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

BY

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RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS, IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF MASTERS DEGREE OF BUSINESS ADMINISTRATION (FINANCE OPTION) OF KENYATTA UNIVERSITY.

MAY, 2021

DECLARATION

This research project is my original work and has not been presented to any other university for the award of any degree.

Signature……. Date……

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This research project has been submitted for examination with my approval as a university supervisor.

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DEDICATION

I will dedicate this project to my parents Mr. and Mrs. Kiruja for giving me the necessary foundation and instilling the value of education in me. You have sacrificed a lot to make my dreams come true.

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I am grateful to the Almighty God for giving me sufficient grace and providing me with strength and knowledge to do this project. I acknowledge my supervisor Dr. John Mungai for the guidance, mental support and positive criticism. Special thanks to my family for being beside me all the time. I also acknowlege my classmates and friends for moral support throughout the journey.

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OPERATIONAL DEFINATION OF TERMS

Clientele effect	this is the effect created when regular dividend policy over a long time period tend to attract investors who perceive dividend policy with respect to their investment requirement.
Dividend	This is a payment paid to shareholders from the total earning made by a company and must be decided by the company
Dividend payout ratio	this is the money paid to shareholders proportionate to a company's net income.
Dividend policy	this is a management's decision on the percentage of the total earnings distributed to shareholders as dividends and that which is retained in the company.
Dividend yield	this is dividend expressed as current share price percentage.
Financial performance	the measure of how a company utilizes its business in generating more income.
Retained earnings	this is the income retained in the company once the shareholders have been paid their dividends.

ABBREVIATIONS & ACRONYMS

AKI	Association of Kenya Insurers
EPS	Earnings per Share
IRA	Insurance Regulatory Authority
NSE	Nairobi Securities Exchange
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
NACOSTI	National Commission for Science, Technology & Innovation
SPSS	Statistical Package for Social Sciences
VIF	Variance Inflation Factor

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 21 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 com panies listed inNairobiSecurites 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.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

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) observes 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.

1.1.1 Dividend Policy

A company's dividend policy is usually intertwined with other investment decisions (Brealey, Myers & Marcus, 2007). The firm could choose to invest the money for its shareholders instead of paying it out as dividends. Some of the firms might choose to pay

little amount of cash as dividends and use the retained earnings for expansion especially in cases of management optimism with regards to a company's future. Another firm may choose to borrow finances to finance its capital expenditures and this will free up cash that will be returned to shareholders as dividends hence the dividend payout decision is largely a byproduct of capital budgeting decision. There exists a group that holds that high dividends leads to an increase in value, and another group that holds that high dividends brings high taxes therefore reducing value and the last group which holds that dividend payout policies have no effect in a company's decisions.

Decisions of dividend payout are influenced by number of factors; It is crucial to investors since it provides certainty on financial well-being of the firm, it is a source of current income and it helps in maintaining shares' market price (Gill, Biger & Tibewala, 2010). There are various determinants of dividend payout such as asset growth rates, desire of shareholders, magnitude of earnings, size of the firm and leverage (Zameer, Rasool, Igbal & Arshad, 2013). According to Ongeri (2014) firms may decide to payout dividends or not depending on various factors such as position, investment at hand, expectation of stakeholders, and age of firm among others. To date despite different theoretical and empirical research dividend policy is a controversial topic and especially on the correlation between dividend policy and stock price (Nissim & Ziv, 2001).

One of the vital decisions made by companies includes the decision on dividend policy. Dividend decision is an important task by any company. This entails the decision on the funds to be retained by a firm and the funds to be paid out to the owners, is closely connected to financial and investments decisions. An analysis of the dividend decisions of any given organization basically involves how the pre-tax profits of the firm are

distributed to shareholders inform of dividends or as retained earnings which are used by the firm for future expansion and growth (Kirugumi, 2003). There are three main factors affecting decision making in dividend policy: opportunity for investment, size of the company, and dividend yield. Large sized companies are better positioned to increase their finances at lower costs since these companies are diverse and experience less risk. Large companies pay high dividends to their shareholders since they do not rely exclusively on internal financing (Fama & French, 2001).

A company can increase its finance poll from different sources including; equity shares, preference shares, and debentures. Ajanthan (2013) observed that payments f debentures and preference shares are normally at a fixed rate. There is not commitment made on equity shares with respect to returns. In case of a loss, the payment is made, however, in case of a profit it is up to the company to decide whether or not to pay the dividend. In the event the dividend is supposed to be paid, the company must decide the amount to be paid to the shareholders. This decision is made to ensure the wealth of shareholders is maximized (Charumathi, 2012).

1.1.2 Financial Performance

The measure of how a company utilizes its business in generating more income is described to as financial performance. Most financial analysts prefer the use profitability ratios (ROA, ROE and ROI) in measuring financial performance. Tangen (2003) emphasized the use of profitability and market value ratios as measures of performance. Koller (2011), emphasized on profitability as the most reliable indicator of income levels

of insurance companies. Executives define profits as the difference between earnings and expenditure.

There are various significant variables to measure the performance of a firm which includes cash flow, growth in sales, profitability and market-to-book value. There are also various indicators of financial growth including a company's ability to finance its investments internally. Financial measures may include dividend growth, sales growth, earnings growth, bond credit ratings, increase in stock price and cash flow (Okibo & Alinyo, 2013).

The parameter for checking the trends in performance and growth of insurance companies remains the written insurance premiums and profitability. In the year 2017 the gross written insurance premium stood at Ksh209.70 billion in comparison to Ksh197 billion in 2016; this is a growth of 6.5%. In 2017, the industry made a profit of Ksh12.01 billion prior to tax in comparison to Ksh14.75 billion in 2016 showing a decline in profits. In 2017 the asset base of the industry grew by 12.2% at Ksh571.08 billion in comparison to Ksh508.95 billion in 2016 (AKI Report, 2017).

1.1.3 Dividend Policy and Financial Performance

According to studies in finance literature the connection dividend policy and financial performance is an unresolved issue. Dividends are favoured more by investors in comparison to capital gains (Amidu, 2006). Investors view dividends as less risky compared to capital gains, Companies ought to increase their dividend payout and dividend yield in order to maximize on stock price. DeAngelo and DeAngelo (2006), posit that dividend payouts reduce the available free cash flow to management thus

ensuring that the management is able to maximize on the wealth of shareholders that misusing the cash flow for self-interest.

According to Signaling theory firms pay dividends to the stakeholders to give positive data about the value of a company and to the companies that do not pay dividends negative information is portrayed to the public. The negative information is likely to cause the stakeholders to withdraw their investments for fear of losing their undertaking. Baker (2001) a company's equity component increases when retention of more earnings are practices and in case of financing of a large payout, debts may be used. If debts increase without a proportionate equity increase may result to deviation of the company's capital structure. Mansouri (2003), indicated that an increase in dividend is connected to profitability in the future.

1.1.4 Insurance Companies Listed in NSE

The major players of the Kenyan insurance industry include; insurance companies, intermediaries (insurance brokers, agents, loss adjusters, service providers, and risk managers) and reinsurance companies (Insurance Regulatory Authority, 2010). The Insurance Act, Laws of Kenya, Chapter 487 regulate the insurance industry. The establishment of the office of the commissioner of insurance was aimed at strengthening governance in the industry under the finance ministry.

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 and services, construction and allied, insurance, manufacturing, and 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 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.

1.2 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 imbursement 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 ration (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 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.

1.3 Research Objectives

1.3.1 General Objective of the Study

To investigate the effect of dividend policy on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya.

1.3.2 Specific Objectives of the Study

i. To examine the effect of dividend payout ratio on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya.
ii. To evaluate the effect of retained earnings on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya.
iii. To determine the effect of dividend yield on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya.

1.4 Research Hypothesis

HO_1: Dividend payout ratio has no influence on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya.

HO_2: Retained earnings have no influence on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya.

HO_3: Dividend yield has no influence on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya.

1.5 Significance of the Study

Insurance companies are vital for the growth of the economy of Kenya since they offer financial services ranging from risk absorption, financial planning and securing the risks of companies. The results if this study will benefit the Kenyan government, shareholders, and insurance companies listed in the NSE, Association of Kenya Insurer (AKI) and Insurance Regulatory Authority (IRA). Additionally, the study findings will be beneficial to academicians and scholars.

The managers are appointed by the shareholders to act as their agents on day-to-day operations of the insurance firms. Their role is to ensure that the shareholders maximize the returns on their investments. The research findings will provide information which will be relevant to them in dividend policy decision making. The shareholders will benefit from this study since thy will comprehend the dividend policies implemented in companies. They will be able to understand decisions of dividend payout and their influence on companies' financial performance.

1.6 Scope of the Study

This research covered all the six NSE listed insurance companies for a period of 6 years between 2013 and 2018. This period is important to our study since it is within the first six years after introduction of county governments in Kenya. The county governments facilitated penetration of insurance uptake across the country. These insurance companies are under the supervisory of Insurance Regulatory Authority (IRA). The study was carried out in the insurance companies listed in Nairobi Securities Exchange mainly

because of diversity in size, asset base and gross premiums. The reason for selecting the listed insurance firms is to ensure adequacy of data for credible analysis. Secondary data was gathered from individual company's websites and from the NSE.

1.7 Limitation of the Study

This research was limited to the listed insurance companies and therefore the findings may not be generally applied to all insurance companies. The study results might not apply to other companies in different sectors. The study would therefore recommend further studies on the topic in other sectors of the economy and other types of companies which are listed which helped to overcome this limitation.

1.8 Organization of the Study

Chapter one introduces the study. Chapter two covers theoretical and empirical review of studies with respect to the study topic; it also covered the research conceptual framework. The third chapter documents the procedures used in the collection and analysis of data. Chapter four covers research findings and discussion while chapter five covers summary, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section describes the literature review of the research. The chapter explores various guiding theories and empirical studies done in the past. This chapter also identifies research gaps from previous studies with respect to dividend policy.

2.2 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 Cost Theory, Stakeholder's Theory, and the Signaling Theory.

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

2.2.2 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.

2.2.3 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).

2.2.4 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).

2.3 Empirical Literature

2.3.1 Dividend Payout Ratio and Financial Performance

In Sri Lanka, Ajanthan (2013) conducted a research on the correlation between dividend payout, and profitability of listed restaurants. The study samples 16 restaurants listed in Colombo Stock Exchange. The data gathered was for five years. From the results, 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.

In Nigeria, Uwuigbe, Jafaru and Ajayi (2012) researched on dividend policy and performance of listed firms. The research analyzed the link between ownership

structure, firm size, and dividend payout from the year 2006-2010, using 50 firms as the sample. The results of the research revealed a positive and significant correlation between dividend payout and Nigerian companies' performance. According to the research, the size of a company and ownership structure also showed a significant effect on company's dividend payout. The study recommended that in order to decrease political costs and improve performance firms should do so by distributing dividend. This study was limited to five years and only included the dividend payout pays a big part in dividend policy, it did not include other aspects of dividend policy like dividend yield and EPS.

A research on the correlation between dividend payout and performance of the NSE listed companies was conducted by Murekefu and Ouma (2012). The study used information for a period of nine years; from 2002-2010. 41 NSE listed companies made the sample of the study. Regression analysis was adopted for the research. The results indicated that performance of companies was highly influenced by dividend payout. This indicated the relevance of dividend policy. A recommendation by the research was that the role of management is to design effective dividend policies that will improve the returns to shareholders' value. The study failed to include control variables such as investments on the regression analysis. This study was limited to nine years and only included the dividend payout as the major aspect of the dividend policy, it did not include other aspects of dividend policy like earnings per share and dividend yield.

2.3.2 Retained Earnings and Financial Performance

In Nigeria Yemi and Seriki (2018), undertook a research on retained earnings and performance of companies 2003-2014. The study sample was 75 non-financial companies. In showing variable correlation descriptive and multiple regression were adopted. A positive correlation between EPS, retained earnings, firms' value, and dividend payout was observed. The results also revealed an insignificant effect of market value on financial leverage.

The objective of Thuranira (2014), was to assess the impact of retained earnings on returns of NSE listed companies. Secondary data was collected for the period of 2009-2013. A regression model was applied for the research. The study made the conclusion that earnings retained was irrelevant in impacting the earned stock returns by NSE listed companies' shareholders. More so, the results of the study were inverse and insignificant.

In Bangladesh, Ahmed (2011) analyzed the impact of retained earnings and dividend on performance. The research results revealed that stock prices were influenced by retained earnings and dividend; this is when ignoring the expectations of a stronger dividend effect on non-growth markets and stronger retained earnings influence on growth industries.in comparison to retained earnings.

Khan (2006) investigated impacts of retained earnings on performance and price volatility. 281 companies were used as the sample. Data for the time period 1985 to 1997 was gathered from the companies. The study found a significantly positive correlation between stock price volatility and retained earnings. Bekaert and Harvey (2007), investigated impact of cost of capital on stock price volatility. Secondary data was

collected for the years 2004 to 2012. 25 companies in Bangladesh were used as the sample. The study found that cost of capital negatively influenced stock price sensitivity. Kinyua (2013), examined the connection between retained earnings and share price volatility of firms listed at the NSE market. The study established that high cost of capital negatively influenced stock volatility. Further the study observed a significant correlation between dividend payouts and stock price volatility.

2.3.3 Dividend yield and Financial Performance

Using a period of 2007-2016, Ahmad, Barros and Sarmento (2018) carried out a research on the determinant of dividend policy in Euronext 100 for. The sample of the study included companies in the Euronext 100 index. Dividend yield was used to measure dividend policy. For data analysis the OLS regression was adopted. The results revealed positive valuation was reflected by dividend if the dividends growth was linked to earnings growth. The study made the recommendation that a stable dividend payout should be perceived as not a hindrance for future growth.

Sasu, Abor and Osei (2017) analyzed the influence of dividend policy on the value of shareholders of Ghanaian listed companies for the period 2009-2014 financial reports. OLS panel regression was adopted to assess the collected data. The findings from the study showed that dividend yield was used in measuring dividend policy decisions. A positive connection was observed between dividend per share and shareholders' value and a negative connection between dividend yield and shareholder's value. The study made the recommendation that management ought to engage in profitable investment

plans to ensure high returns to shareholders. The study was limited since it only focused on Ghanaian listed firms.

A research on the correlations between dividends related factors and company's performance was carried out by Foong, Zakaria and Tan (2007). The research asses the correlation between individual stocks returns with dividend yield, dividend yield changes and dividend stability in the Plantation firms and the Malaysian Trading services for a period of 1992-2000. A weak finding on the role of dividend yield and stability in showing stock returns of firms was observed. On the other hand, dividend yield changes revealed significant and negative coefficients revealing stock returns in Trading/Services companies for the period 1993-1996 and the crisis period. The recommendation of the study was that management ought to consider firm's dividend yield. The study was only conducted during the crisis period only.

2.4 Summary of Literature Review

Table 2.1: Summary of Literature Review and Research gaps

Author	Title	Methodology	Findings	Recommendation	Study Gap
Ahmad, Barros & Sarmento (2018)	determinant of dividend policy in Euronext 100	OLS regression	Dividend yield reflects a positive valuation was reflected by dividend if the	Payment of a stable dividend payout	This study only focused on Euronext group.

			dividends growth was linked to earnings growth		
Yemi, and Seriki (2018),	Retained earnings and firms' performance in Nigeria.	Descriptive and inferential statistics	An insignificant influence of market value on financial leverage.	The study recommended that firms should issue divided and increase earnings	The study did not incorporate other aspects of divided policy like the dividend yield
Sasu, Abor & Osei (2017)	Influence of dividend policy on shareholder value Ghanaian listed companies	OLS panel regression	Found a positive correlation between dividend per share and value of shareholders and a negative correlation	Management should adopt prudent investment activities that would generate high returns to shareholders	The study only considered firms in Ghana Stock Exchange

			between dividend yield and value of shareholders.		
Thuranira (2014),	The influence of retained earnings on the returns of firms listed at the NSE	Regression Analysis and F-tests statistics	Earnings retained was irrelevant in impacting the earned stock returns by NSE listed companies shareholders	The study recommended that firms should engage in clean business in order to increase the earnings	
Musiega, Alala, Douglas, Christopher & Robert (2013)	Determinants of dividend payout policy among Non-financial firms on the NSE	Multiple regression analysis	ROE, current earnings and activities for a company's growth were correlated positively to dividend payout	Companies ought to invest more in companies that have high growth rates.	This study did not consider financial firms

Ajanthan (2013)	To assess the connection between dividend payout and firm profitability of listed hotel and restaurant in Sri Lanka	Regression and correlation analysis	dividend payout influenced performance of firms	Decision of dividend payout is important to enhance firm profitability	The study was only purely based on listed trading companies
Rizqia and Sumiati (2013)	The influence of managerial ownership, financial leverage, profitability, firm size and investment opportunity on dividend policy and the effect of all the variables on firm value	Path analysis	Managerial ownership, financial leverage, profitability, firm size, investment opportunity, and dividend policy affect firm value	For the firm to maximize its value factors such as managerial ownership, financial leverage, firm size and investment opportunity must be considered	This study did not consider all industries
Murekefu	Dividend	Regression	Performance	the role of	The study

& Ouma (2012)	payout and firm performance on listed companies in Nairobi Stock Exchange	Analysis	of companies was highly influenced by dividend payout	management is to design effective dividend policies that will improve the returns to shareholders' value	failed to include control variables such as investments
Uwuigbe, Jafaru & Ajayi (2012)	Dividend policy and firm performance of listed firms in Nigeria	Regression analysis	A positive and significant correlation between dividend payout and performance of Nigerian companies	In order to decrease political costs and improve performance firms should do so by distributing dividend	This study was limited to five years
Ahmed (2011),	The impact of dividend and retained earnings on performance in Bangladesh: an empirical	Regression and correlation analysis	Stock prices were influenced by retained earnings and dividend	More research should be conducted in developing nations with respect to dividend and retained earning	The study only focused on retained earnings and performance it should have

	investigation.				incorporated other key indicators of dividend payout
Hutchinson and Zain (2009)	Relationship between Internal Audit Quality, Audit Committee Independence, Growth Opportunities and Firm Performance	Regression models	Internal audit quality and firm performance is stronger for firms with high growth opportunities	Effective governance to utilize growth opportunities	This study used a method of data collection, a mail survey, which is subject to response bias.
Foong, Zakaria & Tan (2007)	Relationship between firm performance and dividend related factors	Cross-section regression analysis	Dividend yield has a significant negative influence on stock returns.	All managers should be keen on dividend yield and due to its connection with stock returns	This study was carried out during the crisis period

Source: Researcher (2019)

2.5 Conceptual framework

A conceptual framework is a mental plan of thoughts that provide guidance to an examination. It shows how the firm's characteristics under three categories influence financial performance. Independent variables included dividend payout, retained earnings, dividend yield while dependent variable was financial performance.

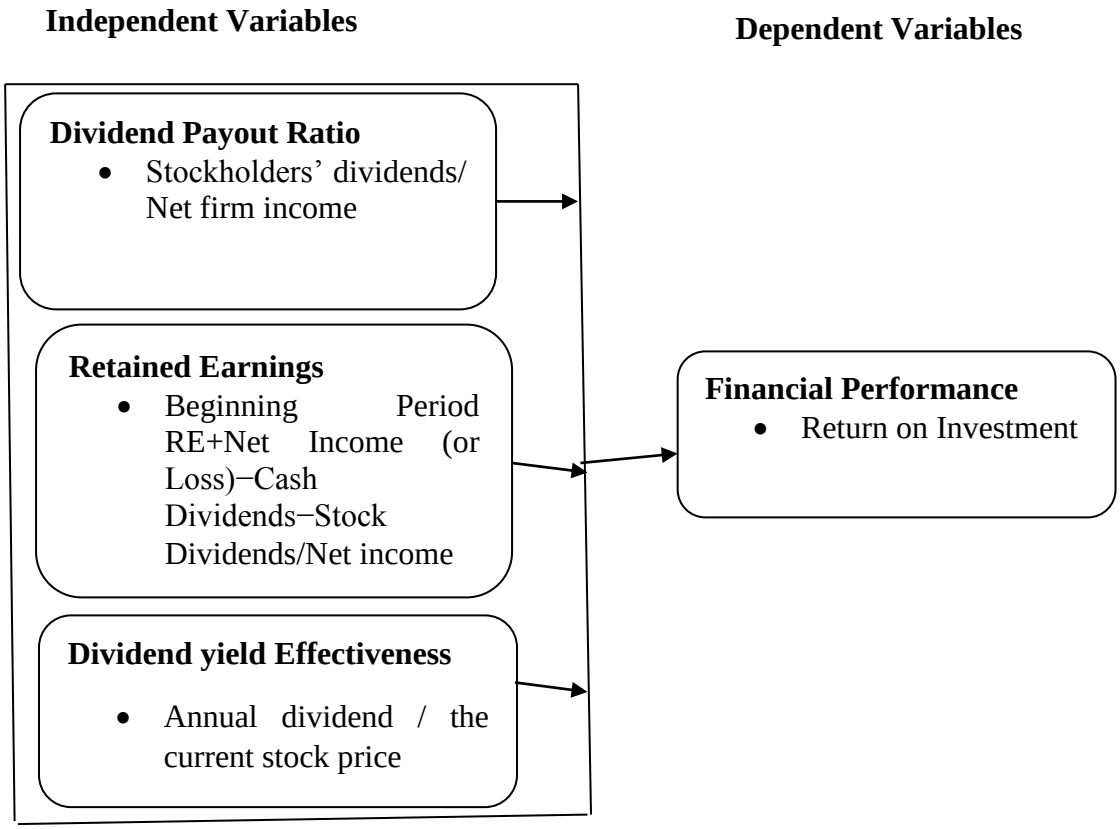

Figure 2.1: Conceptual Framework

Source: Researcher (2019)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section discusses the methodology used in carrying out the research. The methodology incorporates design of the research, target and sample population, research instruments and the procedures for collecting and analyzing the data.

3.2 Research Design

A research design is a structure followed for collecting and analyzing data to respond to a research question (Cooper & Schindler, 2006). 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.

3.3 Target Population

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

3.4 Sampling Design

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.

3.5 Data Collection Instruments

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.

3.6 Data Collection Procedure

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. Data was collected with help of the table under appendix I.

3.7 Data Analysis and Presentation

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 be 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:

$$\mathbf{Y=\beta_0+\beta_{1it}X_1+\beta_2X_{2it}+\beta_3X_{3it}+\varepsilon}$$

Where:

Y- Financial performance measured by return on investment (ROI).

$\mathbf{X_{1it}}$**-** Dividend Payout (stockholders dividends/net firm income)

$\mathbf{X_{2it}}$**-** Retained earnings (Beginning Period RE+Net Income (or Loss) −Cash Dividends−Stock Dividends/Net income)

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

ε- Error of Prediction.

$\boldsymbol{\beta_0}$ - Intercept of the regression equation which represents the performance of the firm when no dividends are paid.

3.8 Diagnostic Tests

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 regression 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.

3.8.1 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).

3.8.2 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, ($5 \leq VIF \geq 10$), this illustrates moderate multicollinearity and if less than 5 ($VIF < 5$) it shows little (insignificant) multicollinearity.

3.8.3 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.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the information processed from the data collected on effect of dividend policy on financial performance of insurance companies listed in Nairobi Securities Exchange. The time period that the study covered was 6 years, (2013-2018).

4.2 Descriptive Statistics

From the summary in figure 4.1 below, the year 2013 recorded the highest mean value for dividend payout at 0.425 while the year 2017 recorded the least value for dividend payout at 0.181, in addition, values for stardard deviation depicts variability in value for dividend payout during the five year period with the highest deviation of 0.652 in the year 2014 and the lowest at 0.00 in the year 2017, the findings revealed a significant increase in dividend payout from the year 2015 up to 2016 before declining sharply in the year 2017 and finally increasing in 2018. Sharp decline in 2017 on dividend payout could be attributed to several factors, for instance political climate that transpired during that time could have negatively affected financial performance of these firms. Secondly the executive management could have reached out on the decision to retain and plough back the profits.

Figure 4.1: Dividend Payout

Source: Research findings (2019)

From the summary on figure 4.2 below the year 2013 recorded the highest mean value for retained earnings at 0.821 while the year 2015 recorded the lowest value for retained earnings at 0.652, in addition, values for stardard deviation depicts variability in value for retained earnings during the five year period with the highest deviation of 0.652 in the year 2014 and the lowest at 0.162 in the year 2016, the findings revealed a significant decrease in retained earnings during the from 2013 up to 2015 before increasing shraply in 2016 to 2018.

Figure 4.2: Retained Earnings

Source: Research findings (2019)

From the summary on figure 4.3 below, the year 2016 recorded the highest mean value for dividend yield at 0.406 while the year 2017 recorded the lowest value for dividend yield at 0.211, in addition, values for stardard deviation depicts variability in value for dividend yield during the five year period with the highest deviation of 0.685 in the year 2014 and the lowest at 0.022 in the year 2015, the findings revealed a significant decrease in dividend yield during the from 2013 up to 2015 before increasing shraply in 2016.

Figure 4.3: Dividend Yield

Source: Research findings (2019

From the summary in figure 4.4, the year 2014 recorded the highest mean value for return on investment at 0.453 while the year 2016 recorded the lowest value for return on investment at 0.222, in addition, values for stardard deviation depicts variability in value for return on investment during the five year period with the highest deviation of 0.456 in the year 2014 and the lowest at 0.172 in the year 2015, the findings revealed a significant increase in return on investment from 2013 up to 2014 before decreasing shraply in 2016 to 2018.

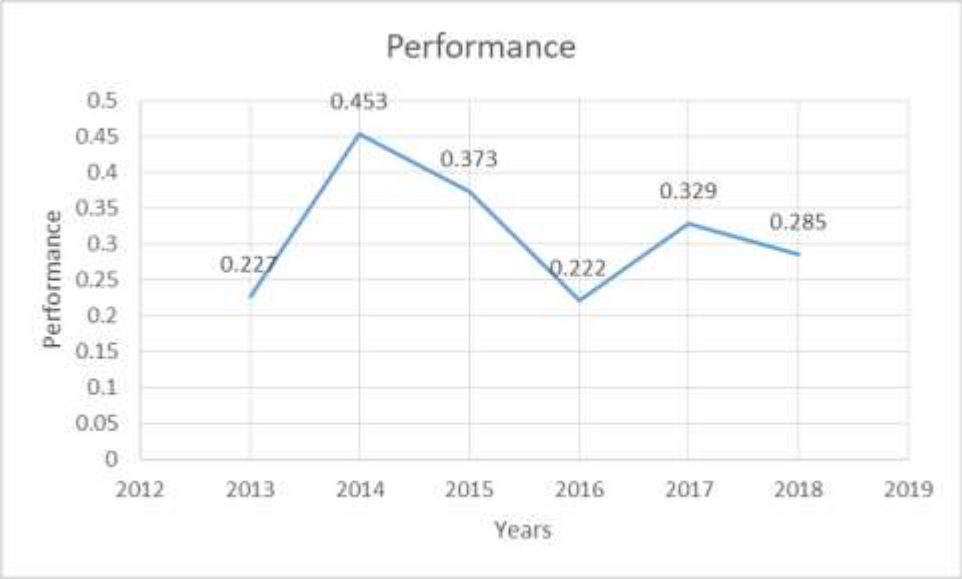

Figure 4.4: Financial performance

Source: Research findings (2019)

4.3 Diagnostic test

4.3.1 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 will be lower than the computed significant value (Kline (2011).

Table 4.1: Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig.**
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. Lilliefors Significance Correction

From the finding on the Kolmogorov-Smirnovand 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) we're not normally distributed this is an indication that data on the variables were normally distributed.

4.3.2 Multi Collinearity Test

Problem may arise when two or more predictor variablesare 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 of, 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, the 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 4.2: 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).

4.2.3 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 4.3: Test of Homogeneity of Variances

Levene Statistic	df1	df2	Sig.
1.626	3	107	.003

Source: Research findings (2019)

4.4 Inferential Statistics

4.4.1 Correlation Results

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 4.6 below:

Table 4.4: Correlation Results

		Financial performance	Dividend Payout,	Retained Earnings,	Dividend Yield
Financial performance	Pearson Correlation	1			
	Sig. (2 -tailed)				
Dividend Payout,	Pearson Correlation	.122**	1		
	Sig. (2-tailed)	.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	

Source: Research findings (2019)

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.

4.4.2 Regression Test

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 4.7 below shows the presentation of the model summary.

Table 4.5: Model Summary

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

Source: Research data, 2019

The study used coefficient of determination to evaluate the model fit. The adjusted $R^{2,}$ 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 R^2, which gives the variance's percentage which shows the independent and dependent unique joint. A 0.291 was shown by the coefficient of determination (R^2) 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 4.7 below.

Table 4.6: 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			

Source: Research data, (2019)

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 4.8 presents the findings.

Table 4.7: 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

Source: Research data, (2019)

As per the SPSS generated output as presented in table above, the equation ($\mathbf{Y=\beta_0+\beta_{1it}X_1+\beta_2X_{2it}+\beta_3X_{3it}+\varepsilon}$) 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 wouldpositively 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 α=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 α=0.05 was found in all the predictor values showing a level of significance.

4.5 Interpretation of the Findings

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 are subsequently determined by a firm's investment policy, in this light of knowledge, there can't be optimal dividend policy because dividend policy does not affect the 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 the overall investment return from owning the 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 a registered a positive trend in the years 2013 up to 2016 however a sharp decline in performance was registered in year 2017.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary, conclusion and recommendations of the effect of dividend policy on financial performance of insurance companies listed in Nairobi Securities Exchange. The chapter presents the discussions drawn from the data findings analyzed and presented in chapter four. The study was conducted by use of secondary sources such as publisher reports.Thechapter is structured into discuss ions, conclusion, recommendations and areas for further research.

5.2 Summary of the Study

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. Test regression results also predict that a unit increase in dividend payout would have a positive effect on financial performance of insurance companies listed in Nairobi securities exchange. 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 descriptive statistics also affirm that dividend a firm pay does not affect 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 are subsequently determined by a firm's investment policy, in this light of knowledge, there can't be optimal dividend policy because dividend policy does not affect the 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. 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 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 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. Test regression results also predict that a unit increase in dividend yield would promote financial performance of insurance companies listed in Nairobi securities exchange. These findings concur with the study findings by Njoroge (2001) concluded 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 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 contrast with 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 registered a positive trend in the years 2013 up to 2016 however a sharp decline in performance was registered in year 2017.

5.3 Conclusion of the Study

This study concludes that dividend payout does not significantly affect the financial performance of insurance company's 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 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 performancewith growthfocused companies often focusi ng on maximizing these earnings. However, there are some cases in which businesses need to adjust their retained earnings using debit and credit methods.

5.4 Recommendations of the Study

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 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.

5.5 Limitations of the Study

The objectives of this study were to determine effect on the performance of Insurance companies listed in NSE. Therefore, the findings of this study are limited to Insurance companies listed in NSE. The study spanned over a period of 6 years (2013-2018) therefore, this study is limited to 6 years study period. The period covered was also shorter and a longer period of more than six years is necessary.

The study relied on secondary data which were collected from audited financial statements of the sampled companies which are prepared in accordance with the generally accepted accounting principles and international financial reporting standard however there is a possibility of use of different accounting policies such as depreciation rate resulting into different outcome.

The research population included companies from insurance sectors only. The study could be undertaken among companies operating in the various sector of the economy.

5.6 Suggestion for Further Research

The study sought to investigate the effect of dividend policy on financial performance of insurance companies listed in Nairobi Securities Exchange. Future research should explore on the effect of stock dividend on financial performance of insurance companies listed in Nairobi Securities Exchange.

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APPENDICES

Appendix I: Data Collection Schedule

Year	Financial performance(ROI)	Dividend Payout (net firm income / stockholders dividends)	Retained earnings (Beginning Period RE+Net Income (or Loss)−Cash Dividends−Stock Dividends)	Dividend yield (annual dividend / the current stock price)
2013				
2014				
2015				
2016				
2017				
2018				

Appendix II: Listed Insurance Firms at NSE

1. Jubilee Holdings Ltd
2. Pan Africa Insurance Holdings Ltd.
3. Kenya Re- Insurance Corporation Ltd.
4. Liberty Kenya Holdings
5. Britam Holdings Ltd.
6. CIC Insurance Group Ltd.

Appendix III: Work Plan

Activity/weeks	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Project writing							
Corrections							
Data collection							
Data Analysis							
Report writing							
Submission of report							
Finalization of report							

Appendix IV: Budget Schedule

BUDGET ITEM	**TOTAL COST**
MATERIALS	
Photocopies/Printing	Ksh. 20,000.00
Services from data source	Ksh. 16,500.00
SUBTOTAL	**Ksh. 36,500.00**
OTHER COSTS	
Binding	Ksh. 5,000.00
Travel	Ksh. 10,000.00
Telephone/Internet/software	Ksh. 20,000 .00
SUBTOTAL	**Ksh. 35,000.00**
Contingencies	Ksh. 20,000.00
TOTAL COST	**Ksh. 91,500.00**

APPENDIX V: APPROVAL OF RESEARCH PROPOSAL

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Internal Memo

FROM: Dean, Graduate School

DATE: 16th September, 2019

TO: Kiruja Vincent Murimi
C/o Accounting and Finance Dept.

REF: D53/CTY/PT/29746/2014

SUBJECT: APPROVAL OF RESEARCH PROPOSAL

We acknowledge receipt of your revised Research Proposal as per our recommendations raised by the Graduate School Board of 7th August, 2019 entitled Dividend Policy and Financial Performance of Insurance Companies Listed in Nairobi Securities Exchange, Kenya".

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.

ELIJAH MUTUA
FOR: DEAN, GRADUATE SCHOOL

C.c. Chairman, Department of Accounting and Finance

Supervisors:

1. Dr. John Mungai
C/o Department of Accounting and Finance
Kenyatta University

EM/lnn

APPENDIX VI: NACOSTI RESEARCH PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **182235**

Date of Issue: **10/October/2019**

RESEARCH LICENSE

This is to Certify that Mr.. VINCENT MURIMI of Kenyatta University, has been licensed to conduct research in Nairobi on the topic: DIVIDEND POLICY AND FINANCIAL PERFORMANCE OF INSURANCE COMPANIES LISTED IN NAIROBI SECURITIES EXCHANGE, KENYA for the period ending : 10/October/2020.

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