⁴ predict⁴ that⁴ a⁴ unit⁴ increase⁴ in dividend yield would enhance the financial¹ performance¹ of¹ insurance¹ companies¹ listed¹ in¹ Nairobi¹ securities¹ exchange by¹ a¹ factor of 0.361. These⁴ findings⁴ concurs⁴ with⁴ the⁴ study⁴ findings⁴ 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 try¹ to¹ maintain¹ fairly¹ constant¹ payout¹ over¹ time. Because¹ of¹ the¹ reluctance¹ to¹ reduce¹ dividends, payout¹ ratios¹ tend¹ to¹ increase¹ when¹ profits¹ are¹ depressed¹ and¹

decrease¹ as¹ profits¹ increase. Increases¹ in¹ share¹ price¹ reduce¹ the¹ dividend¹ yield¹ ratio¹ even¹ though¹ the¹ overall¹ investment¹ return¹ from¹ owning¹ the¹ stock¹ may¹ have¹ improved¹ substantially. Conversely, a¹ drop¹ in¹ share¹ price¹ shows¹ a¹ higher¹ dividend¹ yield¹ but¹ may¹ indicate¹ the¹ company¹ is¹ experiencing¹ problems¹ and¹ lead¹ to¹ a¹ lower¹ total¹ investment¹ 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 financial¹ performance¹ of¹ insurance¹ companies¹ listed¹ in¹ Nairobi¹ securities¹ exchange by¹ a¹ 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 company's listed¹ in¹ Nairobi¹ securities¹ exchange, ¹dividend¹ 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 positive¹ significant¹ effect¹ on¹ financial¹ performance¹ of¹ insurance¹ companies¹ listed¹ in¹ Nairobi¹ securities¹ exchange, retained earnings constitute an easily accessible source of financing in the investment requirements and that that the retained earnings are positively related with firm's growth and profitability. This¹ study¹ concluded that dividend¹ yield¹ has a positive effect on¹ the¹ performance¹ of¹ Insurance¹ companies¹ listed¹ in¹ NSE¹ in financial terms, Retained¹ earnings¹ are¹ a¹ positive¹ sign¹ of¹ the¹ company¹'s¹ performance with¹ growth focused¹ companies¹ often¹ focusing¹ on¹ maximizing¹ these¹ earnings. However, there¹ are¹ some¹ cases¹ in¹ which¹ businesses¹ need¹ to¹ adjust¹ their¹ retained¹ earnings¹ using¹ debit¹ and¹ credit¹ methods.

Recommendations of the Study

Insurance companies listed in Nairobi securities exchange should ensure that they have¹ a¹ good¹ and¹ robust¹ dividend¹ policy¹ in¹ place¹ that¹ can¹ enhance¹ their¹ level¹ of¹ profitability¹ and¹ also¹ attract¹ investments.¹

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 should¹ be¹ developed¹ and¹ implemented;¹ this¹ will¹ ensure¹ that¹ the¹ management¹ is¹ not¹ left¹ to¹ decide¹ on¹ how¹ to¹ use¹ the¹ little¹ surplus¹ left¹ but¹ would¹ rather¹ be¹ guided¹ by¹ the¹ investment¹ policy.¹

The board¹ of¹ directors¹ of¹ insurance¹ firms¹ should¹ be¹ prudent¹ in¹ declaring¹ dividend¹ as¹ higher¹ dividend¹ yield¹ could¹ mean¹ that¹ the¹ share¹ price¹ is¹ underpriced¹ which¹ could¹ affect¹ future¹ 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 recommends¹ that the management of insurance firms¹ should¹ worry¹ about¹ dividend¹ payment and retained earnings¹ in¹ long¹ term¹ since¹ the¹ policy adopted always has a significant affect the firm's financial performance.

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