FIRM CHARACTERISTICS AND DIVIDEND PAYOUT OF INSURANCE COMPANIES IN KENYA

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ABSTRACT

Dividend payout is a significant financial aspect since it entails the determination of the sum distributed to the stockholders as return on invested capital to increase the size of the firm. In Kenya, the dividend payout performance has experienced a decline, suggesting unsuccessful strategies implemented by management, despite the government's expectations for the insurance industry to contribute significantly to the country's economic growth. This calls for a study to be done on; what are the firm characteristics and dividend payout of insurance companies in Kenya? Therefore, the main objective of the study was to establish firm characteristics and dividend payout of insurance companies in Kenya. The specific objectives of the study were to find out the effect of firm leverage, firm liquidity, firm profitability and firm size on dividend payout in insurance companies in Kenya. The study was informed by dividend relevance theory, dividend irrelevance, the signaling theory and the bird-in-the-hand theory. The study used a descriptive research design. The population of interest in this study was 55 insurance companies in Kenya. The study collected secondary data from authoritative and official sources such as the Insurance Regulatory Authority financial annual reports. Panel regression model was used as a data analysis method for the study. The data was analyzed using both descriptive and inferential statistics such as panel regression and ANOVA. The results were represented on table and graphs. The study found that there was a growing trend in the dividend payout. The regression analysis results show that the main effect of dividend payout policies when regressed alone is significant in predicting growth of insurance companies. The study concludes that the insurance companies have been recording growth in net income, dividends paid, and cash flows. The dividend payout of the insurance companies in Kenya increased during the period under investigation. There was a general upward trend in firm leverage, firm liquidity, firm profitability and firm size. In addition, fixed dividends paid and the dividend payout increased slightly during the period. There is a correlation between the sizes of the dividend and the cost of capital, which has an effect on the entire equity share valuation. The study recommends the organizational policies regarding total debt and shareholder's equity should consider the investment policy and financing policy for each stage in firm life cycle. The study recommends the insurance firms to clearly communicate to shareholders about the tradeoff between high dividend payout rate and performance, so that shareholders will willingly accept the low dividend rate, retaining profit as capital for future development of the insurance companies, the insurance companies should uncover ways of increasing their assets base .Insurance companies should therefore take into account the factors like country characteristic, development period, and on total assets. Further study could be conducted in other financial firms with a broader view of the East African Community.

INTRODUCTION

Background of the Study

All investors anticipate a certain level of return on their investment in exchange for the risk they assume. Profits can be distributed to investors through dividends or share repurchases. Profitable businesses are not required to pay dividends, even if doing so indicates that the company is healthy and has bright prospects. According to Khalaf (2022), dividend payouts are set on a yearly basis based on company performance and any other considerations that may be in play. Dividend distribution, however, is not always in the best interests of the shareholder. A high dividend distribution may indicate that the company is unable to manage free cash flows. Despite this, companies have continued to pay dividends for nearly 300 years. According to Koussi and Makrominas (2019), the first dividends were paid out in Holland and the United Kingdom, resulting in the transfer of both earnings and capital to shareholders.

Venkataraman and Venkatesan (2018) found that rewards were related to return on assets, bank size, and debt-to-equity ratio. Return on investment and return on properties anticipated share payout, according to Rohov, Kolodiziev, Shulga, Krupka, and Riabovolyk (2020). Pattiruhu and Paais (2020) discovered that productivity, leverage, liquidity, asset structure, and prior year dividends all had an influence on the number of cash accessible to shareholders. The primary factors determining dividend distributions are profitability, investment possibilities, and business size (Tekin, 2020). According to Melese and Ravi (2019), firms that have never paid dividends often have poor profitability, a small market capitalization, and great growth possibilities.

Companies that once paid dividends now opt not to do so; the increase in new listings hides extensive evidence of the study's companies' decreased tendency to pay dividends. According to Pattiruhu and Paais (2020), the decreased inclination to pay indicates that businesses are now aware of the tax disadvantages associated with dividends. Additionally, they demonstrate that share repurchases largely benefit dividend-paying corporations and that their main impact is to raise the high cash distributions of dividend payers. The lesser willingness to pay is universal, but it is significantly more pronounced among businesses that have never paid or have paid dividends in the past. Much lower predicted rates of dividend initiation by enterprises that have never paid are linked to lesser profitability and significant growth potential (Bond et al., 2018). However, the likelihood of dividend stoppage has only marginally increased for large, prosperous corporations that pay dividends. The main impetus of this research will be on leverage, liquidity, firm size and profitlevels since they are the key firm characteristics established by previous researchers.

According to Kazem and Shakiba (2018), insurance entails providing policyholders with protection against certain risks that they are vulnerable to, such as property damage, loss of property, health issues, and casualties. In exchange for the risk protection, the insurers collect premiums from policyholders, which are used to cover operating costs and cover these anticipated risks. In Kenya, the protection idea was at first presented by England province by which they used to safeguard their advantage utilizing protection dealers. This was done on behalf of businesses with locations overseas. According to Hodgin and Ray (1988), the role of insurance agents or brokers ceased at

the middle of the 1980s. As more players and services entered the insurance market at the end of the 1990s, the industry stabilized. According to now, the Protection Administrative Authority has the order to direct and form administrative measures to the insurance agency.
The insurance industry contributes significantly to Kenya's economic development and growth. The area has filled radically in the beyond twenty years to turn into a main Gross domestic product donor. However, penetration into the potential market has not kept pace with the impressive growth in premiums and incomes (Olima, 2016). Since 2015, the insurance industry in Kenya has grown significantly, and its significance to the economy is recognized internationally. At the moment, the industry ranks high for both attractiveness and growth potential. As a result, local and international investors have entered the market to purchase stakes in existing local insurance companies and invest in new ventures (AKI, 2019). The industry is a major contributor to the GDP, with a gross written premium of over Ksh.160 billion in 2019, up from Ksh 130 billion in 2018, representing a 23 percent increase.

Notwithstanding, the protection areas' infiltration actually remains moderately low with the entrances actually being under 5%. However, Kenya's insurance penetration is higher than that of the rest of Africa, where it is only 2% on average. The industry still has a lot of room for growth, given the low penetration rates. This can be accomplished by expanding into new markets and addressing the sector's issues (Chache, 2019). Insurance companies will be able to offer a wider range of services and products as a result of this.

The business of non-life insurance generates 56.39 percent of the insurance industry's gross premium income. Medical insurance and Motor insurance together generate approximately 67.14 percent of the non-life gross written premium. In 2020, non-life insurance penetration in Kenya was 1.29 percent, down from 1.37 percent in 2019. Non-extra security gross premium added up to KES 132.70 billion out of 2020, a slight decline from KES 133.45 billion kept in 2019. With contributions of 33.43 percent and 33.71 percent, respectively, to non-life insurance premiums, the motor insurance and medical insurance categories remained the most prominent categories.

From a loss of KES 3.27 billion in 2019 to a loss of KES 2.33 billion in 2020, underwriting performance improved. This could be because COVID-19 has reduced the number of claims and management costs. The highest underwriting profit, KES 1.70 billion, was recorded for medical insurance. This may be because people are afraid of COVID-19 and stay away from hospitals, resulting in fewer hospital visits. The consolidated proportion for clinical business diminished from 99.26% in 2019 to 94.44% in 2020, giving back up plans some padding against the press in their top-line profit (Protection industry report, 2020).

In 2020, the life insurance industry contributed 43.61 percent of the total gross premium income from insurance. The insurance regulatory authority (IRA) had registered 24 life insurance companies and three reinsurers as of the end of 2020. From KES 97.85 billion in 2019 to KES 102.61 billion in 2020, life insurance sales increased. According to the BMI research report on Kenya insurance market overview, the industry is anticipated to face a more challenging short-term outlook. Life insurance penetration in Kenya was 1% in 2020. The COVID-19 pandemic and the ensuing domestic and international trade disruption have slowed the country's economic growth,

resulting in higher unemployment rates and spending pressure on both businesses and households (Insurance Industry Report, 2020).

A dividend is when a company gives its shareholders a portion of its profits. A dividend is a payment that a company can make to its shareholders when it makes a profit or surplus. After the dividend, the remaining profit, or retained earnings, will be put toward future investments. A higher dividend payment indicates that the business is putting less money into its operations. As indicated by Khan *et al.*(2019) Investors who prefer the security of a consistent income stream to a high potential for share price growth are drawn to dividend-paying businesses. On the other hand, businesses that pay out few dividends are ones that are reinvesting in the expansion of their operations, which results in higher potential future capital gains for investors. Dividends are viewed as benefits that shareholders receive in exchange for making an investment and taking a risk in a business endeavor.

According to Amidu and Abor (2006), there are numerous reasons why businesses should or should not pay dividends to investors who invested. The organizations might deliver profits as a prizes to their current investors and to convince expected financial backers to put resources into shares, but financial backers delivers close regard for profits since through profits they get on their portions or speculations (Karani,2015). Compared to unsuccessful businesses, successful ones are able to generate revenue (Chumari, 2014).

According to Ross, Westerfield, and Jaffe (1999), dividend payout is the amount of cash distributed to shareholders in proportion to earnings per share. Welch (2009) characterized profit payout proportion as the proportion of profits to net gain. The proportion of earnings that are distributed as dividends is measured by the dividend payout ratio. The same company that pays out more of its earnings now would pay out less in the future, all other things being equal assuming that it had held income, it would have brought in more money for payout later.

Brealy, Myers, and Marcus (2007) assert that a company's payout decision frequently involves other financial or investment decisions. In some cases, the payout decision is a byproduct of the firm's capital budgeting decision because management is optimistic about the company's future and wants to keep earnings for expansion. Borrowing might be the main way for another company to pay for capital expenditures. This makes money available for distribution to shareholders. For this situation the payout choice is a side-effect of the getting choice.

Most dividends from insurance companies come in the form of bonus shares or cash dividends. The interim dividend, which is paid at the end of the second quarter, and the final dividend, which is paid at the end of the year, are the two types of cash dividends that are typically paid out twice per financial year. In some instances, businesses also pay a one-time additional dividend. However, there are a few insurance companies that, due to financial constraints, have not paid profits in a long time. The majority of insurance companies have clearly defined profit strategies that align with the industry's overall profit hone (Kenya insurance industry report, 2017).

In finance, dividend payment is a contentious issue. Brealey and Myers (2015) noticed that regardless of the long term of examination on profit payout, there is not a great reason of company's

profit behavior. Munyua (2014) placed that profit installment is such a significant issue in each protection association that administration needs to think about it to fulfill their investors.

Profit payout among insurance firms is directed by profit contract which is the dynamic procedure supporting choosing how much profits and the planning of the payments.it is supposed to be a significant monetary choice that corporate chiefs experience (Dough puncher and Powell, 1999). A review directed by Zhou and Roland (2005) uncovered that high profit payout firms will generally communicate something specific of higher future productivity yet somewhat low past income development.

There are 7,720 insurance agents, 204 insurance brokers, 10 reinsurance brokers, 55 insurance companies, and 3 reinsurance companies in Kenya's insurance sector. The insurance act of 2006, CAP 487, of the laws of Kenya established the insurance regulatory authority (IRA) as a legal government agency. According to IRA (2016), its primary functions include developing, regulating, and supervising the insurance industry. There are two associations in the industry: Association of Kenyan Insurers (AKI) and Association of Kenyan Insurance Brokers (AIBK) are organizations that work to ensure that insurance companies and brokers follow ethical business practices by raising public awareness with the intention of boosting insurance business growth (IRA, 2016).

Kenya's insurance survey says: According to KPMG (2019), overall insurance penetration in Kenya was 3.89 percent in 2019 and 3.60 percent in 2018, which is a low percentage when compared to other markets like South Africa, which leads Africa with 16% in 2019 and 14.8 percent in 2018. Kenya is behind neighboring nations like Malawi in the region. According to the Association of Business Journalists of Malawi (ABJ) annual review (2018), insurance penetration was 3% in Malawi, Zambia’s protection infiltration was at 2.4% and Tanzania was at 2.2%. The United Kingdom leads the global insurance market with a penetration rate of 7.5 percent, accounting for 16.5 percent of GDP, followed by South Africa (16%) and Taiwan (14.5%) (African Insurance Market Outlook, 2019).

Statement of the Problem

Dividend payout is a significant financial aspect as it determines the distribution of returns to stockholders, contributing to the growth of the firm. Global dividend payment trends have shown fluctuations over the years, with a record increase in 2021 and 2022 after the challenges posed by the Covid-19 pandemic. According to Janus Henderson (2022), global dividend payments in dollar terms were 12.9% in 2019, 11.3% in 2020, 16.3% in 2021, and 17% in 2022, reaching a record $1.47 Trillion in 2021 and $1.56 Trillion in 2022. However, the insurance industry in Kenya has experienced a declining trend in dividend payout, reflecting unsuccessful strategies implemented by management (AIB Capital, 2019).

Studies conducted in Africa by Firer et al. (2018) and Sibanda (2019) observed a significant reduction in dividend payouts among the study participants, indicating a common trend of declining dividend payouts in the insurance industry across the continent. In Kenya, a June 2019 AIB Capital report revealed a decrease in dividend payout ratio from 2.69% to 1.36%, and a decline in dividend

yield from 14.36% to 8.29%, reflecting a decrease in the proportion of earnings distributed as dividends and the relative dividend payout in relation to the market price of insurance companies' shares.

Several studies have explored the relationship between dividend payout and firm value in Kenya. Masara (2017) studied the value of commercial banks listed on the NSE and their dividend payout practices, while Otieno (2017) examined the impact of dividend policy on stock returns of commercial banks. Githinji (2018) found that the dividend payout ratio had a weak but positive effect on firm value listed on the NSE. Additionally, Sabila (2017) discovered a strong and positive association between dividend payout ratios and firm value, indicating that higher dividend payouts correlated with higher firm values.

Despite these previous studies on dividend payout and firm value in Kenya, limited research has specifically focused on the determinants of dividend payout among insurance companies. Therefore, this study aimed to fill this research gap and address the question: What firm characteristics influence dividend payout of insurance companies in Kenya?

Research Objectives

General Objective

The main objective of the study was to establish the firm characteristics influencing dividend payout of insurance companies in Kenya.

Specific Objectives

The study was guided by the following specific objectives;

i. To assess the effect of firm leverage on dividend payout in insurance companies in Kenya.
ii. To establish the effect of firm liquidity on dividend payout in insurance companies in Kenya.
iii. To determine the effect of firm profitability on dividend payout in insurance companies in Kenya.
iv. To evaluate the effect of firm size on dividend payout in insurance companies in Kenya.

Research Hypothesis

H01: Firm leverage does not have a significant effect on dividend payout in insurance companies in Kenya

H02: Firm liquidity does not have significant effect on dividend payout in insurance companies in Kenya

H03: Firm profitability does not have significant effect on dividend payout in insurance companies in Kenya

H04: Firm size does not have significant effect on dividend payout in insurance companies in Kenya

Significance of the Study

Policy makers

This study would contribute to empirical evidence on the factors that determine dividend payout. The study results would be of practical solutions to policymakers in designing guidelines and policies to ensure and protect shareholders' interests within the listed firms.

Professionals

The results of the research would be of significance to the insurance companies in guiding the internal practices that would enable them to leverage their internal factors to enhance dividend pay-outs.

To Scholars

The results of the research would further help in enhancing the available empirical evidence available and thus act as future reference material.

Scope of the Study

The main objective of the study was to establish the relationship between firm characteristics and dividend payout of insurance companies in Kenya. The study was limited to leverage, liquidity, profitability, and firm size as determinants of dividend payout. The population of interest in this study was 55 licensed insurance companies in Kenya. The study collected secondary data from companies published audited annual report between 2017 and 2021. The study was conducted within six months, from November of 2022 to May of 2023.

Limitations of the Study

Firstly, the scope of the study was confined to insurance companies, which may restrict the broader applicability of the results to other sectors. Different industries may have unique characteristics and operating models, which could influence the observed outcomes and may not be fully captured in the study's context. Additionally, the research was conducted solely in Kenya. The economic, cultural, and regulatory environments can vary significantly between countries, which could affect the dynamics and outcomes of the studied factors. Thus, limiting the generalizability of the results to other geographic locations, and further research in diverse settings would be necessary to establish broader applicability.

LITERATURE REVIEW

The relevant theoretical and empirical research on the subject is examined in this chapter. The conceptual framework, empirical review, summary of existing literature, and research gap are the primary topics of this chapter.

Theoretical Review

A theoretical review is a collection of interrelated concepts. It guides research to determine what things to measure, and what statistical relationships to look for. Esper, Mentzer and Stank (2018) emphasizes that good research should be grounded on theory. This study was built on agency theory, liquidity preference theory, signaling theory, and dividend relevancy theory.

Agency Theory

The Agency Theory, developed by Jensen and Meckling (1976), focuses on the conflicts of interest that exist between shareholders (owners) and managers of a firm. It suggests that the presence of debt in a company's capital structure can influence dividend payout decisions due to the monitoring and control mechanisms imposed by creditors.

According to the Agency Theory, higher leverage (debt) in insurance companies may lead to increased monitoring by creditors, which can reduce agency costs. When creditors closely monitor a firm's activities, managers are more likely to face pressure to distribute earnings as dividends to align the interests of shareholders and creditors (Myers and Majluf, 1984). This alignment of interests may result in insurance companies with higher leverage having a greater propensity to pay higher dividends.

In the context of the Kenyan insurance industry, the Agency Theory can be applied to understand how leverage affects dividend payout decisions. Insurance companies with higher debt levels may be subject to stricter monitoring by creditors, which could incentivize managers to maintain or increase dividend payouts to demonstrate financial stability and reassure creditors. By paying dividends, managers signal to creditors that the company is generating sufficient cash flows to meet its debt obligations.

However, it is important to note that the effect of leverage on dividend payout may vary across different insurance companies and situations. The specific impact of leverage on dividend decisions in the Kenyan insurance industry would require empirical analysis and consideration of other factors such as profitability, regulatory requirements, and growth opportunities.

Liquidity Preference Theory

This theory was developed by John F. Keynes (1936), it puts it that an investor demands a higher return on securities with long-term maturity periods maturities, with definitely higher risk, because ceteris paribus, investors prefer liquid assets and cash. Liquid investments are easier offload for their full worth. The theory suggests that interest rates imposed on current securities are less as compared to the rates on long term assets, since investors are taking a lower risk as compared to the latter. A study by Friewald, Jankowitsch and Subrahmanyam (2017) carried out an analysis for the US structured product market, and established that lower credit risk and liquidity is easily achievable through securities that are mainly traded by financial institutions.

The liquidity preference theory is able to foretell future rates by factoring in the risk concept, by suggesting that much as interest rate is substitutable for different maturity terms, the risk involved slopes upwards mostly on the yield curve. This shows that no matter what the expectations of the interest rates are across expected maturities, the yield curve continues to do an upward sloping due to the risk of using debt at longer maturity.

Keynes argued that liquidity demand has three motivating factors. First motivation is transaction where people will hold money since they do not have a fixed income in order to be able to carry out basic necessary expenditures. Here, liquidity entirely depends on income levels in that more income leads to a higher spending (Dimand, 2008). Secondly is the precautionary motive which suggests that people have a preference of holding money to cater for unplanned activities that trigger unforeseen expenses. This factor is seen to increase proportionally as the level of income also increases. Thirdly, the speculative motive which states that people hold money as a speculative measure against the dropping of bond prices. People ask for more money and keep it as a security once prevailing interest rates decline. This decreases the price of bonds in existence in order to maintain the interest rates at par with its yield line. This shows that low interest rates lead to a higher money demand.

According to Keynes, therefore, the rate of interest depends on the liquidity preference and the supply of money. The expected profitability of new investment (or the marginal efficiency of capital, as Keynes calls it) does not determine interest but is determined by it. Which investments will be profitable depends on the rate of interest. Income does not determine interest but influences it indirectly because the amount of money required to be held for the transactions motive depends on income.

Signaling Theory

Signaling Theory was developed by Bhattacharya (1979). Signaling theory posits that dividend payouts act as a signal of a firm's financial health and future prospects. In the present study, the theory can be applied to investigate how liquidity influences dividend payouts in insurance companies in Kenya. Companies with higher liquidity may be more likely to pay dividends, as it signals positive financial performance and indicates the ability to meet future obligations (Masara, 2017).

According to the signaling hypothesis, investors can infer information about a firm's future earnings through the signal coming from dividend announcements, both in terms of the stability of and changes in dividends (Al-Malkawi, Rafferty & Pillai, 2010). However, for this hypothesis to hold, managers should firstly possess private information about a firm's prospects, and have incentives to convey this information to the market. Secondly, a signal should be true; that is, a firm with poor future prospects should not be able to mimic and send false signals to the market by increasing dividend payments. Thus the market must be able to rely on the signal to differentiate among firms. if these conditions are fulfilled, the market should react favorably to the announcements of dividend increase and unfavorably otherwise (Koch & Shenoy, 1999).

As managers are likely to have more information about the firm's future prospects than outside investors, they may be able to use changes in dividends as a vehicle to communicate information to the financial market about a firm's future earnings and growth. Outside investors may perceive dividend announcements as a reflection of the *ma*nagers' assessment of a firm's performance and prospects. An increase in dividend payout may be interpreted by investors as the firm having good future profitability, and therefore its share price will react positively to this. On the other hand, by having dividend cuts it may be considered as a signal that the firm has poor future forecasts, and this will make the share price to react unfavorably to this (Al-Malkawi, Rafferty & Pillai, 2010).

Dividend Relevancy Theory

Proponents Gordon and Shapiro (1956) and Walter (1956) posit that dividend policy affects value of a firm. The majority of a company's financial decisions fall into two broad categories: Baker and Powell's decisions regarding investments and financing are cited in Subba,2015). Financing decisions focus on securing the funds required to finance these assets, whereas investment decisions focus on the kind and quantity of assets that the company wants to keep. Equity or debt are used to finance assets. Decisions regarding dividends, on the other hand, are regarded as a form of financing because they have an effect on the proportion of a company's earnings that are retained for reinvestment and distributed to shareholders. The term "corporate dividend policy" refers to a decision about whether earnings should be shared with shareholders or kept for future reinvestment.

The average percentage of earnings to be distributed over time and whether the company should maintain a constant dividend growth rate are two aspects of dividend policy. To put it another way, decisions about how much and when earnings should be distributed as dividends are part of dividend policy. Because it is likely to influence shareholders' wealth and the company's capacity to retain profit to invest in profitable investment opportunities, determining dividend pay-out is difficult. Thus, Pruitt and Gitman, referred to in Kent et al (2013) unequivocally accept that profit and supporting choices are interrelated and can't be isolated. For instance, if a company decides to pay dividends, it will have fewer earnings left over to put into profitable projects. The company may be forced to seek external funding as a result of this move. Subsequently, it isn't is to be

expected for see a few directors seeing profit strategy as a variable that would impact investors' riches and corporate worth. As a result, dividend policy has an impact on the company's value.

The concept of dividend relevance theory is not brand-new. It dates back to the early 20th century, when Williams, as mentioned in Manon et al., (2015) asserted that the selling price of the share and the present value of a future dividend determine share value. This guarantee has been upheld by Graham and Dodd (1951) who underscored that an offer cost is impacted by profit and income. Gordon (1959), which is referred to in Manon et al., (2015), who created a model that based corporate share value on dividend distribution. As a result, dividend policy plays a significant role in determining the company's value. As a result, an optimal dividend policy that maximizes the company's value can be achieved, though the method for doing so is still up for debate.

According to dividend relevance theory, investors look at dividend policy as an important factor in determining the certainty of a company's profit, and investors view dividend payout as a sign of management capabilities. As a result, the company's frequent and high dividend policy suggests a high likelihood of success. Therefore, a company's overall financial health can be gauged by its high dividend payout. The goal of this study was to find out how profits levels affect dividend payout policies at Kenyan commercial banks. The theory informed the profit level variable. The theory is relevant to the study because it demonstrated the significance of evaluating the company's profit levels prior to considering dividend payments.

Conceptual Framework

A conceptual framework is a tool that researchers use to guide their investigation; it is a collection of concepts that are used to shape the study, kind of like a map of the research (Kothari, 2013). It expresses the researcher's personal point of view on the subject and serves as a guide for the investigation. it might be an adaptation of a model that was used in prior research, with alterations to make it more appropriate for the current investigation. Aside from demonstrating the study's overall aim, the conceptual framework may also be used to demonstrate the links between the many constructs that the researcher wishes to examine in more depth. The following conceptual framework served as a guide for the investigation. The independent variables are firm leverage, firm liquidity, firm profitability and firm size and whereas the dependent variable was dividend payout.

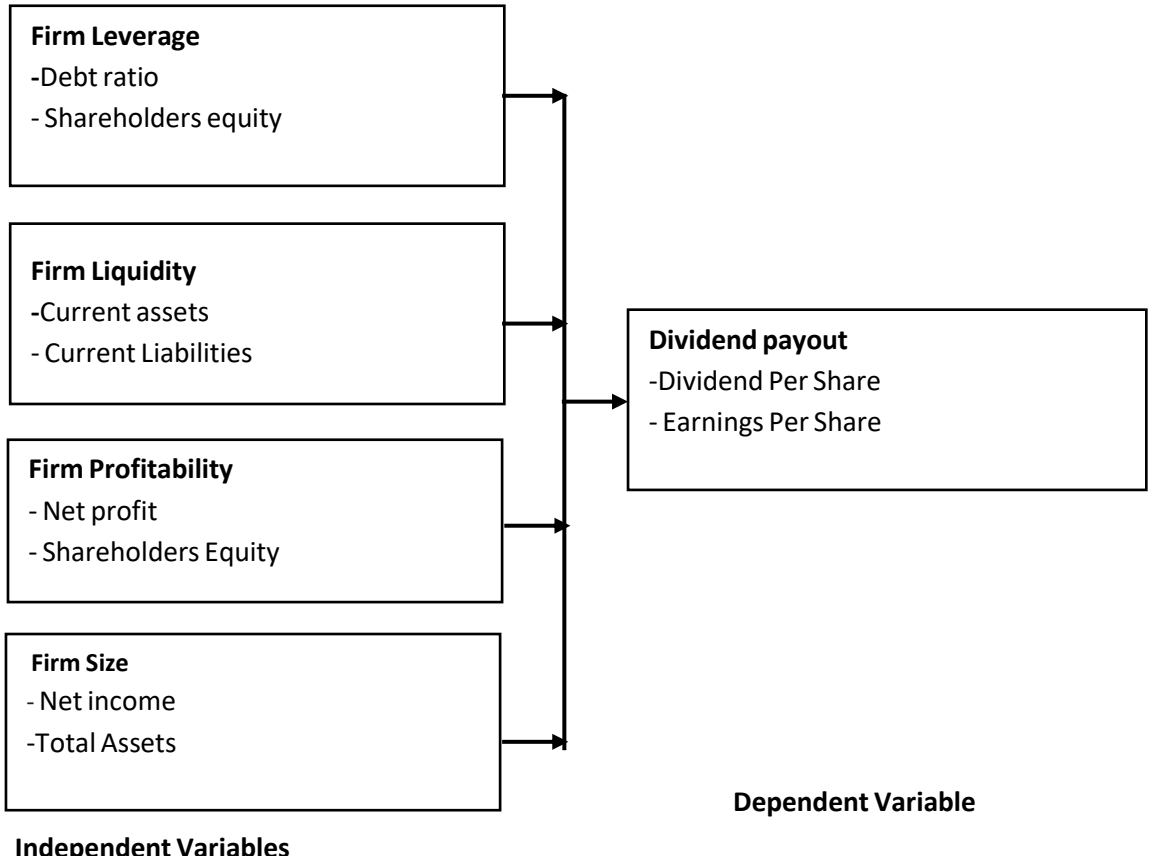

Figure i2.1: Conceptual Framework

Firm Leverage

Firm leverage refers to the use of debt (borrowed capital) in order to undertake an investment or project (Ahmad, 2021). Firm leverage refers to the usage of debts to acquire additional assets or fund projects. It is the financial trade-off between the return on the issuance of preferred stock or debt and the cost of maintaining that preferred stock or debt. Leverage results from using borrowed capital as a source of funding when investing to expand a firm's asset base and generate returns on risk capital. In this study, firm leverage was quantified in terms of debt ratio.

Firm Liquidity

Liquidity is a company's ability to convert assets to cash or acquire cash through a loan or money in the bank to pay its short-term obligations or liabilities (Gul and Cho (2019). The current ratio measures a company's ability to pay off its current liabilities (payable within one year) with its current assets such as cash, accounts receivable, and inventories. The higher the ratio, the better the company's liquidity position. In this study, current ratio (calculated as a ratio between - current assets and current liabilities) was adopted as the measure of firm liquidity.

Firm Profitability

Firm profitability refers to the extent to which its total income exceeds its total expenses for any given period. According to Vidiyanna and Rachmawati (2019) profitability is defined as Return on Assets, which indicates how profitable firms are relative to total assets. Firm's capacity to make profit is important to a business because profitability impacts whether a company can secure financing from a bank, attract investors to fund its operations, grow its business and payout dividends. Firms pay out dividends from their earnings hence profitable firms are generally expected to pay dividends. Firm profit-levels can be quantified using the Earnings before interest and tax (EBIT) and can also be measured by dividing the EBIT by the total assets to obtain the return on earnings (ROE) (Al Shubiri, 2019). The more profitable a firm is, the higher the probability of paying out dividends. In this study firm profitability was measured in terms of ROA.

Firm Size

Bigger firms might have more assets and thus the capacity to seek after socially dependable exercises. In this way, they might have the degree to accomplish financial productivity. According to the literature, it is unclear whether company size has an effect on performance. According to Smith and Watts (1992), companies with more assets have higher dividend payout ratios. However, Gadhoum (2000) demonstrates that larger businesses produce more information than smaller ones, which results in a decrease in dividend signaling efficiency. Hence, the incorporation of size might be best viewed as a straightforward control variable, with no specific sign assumption. The natural log of total assets and net sales is used to measure the size of the businesses in the current study.

Dividend Payout

Adeiza, Sabo and Abiola (2020) defined dividend payout as the ratio of dividends to net income. Kurere, Limo and Tenai (2021) affirm that the dividend payout verdict is dependent on profitability, with firms returning more to shareholders in the form of dividends if they report hugher earnings. According to Husna and Satria (2019), payout of dividends refers to the amount of dividends paid to investors in relation to total amount of net income the company generates. In other words, the dividend payout is measured by the percentage of net income that is distributed to shareholders in the form of dividends as a ratio. According to Mwenda (2022), the dividend pay-out ratio calculates the ratio of income after tax that shareholders receive as dividend. The net profit the company opts to retain as a means of financial operation as well as the net profit percentages that are offered to shareholders (Khalaf, 2022). In this study dividend payout was measured in terms of dividend per share and earnings per share.

According to Kim and Injoong (2020), a business's capability to reimbursement dividends consistently over a while as well as its ability to increase the dividends gives a positive impression to the market regarding its future outlook as a going concern. Companies with

strong financial performance have a greater likelihood of paying dividends on a more consistent basis. In addition, the frequency of payouts made by highly leveraged companies is typically lower than that of organizations with low leverage. Companies frequently offer shareholders a choice of dividend payout policies whereby they will make base their decisions on (Khan, Houda& Khalid, 2019). There is an inverse association between the size of the company and the magnitude of anomalous returns close to the date that the dividend is announced. In his research, Biza-Khupe (2016) examines the topics of growth policy and dividend policy in addition to the costs of capital. These are important and fundamental to the methods used in contemporary appraisal.

In order to accurately represent the value that is being invested at the present time in the electric utility industry, the study creates and validates a finite growth model for the sector. Tekin (2020) is the opinion that a thriving dividend policy is, first and foremost, unnecessary in a well-functioning capital market. However, due to the fact that there are taxes and transaction fees, the authorization of a dividend by a company is considered to be a reliable return. Therefore, the DP is measured by the payout ratio which is given by the percentage of net income that is distributed to shareholders in the form of dividends. The dividend payout ratio shows how much of a company's earnings after tax (EAT) are paid to shareholders. It is calculated by dividing dividends paid by earnings after tax and multiplying the result by 100 to get the percentage.

Empirical Review

Firm Leverage and Dividend Payout

In their study Sarwar, Al -Far-yan and Saeed (2022) investigated the impact of Corporate Governance on the financial performance of seven Thai banks for the period from 2009 to 2018, and also focused on the relationship between corporate governance, leverage, financial performance and Corporate Social Responsibility (CSR) as a mediating variable. Ordinary Least Square and Two Stage Least Square were used to determine the relationship between the variables. Using Hausman test it was found that Random Effect model was the suitable model. Few of our independent variables were having endogeneity so in order to have stable results we used Two Stage Least Square Method instead of ordinary least square.

According to the Zhou et al. (2021) high profitable companies have sufficient funds and are not dependent on external debt. This would probably reduce the threat of bankruptcy and financial crisis for the companies of China (Chinese non-financial listed firms during 2000-2018). Ahmad (2021) examined the influence of financial leverage (FL) on a bank's performance was estimated using the dynamic Generalised Method of Moments (GMM). It also investigated the impact of the 2008 financial crisis on the Jordanian banking industry. The study sample is drawn from a complete list of Amman Stock Exchange-listed banks (ASE). The findings indicate that bank leverage is a strong predictor of performance. FL has a detrimental impact on the performance of banks. The crisis affected both mainstream

and pure Islamic banks. Converted Islamic banks were no more immune to global shocks than mainstream banks. Large banks outperformed small banks in terms of financial performance, while new banks recovered faster from the impact of the crisis than older ones.

Pattiruhu and Paais (2020) wanted to find out how the Indonesia Stock Exchange's real estate companies' dividend policies were affected by factors like liquidity, profitability, leverage, and firm size. The 9 listed companies that were the focus of the study were analyzed using regression analysis for the years 2016 to 2019. The debt-to-equity ratio had a positive and significant effect on the dividend payout, while the firm current ratio had no effect on the dividend payout, according to the study. Murikwa (2020) looked into how leverage affected Kenyan banks' ROA. The descriptive research design method was used from 2007 to 2016. Multiple regression, correlation analysis, and descriptive statistics were used to gather and analyze secondary data on the 11 commercial banks that are listed on the NSE. The results of the study showed that ROA had a negative relationship with leverage and a positive relationship with credit risk management and bank size. Subsequently, the report proposes that business banks keep influence levels low and extend size to further develop execution. Share return and capital structure had a negative and significant relationship, according to the analysis.

For NSE-listed businesses, Sang (2020) looked at the relationship between capital structure and dividend payout. The specialist obtained data from optional information and zeroed in on an example of 29 firms recorded at the NSE. Regression analysis was used to see if there was a connection between dividend payout and capital structure. The researcher came to the conclusion that there was an inverse relationship between dividend payout and capital structure. The study then concludes that a firm’s leverage negatively affects dividend payout. Harelimana (2019) examined the effect of influence finance on business execution and found a significant positive connection between obligation level and productivity level. Only when the rate of return on investment was greater than the rate of return on leverage did leverage have this effect.

Tangut (2019) looked at how financial leverage affected the stock returns of non-listed NSE-listed businesses. Both primary and secondary data were used in the research. The exploratory research design method was used from 2002 to 2016. Before being analyzed using multiple regression, correlation analysis, and descriptive statistics in SPSS, the data were checked for normality, multicollinearity, and the Hausman test. They discovered that business share returns were significantly adversely affected by financial leverage. Waswa, (2019) examined on the elements that influence strategy payout choices of Agribusiness firms as recorded on the Nairobi stock trade. The study covered the years 2005 to 2010 and concentrated on seven agricultural businesses. The quantitative multiple regression analysis that was used in the study was also used in the design of the study. The results showed that leverage and dividend payout had a negative relationship.

Mworia (2018) set out to determine the connection between a company's dividend payout and its financial leverage. The dividend payout and the capital structure were the study

variables. The study used secondary data from the company from 2011 to 2015. Deductive and quantitative research methods were utilized in the study. A regression analysis, also known as an Ordinary Least Square (OLS) and a multivariate analysis, was carried out in order to establish the relationship that exists between the two variables. According to the findings, financial leverage had a negative relationship with dividend payout.

Firm Liquidity and Dividend Payout

Koskei (2021) explored the connection between long haul obligation proportion, obligation to-resource proportion, obligation to-value proportion, and monetary execution of Kenyan confidential sugar creating undertakings. The study surveyed all six commercial sugar companies in Kenya using secondary data. The study found that the debt-to-equity ratio has a significant impact on financial performance, the debt asset ratio does not, the long-term debt to equity ratio has a significant impact on financial performance, and the size of the company has no effect on financial performance. Inferential and descriptive statistics were carried out for the analysis of the data. The study established that profitability played the biggest role in determining dividend payout but also established that cash flows and working capital contribute. The study concludes that for firms to pay better dividends to their investors they should have cash flow freely into the firm and working capital is properly managed.

Hatem (2021) investigated the impact of debt maturity on structural performance in Malaysia and Mexico between 2016 and 2020. The major debt indicators were long-term capital structure, short-term capital structure, and capital structure. According to the study, firms with a larger short-term capital structure are less productive. The findings of this study clearly illustrate that financial leverage has an important role in a firm's performance. As a result, the longer the duration of a loan, the more beneficial it is to a corporation. Caruabna (2020) conducted research to determine the link between debt level and business growth of Egyptian SMEs. Return on assets, return on equity, gross profit margin, and short-term and long-term debt were the study's dependent variables; total debt was the study's independent variable.

Aziz (2019) investigated how non-financial businesses' ROA is affected by debt financing. From 2006 to 2014, 14 non-financial industries listed on the Pakistan Stock Exchange comprise the study's population. Financial performance was revealed to be negatively impacted using regression analysis. As a result of the study's recommendation, firms should depend more on internal sources of funding because they are less expensive and more trustworthy. This study has a contextual gap because the findings for Pakistani enterprises cannot be transferred to the Kenyan setting, therefore the necessity for this investigation on the debt financing effect on listed Kenyan firms. According to Gul and Cho (2019), an increase in short-term debt to assets increases the chance of default and vice versa.

Aziz and Rahman (2019) examined the connection between debt and corporate output from 2012 to 2018. The study focused on nutrition manufacturing companies in Amman Bursa.

The study discovered a negative relationship between solvency and profitability ratios. Sabin and Miras (2019) used secondary data (annual reports) from 2010 to 2018. Results have shown that debt level has a negative correlation with CR, QR, ROE, ROA and NPM. The study found that debt level has a significant positive impact on QR. The gearing level has a significant negative impact on ROE, ROA and NPM. The study also explained the results with the support of various capital structure theories and showed the mixture of debt and equity that has a significant impact on the profitability and liquidity of low-cap firms. This was simply to help managers of low cap firms in considering the debt level that could improve the profitability and liquidity.

Firm Profitability and Dividend Payout

Ali, Muema and Muriuki (2021) sought to establish the financial determinants for the dividend payout scheme among Saccos in Kenya between 2018 and 2021. The research design adopted for this study was descriptive. All 166 Saccos in Kenya were targeted by the researcher. Taro Yamane was used for sampling 62 DT-Saccos. Secondary data was obtained using a secondary datasheet. Descriptive statistics included the use of mean, standard deviation, frequency, and percentages. Besides, inferential analysis including correlation and linear regression analysis were used. Data was presented on tables and narratively interpreted. The study revealed that profitability and dividend payout had a β= 0.889, t=6.217, and associated p-value of 0.001. The study concluded that profitability had a positive and significant influence on the dividend payout in deposit-taking Saccos in Kenya.

Rohov (2020) carried out a study to determine factors affecting dividend policy in the conditions of the Ukrainian underdeveloped stock market. The sample for the study comprised 58 non-financial firms in Ukraine listed in the stock exchange. The firms were classified using the Interactive tree classification techniques (C&RT) with results showing firms likelihood to pay dividends. 92.86% of the firms were correctly classified to pay dividends while 93.3% of the firms did not. The study found that, financial indicators only determine conditions under which dividend payouts are absolutely impossible, but nothing more and that business risk and firm size do not affect dividend decisions. The study emphasizes that factor of ownership is the most important in dividend policy.

Uwase (2020) conducted a study on the determinants of financial performance of small and medium manufacturing firms in Nairobi County. The study specifically examined how organization structure, technology ability, and management competency affect financial performance. The theories that guided the study were the dynamic capabilities theory and the teleological theory and the study adopted a descriptive survey research design, with a quantitative focus. The target population was the 503 registered SMEs in the manufacturing sector in Nairobi County. The research sampled 223 of those SMEs and considered one management personnel per firm as the respondents. Thus, the sample size for the study was 223 managers. The study utilized a structured questionnaire, and the

instrument was pretested on 10% of the sample. The study obtained an 83% response rate and the collected research data was coded into SPSS.

Nyandumo (2020) did an investigation into the effect of profitability on dividend policy for manufacturing companied listed at the Nairobi Securities Exchange. Descriptive research design was used in the study and secondary data from the audited financial reports of the manufacturing firms were heavily relied on. The study conducted a census of all the firms listed at the NSE. The data analysis was performed by use of MS Excel and SPSS then presented using tables. From the data analysis, the coefficient of determination was0.7240. Profitability regression coefficient was +0.301. The p-value for profitability as indicated was 0.02 and the p-value earnings was 0.029 which were <0.05. This implies that profitability and earnings were statistically significant at 5% significance level. The ANOVA test shows that the F-test is 3.282 and the probability is 0.112. The significance is more than 0.05. This means that the there was no statistical significance of the independent variables combined. This also indicates that the null hypothesis should be accepted hence there is no effect of a firm's profitability on the dividend policy adopted. The results of the correlation analysis indicated that dividend policy is positively correlated with profitability as shown by the correlation coefficient of 0.4263. The strongest predictor of dividend policy established in the study was profitability with a coefficient of +0.426. This means that when profitability increases, the company's ability of profit distribution in form of dividends also increases.

Vidiyanna and Rachmawati (2019) sought to determine the effect of profitability, dividend policy, debt policy, and company age on company value with company size as a control variable. A population of this research is non-bank financial companies listed in Indonesia Stock Exchange (IDX) between 2014-2016. The sampling method that used is purposive sampling method and obtained 38 companies. The independent variable is Return On Equity (ROE) as a measure of profitability, Dividend Payout Ratio (DPR) as a measure of dividend policy, Debt to equity ratio (DER) as a measure of debt policy, and firm age. The dependent variable is Tobins Q as a measure of company value. The control variable is an ln total asset as a measure of firm size. This study uses secondary data that obtained from a financial statement that available on Indonesia Stock Exchange. The results showed that Profitability (ROE), and Debt Policy (DER) have no significant effect, dividend policy has a positive significant effect, and Company age has a negative significant effect on firm value. Meanwhile, the control variable (firm size) have no significant effect on firm value.

Firm Size and Dividend Payout

Size of a firm has been considered to be a factor in determining dividend policy of a firm. Tipis (2022) set out to find out how the size of a company affects how well commercial banks in Kenya do financially. The research design was descriptive. The target population consisted of the 41 commercial banks in Kenya as of December 2021. The review gathered auxiliary information for a very long time (2017-2021) on a yearly

premise from CBK and individual banks yearly reports. The results of the descriptive, correlation, and regression analyses were presented in tables, followed by pertinent interpretation and discussion. The findings had a R square value of 0.604, indicating that the four variables chosen for this study could explain 60.4% of changes in banks ROA. In addition, the results of the multivariate regression analysis indicated that firm size has a positive and statistically significant impact on banks' ROA (=0.484, p=0.000). Bank ROA was negatively impacted by credit risk, as demonstrated by (=-0.346, p=0.000). Liquidity and capital sufficiency displayed a positive and huge impact on ROA of banks in Kenya as shown by (β=0.318, p=0.000) and (β=0.282, p=0.000) separately.

Omenyo and Muturi (2019) wanted to find out how the size of a company affects how well manufacturing companies listed on the Nairobi Securities Exchange do financially. The manufacturing sector represented the target population. The annual financial statements of every manufacturing company in Kenya that was prequalified served as the source for the secondary data, and operated between the years 2012 to 2018. Data was analyzed by use of panel descriptive statistics. The study concluded that Firm size was characterized in Carbacid investments. Firm size as per each manufacturing firms which depicted that Carbacid investments had highest firm size. The firm's size was characterized by financial position being highest mean. The firm's size was not highly characterized by number of employees.

Khoiro, Suhadak and Handayani (2019) researched how capital structure and firm size influences profitability and dividend policy. The independent variables of the study were capital structure, firm size and profitability while the dependent variable was the dividend payout. The study focused on 36 listed Indonesian firms sampled purposively and panel data obtained for between 2009 and 2012. Data analysis was done using Partial Least Square (PLS) by smart PLS software. The finding of the study was that firm size has a significant positive influence on the dividend payout. Bostanci et al., (2018) carried a study on Determinants of Dividend payout Decisions: A Dynamic Panel Data Analysis of Turkish Stock Market. The independent variables of the study were return on equity/ market value ratio, liquidity and firm size while the dependent variable was dividend payout. Secondary panel data was collected from 106 listed firms from between 2009 and 2015. The panel data was analysed using panel regression. The study found that firm size had a statistically significant effect on the dividend payout.

Muhindi and Ngaba (2018) aimed at to determining the effect of firm size on financial performance of commercial banks in Kenya. To obtain this objective, the study used a descriptive survey. The variables entailed; the number of branches, capital base, number of customer deposit and the loan and advances. The population of the study constituted all the 42 registered commercial banks in Kenya classified in to large, medium and small banks. During the fiscal year ended June 30, 2016, there were 42 commercial banks and 1 mortgage finance company. The data was gathered from the bank's financial reports and central bank supervision reports for 5 years period from 2012-2016. The study found that there exist a strong correlation between many number of branches and ROA, as well as

a strong correlation of 0.333 of number of branches and ROA. There exist a strong relationship between Loan and advances on ROA with a result of 0.512. There exist a strong trend in relationship between loan and advances and ROA, and growth in the loan and advances of large banks and a stagnant one in the small and medium banks.

Dividend Payouti

Hussein (2022) explored the determinants of dividend payout. Contextually, it analyzed the firm listed at NSE for the period spanning from 2016-2020 thereby totaling to 5years. The theories anchoring the study include the pecking order, dividend irrelevance and signaling theory. The study investigated the nature and behavior of the data by undertaking intensive diagnostic such as normality, multicollinearity and autocorrelation. The predictor variables considered include; firm size, leverage, profitability and growth. All the variables exhibited positive correlation except the firm's size. The regression computation opines that all the four explanatory variables accounted for 84.3% of all the influencers of dividend payout. 15.7% represented other factors determining dividend payout but were not prioritized for the research. Based on the findings, the autonomous was -3.279. An increase in firms causes negative change in dividend payout by 3.8%. Moreover, a single increment in the leverage translates to 60% increment in DPO. An addition of one unit in profitability causes 72% positive change in DPO and an increment in growth by one unit causes changes in DPO by 39.7%. Moreover, the sum of squares of 121.408 with the mean square of30.352 under the 4 degrees of freedom. Additionally, sum squares of 22.668 and mean square of 0.072 under the 315 degrees of freedom. The P value of 0.001 is less than 0.05 hence statistically significant.

Njiraini (2022) sought to establish the determinants of dividend payout ratio for companies listed at the Nairobi Securities Exchange. The specific objectives of the study were to determine the influence of profitability, liquidity, leverage and firm size on dividend payout ratio for companies listed at the Nairobi Securities Exchange. The target population of the study were all the 64 firms listed at the NSE as at 31st December 2021. However, one of the firms was listed after 2017 while 5 were suspended remaining with 58 listed firms at NSE. Thus, a census of all the 58 NSE listed firms was conducted. The study employed descriptive research design and secondary data was collected for a period of 5 years, from 2017 to 2021. Data was analyzed using descriptive statistics and panel data regression. Descriptive statistics involved determining the mean, the standard deviation, skewness and kurtosis for each variable under study. Panel data regression analysis established the nature and significance of the relationship between the study variables. Stata version 16 was employed to analyze the data. The analyzed data was presented using tables and charts. The findings of the study indicated that firm size, liquidity and profitability of the companies listed at the Nairobi securities exchange had a positive and statistically significant relationship with dividend payout. However, financial leverage was found to have a positive but insignificant effect on the dividend payout of the listed firms under study.

Bulla (2021) investigated the Determinants of Dividend payout in Emerging Stock Markets: Evidence from Listed Firms at NSE, Kenya. The independent variables of the study were profitability, prior dividends, growth prospects and business risks while the dependent variable was the dividend payout. Triangulation method was used to analyze panel data and cross section data. The profitability of firms was found that it only affected dividends payout in three sectors (Agriculture, banking and Construction). To identify the main determinants of DP, Dewasiri, Koralalage and Azeez (2019) studied and revealed that debt to equity ratio, profitability, and current ratio as having a significant positive influence. The same study identified operating cash flow per share and market to book value ratio as having a negative influence on the dividend payout ratio. Results from another study in Ghana also agree on DP is certainly influenced by firm profitability, board size, and the type of audit. Retnowati and Jayanto (2020) indicated that firm size and return on assets have a significant negative influence on the dividend payout while earnings per share, debt to equity ratio, interest rates, and inflation have no significant influence on the dividend payout.

Melese and Ravi (2019) allude that potential investors usually consider the dividend payout in a firm before they take up its shares. Therefore, shareholders can use their share value growth to assess how successful the management is. According to Khan, Houda and Khalid (2019), the investors may prefer that they are not paid the dividends to avoid this tax and hope to grow the firm through reinvestments instead. This is manifested when the tax policy changes with the reduction in taxes. In such a case then such investors increase their preference for the dividend payout. Trisanti (2018) sought to analyze factors influencing dividend policy in Indonesian listed firms. The independent variables of the study were sales, debt, profitability, assets growth while the dependent variable was the dividend payout. Secondary panel data was collected from a sample of 80 listed manufacturing firms for 2013 to 2016. Multiple regression analysis was carried out to determine the relationship between the two sets of variables. The study finds that Profitability has a significant positive relationship with the dividend payout.

Summary of Literature Review

From the literature reviewed, it is evident that there exist contrasting views between different authors as to whether pay dividends or retain profits and re-invest. Flagging hypothesis contend that there exist a positive reliance between payout and development in future profit is that supervisors are hesitant to cut profits in that cash profit declarations pass on important data, which investors don't have, about administration's evaluation of a company's future productivity hence lessening data anomaly. As a result, investors can use this data to evaluate a company's share price. However, contrary to bird in hand theory, investors are more willing to invest in stocks that pay dividends now than in stocks that hold earnings and will pay dividends in the future. They contend that the joined worth of profits and capital additions decrease when profit payout proportion increments. Therefore, it was essential to conduct this research in order to establish the determinants of dividend payout in insurance companies in Kenya.

Research Gaps

While there have been studies examining dividend payout determinants in various industries and sectors, including banking and real estate, there is a lack of research focused specifically on insurance companies in Kenya. This research gap highlights the need to explore the unique factors influencing dividend decisions within the insurance sector. While Zhou et al. (2021) investigated the relationship between profitability and external debt for Chinese non-financial listed firms, there is a lack of research specifically focusing on the insurance industry. Exploring the impact of external debt on dividend payout in insurance companies can provide insights into the financing choices and their implications for dividend distribution.

Although some studies have examined the relationship between leverage and financial performance in banking and other industries, such as the study by Harelimana (2019), there is a research gap in understanding how leverage specifically affects dividend payout decisions in insurance companies. Investigating the impact of leverage on dividend payout can shed light on the capital structure decisions and payout policies of insurance firms in Kenya. While the study by Tipis (2022) explored the impact of firm size on the financial performance of commercial banks, there is limited research on the specific relationship between firm size and dividend payout in the insurance sector.

Studies done locally like Ochuodho and Murekefu (2018), Masara (2017), Otieno (2017), Githinji (2018) and Sabila (2017) have studied the effect of dividend payout, none has focused on insurance companies or focused on determinants of dividend payout. The current study intended to fill this research gap by exploring the relationship between leverage, liquidity, profitability, and firm size on dividend payout determinants in the insurance industry, particularly in the context of Kenya.

RESEARCH METHODOLOGY

This chapter constitutes the procedures and methods, which were employed in the study. these included the research design, target population, sampling procedure, instrumentation, pilot study, validity and reliability of research instruments, data collection methods, data analysis and presentation and lastly ethical consideration.

Research Design

This study used a descriptive research design. According to Anatoliy and Maryna (2014), descriptive survey involves a clearly defined problem and definite objectives and questions and development of generalization, principles or theories that have universal validity. Descriptive survey method involves asking a large population question about a particular issue. The design

enabled the researcher to establish opinions and knowledge about relationship between determinants of dividend payout for insurance companies in Kenya.

Target Population

A target population is that population to which a researcher wants to generalize the results of a study. In the views of Liang and Mackey (2013) the target population or the universe describes all the members of the real or hypothetical set of people, events or objects to which the ***r***esearcher wishes to generalize the results of the research study. In this study, the researcher targeted all the 55 licensed insurance companies in Kenya (Appendix II).

Sampling Procedure

Sampling method represents the rules and procedures by which some elements of the population are included in the sample. The objective of sampling is to identify representatives from the larger population for purposes of fulfilling the study objectives. The idea behind the sampling process is to overcome challenges and constraints in studying the entire population (Simplice, 2016). Since the study targeted only fifty-five insurance companies which was a small population, Census method was used and involved all the insurance companies in Kenya. A census of the 55 insurance companies was carried out. According to Mugenda and Mugenda (2013), census sapling is appropriate for small populations because it ensures the inclusion of all elements in the population, leaving no room for sampling error or bias. In the case of this study, the census method was suitable for the small population of 55 insurance companies in Kenya. By conducting a census, every insurance company in the population was included in the study, providing a comprehensive and accurate representation of the entire population.

Data Collection Instrument

The study collected secondary data on relationship between determinants of dividend payout for insurance companies in Kenya. The data was collected using a secondary data collection sheet to ensure all the important information is captured (See appendix III).

Data Collection Procedures

The study collected secondary data from authoritative and official sources such as the insurance regulatory authority and insurance financial annual reports of a population size of 55 insurance companies *t*o conduct its empirical analysis. the justifications for the use of published audited annual reports of listed companies included: first, the annual reports are compulsory as they are required by legislation and so they are produced regularly especially by all listed companies thereby making comparisons relatively easy (Emuze, Dabur & Atu, 2017); second, annual reports provided a comprehensive picture of an organization's performance (both financial and non-financial performance) (Duab, 2007); third, as stated by Carol (1994), annual reports are considered to be a highly credible source of information; fourth, some stakeholders take published audited annual

reports as their sole source of information(Deegan & Rankin, 1997); and finally, many researchers on related studies have used companies' annual reports for analysis purposes while fewer researchers have used the combination of both annual reports and other company documents (e.g. websites, stand-alone reports, brochures, and advertisements).
The study therefore collected the annual report on each of the study variables for the 55 companies between 2017 and 2021; that is a 5-year period.

Pilot Testing

According to Cooper and Schindler (2017), a pilot test serves the purpose of uncovering flaws in research design and instrumentation, as well as providing proxy data for the selection of a probability sample. However, in the case of this study which utilized secondary data, the pilot test was conducted with the primary objective of assessing data availability and suitability for the research.

As the study relied on pre-existing secondary data from published audited annual reports of insurance companies, it was essential to conduct a pilot test to verify whether the required data variables were available and accessible. The pilot test allowed the researcher to examine the data sources, understand the content, and determine if any crucial data points were missing or inconsistent. Moreover, the pilot test helped in refining the data collection process and ensuring that the selected secondary data sources aligned with the research objectives. By conducting a preliminary examination, any potential issues related to data compatibility, reliability, and completeness could be identified and addressed before commencing the main data collection phase.

Validity Test

In this study, validity refers to the extent to which the research accurately measures what it intends to measure (Creswell, 1998). Since the study utilized secondary data, ensuring data validity was a critical concern. To enhance the validity of the data, a thorough pilot test was conducted to assess data availability, relevance, and consistency. During the pilot test, the researcher examined the data sources, verified the alignment of variables with the research objectives, and checked for any missing or erroneous data points. By confirming the data's appropriateness and suitability, the study's validity was strengthened, ensuring that the collected information accurately represented the determinants of dividend payout among insurance companies in Kenya.

Reliability Test

Reliability pertains to the consistency and stability of the research findings, indicating the extent to which the results can be replicated under similar conditions (Jensen & Johnson, 2014). Since the study relied on secondary data, ensuring data reliability was essential to establish the trustworthiness of the research outcomes. The pilot test played a crucial role in assessing data reliability by examining the consistency of information across different sources and time periods. By cross-verifying data from various audited annual reports of insurance companies, the researcher ensured that the data was stable and dependable. Additionally, by using data from reputable and standardized

sources, the study's reliability was further enhanced, as these sources are known for their rigorous data collection and reporting processes.

Furthermore, employing standardized measurement tools and well-established variables in the research design contributed to the overall reliability of the study. By using established financial metrics such as leverage, liquidity, profitability, and firm size, the study ensured that the determinants of dividend payout were consistently measured and analyzed, thereby enhancing the reliability of the findings.

Data Analysis and Presentation

The researcher had to establish whether the signs and sizes of the estimates were in line with the theory by using some test tools such as the panel least square econometric technique, the Pearson correlation coefficient, as well as the descriptive statistics to establish the determinants of dividend payout of licensed insurance companies in Kenya. Panel data regression was used as a data analysis method for the study. The use of panel data regression methodology in this study was based on three fundamental justifications as specified by Dabor et al (2015).

The data was analyzed using both descriptive and inferential statistics such as panel regression. The specific descriptive statistics included mean, standard deviation, percentage and frequency, while the particular inferential statistics included panel regression analysis which was used to show the association and relationship between the variables. The results were presented on tables and graphs. To determine the strength of the relationship between the variables, the researcher used the panel regression analysis. The panel regression model used in this study is shown in Equation 3.1.

$$Y = \beta_{0t} + \beta_{1t}X_{1t} + \beta_{2t}X_{2t} + \beta_{3t}X_{3t} + \beta_{4t}X_{4t} + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{ Equation 3.1}$$

Where;

Y= the dependent variable (Dividend payout)

β_0 is a constant and it's the y value when all the predictor values (X_1, X_2, X_3 and X_4) are zero, β_1, β_2, β_3 and β_4– are constants regression coefficients representing the condition of the independent variables to the dependent variables.

X_1=firm leverage;

X_2=firm liquidity;

X_3 =Firm profitability,

X_4= firm size

t= time, i.e., between 2017 and 2021

Diagnostic Tests

The study conducted diagnostic tests before using an ordinary least square regression model to test the study hypotheses. This also ensured that assumptions of classical regressions are not violated. The tests of normality, heteroscedasticity, homoscedasticity as well as multicollinearity were conducted before running the respective regression models. These tests are described in the subsection.

Normality Test

Normality test was undertaken by plotting the residuals, to test consistent. The variables were subjected to normality tests to check whether the data provided by the dependent variable (Y) is normally distributed. Normality was assessed by application of the Shapiro-Wilk test. if the chosen alpha level is 0.05 and the p-value is less than 0.05, then the null hypothesis that the data are normally distributed is rejected. if the p-value is greater than 0.05, then the null hypothesis is not rejected. Whenever the residual errors are not normally distributed, the regression estimates may not be reliable (Razali & Wah, 2011).

Heteroscedasticity

Heteroscedasticity was used to ensure that the residuals of the regression model are constant across time and hence the study used Breusch-Pagan test to run the test. it was tested against the null hypothesis of homoscedasticity. Homoscedasticity was used to describe a situation in which the error term (that s, the "noise" or random disturbance in the relationship between the independent variables and the dependent variable) is the same across all values of the independent variables.

Linearity Test

Linearity means that the relationship between the explanatory variables and the outcome variable is linear. In other words, each increase by one unit in an explanatory variable is associated with a fixed increase in the outcome variable. The Pearson's correlation coefficient was used to test the linearity of the relationship between the variables.

Multicollinearity

Multicollinearity refers to a situation where the predictor variables are highly correlated to each other in a tune of Pearson correlation values above 0.8(Field, 2008). It inflates both the standard errors and the coefficients which in turn gives false prediction. The study used a correlation matrix to determine the presence of multicollinearity among the independent variables before running the regression model. A Pearson correlation value greater than 0.8indicates presence of multicollinearity(Ongore,2008). The goal of the multicollinearity test is to analyze whether there is correlation between independent variables. Multicollinearity in the regression model can be detected such as by testing the R Square value and/or analyzing the correlation matrix (Ghozali 2002), the other ways to detect the problem of multicollinearity are the tolerance values and VIF (Hair*et al*, 1998).

Ethical Consideration

The researcher obtained permission from the National Commission for Science Technology and Innovation (NACOSTI) before going to the field to commence data collection. When reporting the results of the study, the researcher ensured that the research reports accurately and represent what was observed after proper analysis of all the data collected.

RESEARCH FINDINGS AND DISCUSSION

This chapter presents the findings of the study on the determinants of dividend payout of insurance companies in Kenya. The obtained data was analyzed quantitatively where both descriptive and inferential methods of data analysis were used. Mean scores, standard deviation, and percentages were employed in descriptive analysis. With regard to inferential analysis, the research used linear regression analysis to outline the relationships between the independent variables and the dependent variable. The findings are outlined in four major sections. These sections cover background information, descriptive analysis, diagnostic tests and the fourth section dwells on the inferential analysis of the results.

Background Information

The data was gathered was from the 55 insurance companies in Kenya. This involved use of secondary data collection techniques where the data was sourced from financial reports, published articles, referred journals and other relevant materials from the internet and library sources. Secondary data collection was preferred to provide a better way to ascertain the relationship between determinants of dividend payout for insurance companies in Kenya. The specific objectives study were to find out the effect of firm leverage, firm liquidity, firm profitability and firm size on dividend payout of insurance companies in Kenya.

Descriptive Analysis

This section of the research is dedicated to synthesizing the descriptive information on determinants of dividend payout of insurance companies in Kenya. This section conducts a thorough analysis of the effects of firm leverage, firm liquidity, firm profitability and firm size on dividend payout of insurance companies in Kenya.

Descriptive Analysis of Firm Leverage

The first objective was concerned with finding out the effect of firm leverage on dividend payout of insurance companies in Kenya. The data on firm leverage of the insurance companies was collected to firm leverage during years 2017-2021 period. According to Table 4.1, the mean of total debt was Kshs. 727917.3B with the minimum value being KShs. 657439.2B recorded in 2017 and the maximum being KShs. 829090.9B recorded in year 2020. The shareholder's equity changed from KShs. 365244.0B in 2017 to KShs.352940.7B in 2018, then KShs. 403769.2B in 2019, followed by KShs.376859.5B in 2020 and finally KShs.400403.9B in 2021. This resulted to an

average of KShs.381457.9B in shareholders' equity. The calculated debt-to-equity ratio was ranging between 1.7 reported in 2019 and 2.2 in 2020. The mean D/E was 1.92 indicating that the insurance companies in Kenya are well financed to cater for the short-term financial obligations. This is in line with the general consensus that debt-to equity ratio should not be above a level of 2.0. The debt-to-equity ratio shows the companies' short-term financial health where debt to equity ratios higher than 2.0 may denote difficulties of businesses in meeting their short-term financial obligations while debt to equity ratio below 2.0 may indicate that the companies are able to meet their short-term financial obligations without any problems. Ahmad (2021) also determined that financial leverage ranging between 1.7 and 2.5 plays a great role on business financial performance in terms of return on assets. The results on firm leverage over the five years period (2017- 2021) are presented in Table 4.1 and Figure 4.1.

Table 4.1: Descriptive Statistics on Firm leverage

Indicators	2017	2018	2019	2020	2021	Mean	Min	Max
Total Debt (KShs. B)	65743 9.2	7058 81.3	6864 07.6	82909 0.9	76076 7.4	72791 7.3	65743 9.2	82909 0.9
Shareholder's equity (KShs. B	36524 4.0	3529 40.7	4037 69.2	37685 9.5	40040 3.9	38145 7.9	33634 5.2	45240 5.0
Debt-to-Equity Ratio	1.8	2	1.7	2.2	1.9	1.92	1.7	2.2

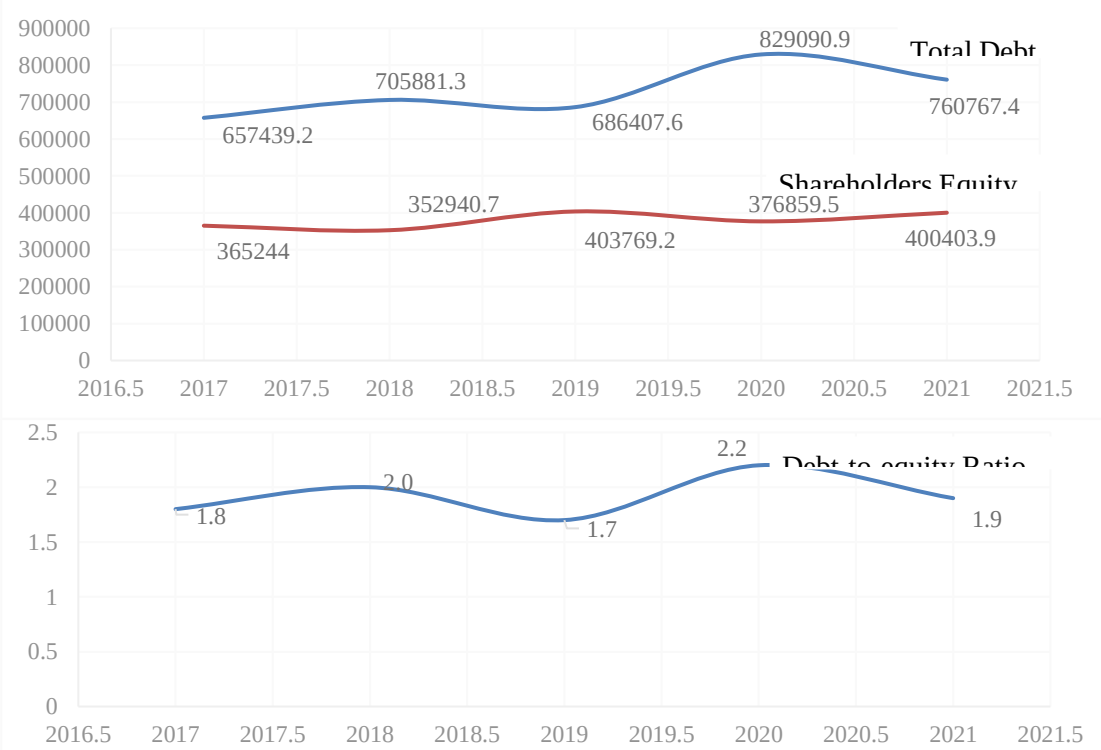

Figure 4.2: Financial Leverage Trend Analysis

Descriptive Analysis of Firm Liquidity

The second objective was dedicated to establish the effect of firm liquidity on dividend payout of insurance companies in Kenya. Table 4.2 shows the current ratios of the insurance companies in Kenya between years 2017 and 2021. The total annual current assets of the insurance companies during the five years period ranged between KShs. 229.0981Tn reported in year 2020 and KShs. 698.9874Tn reported in year 2021. The average current assets during the study period amounted to KShs. 577.5621Tn.

The least amounts of current liabilities during the five years period were KShs. 346097.6Tn posted in 2019 and the maximum was KShs. 372.9892Tn reported in 2021. The mean of current liabilities was KShs. 361.1036Tn. The minimum current ratio was 0.61 which coincides with year 2020, the maximum was 1.9 reported in 2019 and the average for the five years period was 1.61. There was a general upward trend in current assets, current liabilities and current ratio between years 2017 and 2019 before a drastic drop in 2020 followed by further increment from 2020 to 2021. These results imply that the insurance companies have been constrained by growing amounts of current liabilities culminating to lower current ratios. This is in line with Hatem (2021) who indicated that current assets and current liabilities have control on the liquidity of insurance companies.

Table 4.2: Descriptive Statistics on Firm Liquidity

Indicators	2017	2018	2019	2020	2021	Mean	Min	Max
Current assets (KShs. B)	617435.9	655881.3	686407.6	229098.1	698987.4	577562.1	229098.1	698987.4
Current liabilities (KShs. B)	346097.6	351875.4	361609.1	372946.7	372989.2	361103.6	346097.6	372989.2
Current Ratio	1.78	1.86	1.90	0.61	1.87	1.61	0.61	1.90

Descriptive Analysis of Firm Profitability

The study further sought to determine the effect of firm profitability on dividend payout of insurance companies in Kenya. According to Table 4.3, the mean annual net income reported by the insurance companies was KSHs. 106,163 Billions; the deviation on net income was KSHs.25,699 Billions; the maximum net income was KSHs. 136869 Billions reported in 2019 while the minimum was KSHs. 64,006Billion. The amount of total assets over the five years averaged at KShs. 15,3865Billions; the dispersion from the calculated mean was KShs. 10,286Billions; the maximum worth of total assets was KShs. 1,716,019millions shown in year 2019 whereas the minimum was KShs. 1,429,467Billions recorded in year 2020. The mean of ROA in the five years period was 6.8% and the standard deviation was 1.31%. The maximum ROA was 8.0% corresponding to year 2019 while the minimum ROA was 4.5% reported in year 2020. These results imply that despite the harsh economic conditions, the insurance companies posted healthy financial performance as shown by ROA values above 5%. This is in line with Sheik and Wang (2018) (2020) that the

insurance companies experienced a decline in returns with Return on Capital falling from 10.4% in 2017 to 4.41% in 2018, indicating that the industry has struggled to capitalize on the expanding economy's insurance opportunities.

Table 4.3: Descriptive Statistics on Firm profitability

Indicator(s)	2017	2018	2019	2020	2021	Mean	Min	Max
Av. Annual Net Income (Bn)	92108	113464	136869	64006	124368	106163	64006	136869
Av. Annual Total Assets (Bn)	1460976	1501875	1716019	1429467	1584932	1538653.8	1429467	1716019
Agg. Annual ROA (%)	6.3	7.6	8.0	4.5	7.8	6.8	4.5	8.0

According to Figure 4.5, there was a general rise in net income, total assets and ROA between year 2017 and 2019 followed by a slight drop in 2020 and finally a gradual increment till year 2021.

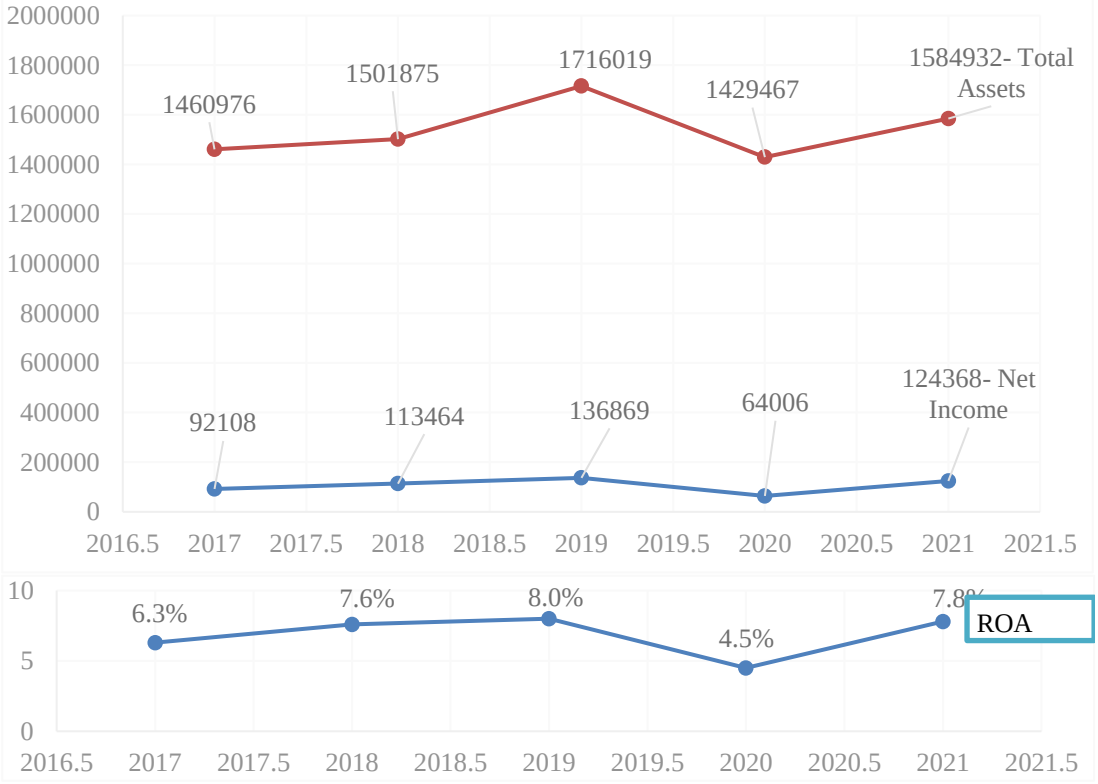

Figure 4.3: Trend of Total Assets, Net Income and ROA Between 2017 and 2021

Descriptive Analysis of Firm Size

The fourth objective sought to explore the moderating effect of company size on dividend payout of insurance companies in Kenya. According to Table 4.4 the average value of total assets was KShs. 5320532.04B. The results further show that the mean amount of net sales was KShs.367366.8B. These results are in concurrence with Anggraeny *et al.* (2020) who found that firm size has a significant influence on the dividend payout and consequently the financial

performance of firms. As such, there is a correlation between the sizes of the dividend and the cost of capital, which has an effect on the entire equity share valuation.

Table 4.4: Descriptive Statistics on Firm Size

Variable/ Years	2017	2018	2019	2020	2021	Mean	Min	Max
Total assets (KES. Bn)	1460976	1501875	1716019	1429467	1584932	1538653.8	1429467	1716019
Ln (Total Assets)	14.19	14.22	14.36	14.17	14.28	14.25	14.17	14.36

Descriptive Analysis of Dividend Payout

The main purpose of the study was assess the determinants of dividend payout for insurance companies in Kenya. From the study, the average value of total assets was KShs. 5320532.04B. The average net income was KShs. 20932.60B and the standard deviation was KShs.4594.356B. The average trading share price was KShs. 5.84. The profits realized by the insurance companies during the five years period ranged between KShs. 4.56B reported in year 2020 and KShs. 10.37B reported in year 2021. The average profits over the study period amounted to KShs. 6.45B and the dispersion from the calculated mean was 2.178. The average ROA was 4.69%. The results presented in Figure 4.5 imply that the insurance firms have enhanced their efficiency resulting to overall financial performance results that can be accurately measured using sales, the number of products and services launched, customer satisfaction levels, market share and return on investments.

Table 4.5: Descriptive Statistics on Dividend payout

Variable/ Years	2017	2018	2019	2020	2021	Min	Max	Mean	Std. Dev
Market price per share	28.9	27.2	27.0	28.5	15.4	15.4	28.92	24.40	5.634
Net income (KES. Bn)	2194.37	2280.64	2371.05	1212.67	2482.88	1212.67	2482.88	2093.26	459.4356
Total assets (KES. Bn)	41501.87	51716.01	61429.46	71584.93	71538.65	21460.97	71584.93	5320532.04	19434247.49
Profit(KES. Bn)	75.16	86.45	97.26	41.56	90.37	41.56	97.26	74.28	21.830
Return on Assets (%)	5.29	4.41	3.86	1.69	3.47	5.65	3.47	4.69	0.04

Diagnostic Tests

The process mainly involved collection of secondary data from the online sources. However, where some information was not available from the online sources, the researcher requested for such information from the regulators as well as individual insurance firms. Some of these firms took more time to avail the requested information and therefore the length of time to fill out all the study forms prolonged the time taken during the exercise. The study performed tests on statistical assumptions that cover test of the assumption of the regression model used and statistic used. These tests included linearity, normality, multicollinearity and homogeneity.

Linearity Test

Linearity test is the relationship between variables where the value of the dependent variable is a straight-line function of the independent variable. The results of linearity test are shown in Table 4.6.

Table 4.6: Linearity Test

Measure	Sum of Squares	DF	Mean Square	F	Sig
Combined	108.843	4	435.372	9.207	0.000
Linearity	94.317	1	94.317	366.638	0.000
Deviation from Linearity	14.526	5	72.63	1.256	0.014

a. **Dependent variable:** Dividend Payout

b. **Predictors:** (Constant), Firm leverage, firm liquidity, firm profitability and firm size

From the results of the study, it is well shown that the deviation from linearity was significant as given by a p-value of 0.014, which was less than the standard p-value of 0.05 or less. The findings of the results show that there was a linear role of firm leverage, firm liquidity, firm profitability and firm size on dividend payout of the insurance companies in Kenya. Accordingly, the study rejects the null hypothesis.

Normality Test Results

Normality test is a test done in order not to make biased or skewed conclusions. The normality of the data was tested using the skewness and kurtosis test. The null hypothesis for this test is that the variable is normally distributed. if the p-value of the test is less than 0.05 significance level, then we can reject the null hypothesis and conclude that there is sufficient evidence to say that the variable is not normally distributed. The study tested the normality test using Shapiro-Wilk's test for the five constructs. if the probability is greater than 0.05, then the data is normally distributed. When testing whether a population is normally distributed by use of Shapiro-Wilk test statistic, the null hypothesis is rejected if the value of Shapiro-Wilk is too small.

Table 4.7: Normality Test

Variables	Shapiro-Wilk Statistic	df	Sig.
Firm leverage	0.756	2	0.128
Firm liquidity	0.944	2	0.122
Firm profitability	0.952	2	0.354
Firm size	0.748	2	0.401
Dividend payout	0.933	2	0.231

According to the study results shown in Table 4.7, all the Shapiro-Wilk test were approaching 1 > 0.05 and hence the null hypothesis that the population was not normal was rejected. In conjunction with the Shapiro-Wilk values, the P-values are also checked while using the Shapiro-wilk test

statistic. Hence if the P-value is more than the chosen alpha level, the null hypothesis is rejected and concluded that the set of data values are from a normally distributed population. In this case, the alpha level was 0.05 and, in all variables, P > 0.05 and hence it was concluded that the research population was normally distributed. This implies that the assumption of normality was satisfied. The results agree with Cunningham (2008) who stated that an index smaller than an absolute value of 2.0 for skewness and an absolute value of 7.0 is the least violation of the assumption of normality.

Multicollinearity Test Results

Multicollinearity measures if there is a close connection between the independent variables. For that condition, the variance inflation factor (VIF) is used to determine whether multicollinearity exists. Violation of the assumption increases the standard errors. Multicollinearity decreases the estimate coefficient's accuracy which declines the regression model's statistical capacity or power. In this study multicollinearity test is checked by analyzing the tolerance values under collinearity to ensure that the assumption is not violated. The results are as depicted in Table 4.8.

Table 4.8: Multicollinearity Test

	Collinearity Statistics	
Variables	**Tolerance (1/VIF)**	**VIF**
Constant	0.920	1.087
Firm leverage	0.890	1.123
Firm liquidity	0.814	1.229
Firm profitability	0.717	1.394
Firm size	0.903	1.108
Mean	0.842	1.188

This test was conducted by Variance Inflated Factor (VIF) measuring the variance in the inflated regression coefficients as compared to the predictor variables which are not linearly related. The independent variables had a tolerance of less than 1.0, a VIF of less than 10, and the mean VIF of 1.1882 was less than 5 an indicator that the variables did not have linear relationship among themselves. From the results, all the variables had a VIF of less than 5 hence there was no multicollinearity problem, therefore the data was suitable for analysis. The findings are concurrent with Cooper and Schindler (2013) who established that VIF values above 1.0 demonstrate significant multicollinearity between pairs of variables.

Heteroscedasticity Test Results

Heteroscedasticity test was applied for testing the error term consistency across observations. Heteroscedasticity in regression analysis can invalidate statistical test significance that assume that the modeling errors are statistical uncorrelated and normally distributed and their variables do not vary with the effects being modelled. A collection of random variables is heteroscedastic if there are sub-population that have different variabilities from others. This study tested for homogeneity of variance using Breusch-Pagan (BP) and Koenker Test as seen in Table 4.9.

Table 4.9: Breusch-Pagan (BP) and Koenker Test

Test	LM –Statistic	P-Value
BP	1.798	0.376
Koenker	2.544	0.314

Both statistics test the null hypothesis that there is homogeneity of variance in the data against the alternate hypothesis heteroscedasticity. The p-values of Breusch-Pagan (BP) and Koenker Test were 0.376 and 0.314 respectively, which were greater than 0.05 indicating homoscedasticity (constant variance) in the data. The regression- standardized residuals were randomly and evenly spread around regression predicted values thereby indicating that there was no pattern in the residuals.

Inferential Analysis

This section covers the inferential statistics such as multivariate regression analysis, which were used to show the determinants of dividend payout for insurance companies in Kenya. This probed the presumption that the independent variables have an influence on the dependent variable. The main inferential measures that were used included the R-squared (R2), the P-value, and Beta coefficients. For the overall fit of the model, the F-statistic and t-statistic were utilized to conduct significance tests.

Model Summary

The model summary was a representation of the coefficient of determination as obtained. The model summary shows the R, R-Squared and adjusted R-Squared statistics. The *R* statistic is the multiple correlation coefficients that shows quality of the prediction of the dependent variable by the independent variable. The R-squared statistic measures the proportion of the variation in the dependent variable (Y) explained by the study independent variables (X) in the linear regression model. Therefore, R-Squared statistic accounts for the cumulative effect of the independent variables together with the related errors to the dependent variable. On the other hand, the adjusted R-Squared disintegrates the effect of the error (external) factors from influencing the dependent variable hence leaving out the effect if error terms. This is the aspect that distinguishes R-Squared and adjusted R-Squared.

Table 4.10:Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.9473	0.8974	0.768	0.049

From the results depicted in Table 4.10, the *R* value was 0.947, the R-Square was 0.8974 and the adjusted R-Square was 0.768. The R-Square value of 0.8974 implies that the independent variables would contribute to 89.74% of the dependent variables (dividend payout) when the external factors are not eliminated from the model. In addition, the adjusted *R-square* of 0.768 indicated that when the external effects are eliminated, the independent variables would provide a 76.8% of the

prediction of the dependent variable. The values of the Adjusted *R-Squared* showed that after the model is adjusted for inefficiencies the independent variables would explain 76.8 percent of dividend payout of insurance companies in Kenya. These statistics point that there was a strong correlation between the independent and dependent variables. Firm size plays a crucial role on the dividend payout of insurance companies as shown by the corresponding Adjusted R-Squared values.

Analysis of Variance

The Analysis of variance (ANOVA) was employed in this study to help establish if there was a regression relationship between the variables in the study. A significant if statistic indicated in ANOVA simply demonstrated that the model was fit for the estimation. The model was tested at 5 percent significance level with a 2 tailed test.

Table 4.11: Anova Test Results

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1.904	4	0.4760	3.228	.010(a)
Residual	0.121	50	0.00242		
Total	2.025	54			

As per Table 4.11, the if value estimated at a 5 percent significance level was 3.228, with a significance value of 0.010, which was less than the crucial value produced from a 2-tailed test at the same significance level. This model's computed if was higher than the if critical (at 4 50, if critical= 2.44). This was an indication of the model's overall importance. All the variables used in this model were found to be significant. As a result, the study established that there was a substantial link between determinants of dividend payout for insurance companies in Kenya. The importance of the regression model, which was determined to be statistically significant, was demonstrated by these findings. Any fluctuation in the variables was negligible, and any adjustment would not result in a substantial difference.

Regression Coefficients

To answer the proposed model for the determinants of dividend payout for insurance companies in Kenya, the panel regression model coefficients were calculated and presented in Table 4.12. These with their significance values measures the effect of independent variables only on dividend payout (dependent variable) of insurance companies in Kenya. Thus, basing on the predicted regression model, the study sought to determine the effect of independent variables on dividend payout (dependent variable) of insurance companies in Kenya. The effect that would occur to dividend payout of insurance companies in Kenya to changing (increasing/decreasing) these variables.

Table 4.12:Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.856	0.388		2.206	0.021
Firm leverage	0.612	0.431	0.174	1.420	0.018

Firm liquidity	0.478	0.437	0.353	1.094	0.031
Firm profitability	0.898	0.385	0.309	2.332	0.021
Firm size	0.755	0.424	0.261	1.781	0.042

The coefficients in Table 4.12 were used complete the regression equation relating the dependent and the independent variables.

The regression model ($Y = \beta_{0t} + \beta_{1t}X_{1t} + \beta_{2t}X_{2t} + \beta_{3t}X_{3t} + \beta_{4t}X_{4t} + \varepsilon$) therefore becomes.
$Y_t = 0.856 + 0.612X_{1t} + 0.478X_{2t} + + 0.898X_{3t} + 0.755X_{4t}$

The model indicates that, holding the predictor variables constant, the dividend payout of insurance companies in Kenya would be 0.856.
The study found that firm leverage at time t has a significant impact on dividend payout. It was observed that a unit increase in firm leverage leads to a 0.612 increase in dividend payout among insurance companies in Kenya. The t-value of 1.420 and the significance p-value of 0.018 indicate the statistical significance of this relationship. This finding aligns with the research conducted by Sarwar, Al-Far-yan, and Saeed (2022) in the context of Thai banks, which also indicated that leverage plays a significant role in determining financial performance. These findings suggest that higher leverage levels may result in higher dividend payouts, providing evidence of the influence of leverage on dividend policy.

Similarly, the present study identified a significant relationship between firm liquidity and dividend payout. It was found that a unit increase in firm liquidity leads to a 0.478 increase in dividend payout for insurance companies in Kenya. The t-value of 1.094 and the significance p-value of 0.031 indicate the significance of this relationship. This finding is in line with the research by Zhou et al. (2021), which examined the relationship between profitability and external debt for Chinese non-financial listed firms. They found that highly profitable companies with sufficient internal funds are less dependent on external debt, which aligns with the notion that liquidity contributes positively to dividend payout decisions.

Furthermore, the results reveal that a unit increase in firm profitability leads to a 0.898 increase in dividend payout among insurance companies in Kenya. This finding suggests that more profitable insurance companies are more likely to distribute higher dividends. The t-value of 2.332 and the significance p-value of 0.021 indicate the robustness of this relationship. This finding is supported by the research conducted by Sarwar et al. (2022) and Ahmad (2021) in the banking sector. These studies demonstrated that bank leverage negatively affects performance and that higher profitability positively influences dividend payout decisions. The present study provides further evidence of the importance of firm profitability as a determinant of dividend payout for insurance companies.

Additionally, the reveals that a unit increase in firm size results in a 0.755 increase in dividend payout for insurance companies in Kenya. This finding implies that larger insurance companies tend to have higher dividend payouts. The t-value of 1.781 and the significance p-value of 0.042 support

the statistical significance of this relationship. This finding is consistent with the research conducted by Tipis (2022) on the financial performance of commercial banks, which found a positive relationship between firm size and financial performance. The present study extends this understanding to the insurance industry, indicating that larger insurance companies tend to have higher dividend payouts.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This is the final chapter in this study which gives the summary of the findings, the discussion, conclusions, recommendations of the study based on the objective of the study and suggestions for further findings. it comes after identifying the background, problem at hand and the objectives in chapter one, literature review was done in chapter two, chapter three set out the methodology that the study used to collect data and chapter four analyzed the data obtained from the study.

Summary of Findings

The main goal of this study was to establish the determinants of dividend payout for insurance companies in Kenya. Specifically, the research was focused on finding out the effect of firm leverage on dividend payout of insurance companies in Kenya; to establish the effect of firm liquidity on dividend payout of insurance companies in Kenya; to determine the effect of firm profitability on dividend payout of insurance companies in Kenya and to explore the moderating effect of company size on dividend payout of insurance companies in Kenya. The empirical and theoretical reviews conducted gave rise to the conceptual framework utilized in developing the research tool. Both descriptive and inferential analyses were conducted which culminated to the following findings. This section summarizes the study findings pertaining to thedeterminants of dividend payout for insurance companies in Kenya.

Firm Leverage and Dividend Payout

In its first objective, the study established that the mean of total debt was Kshs.727917.3B, the minimum value of total debt was KShs. 657439.2B recorded in 2017 and the maximum was KShs. 829090.9B recorded in year 2020. From the results obtained, average of in shareholders' equity between 2017 and 2021 was KShs.381457.9B. The shareholders equity fluctuated between KShs. 365244.0B in 2017 and KShs.352940.7B in 2018, then KShs. 403769.2B in 2019, followed by KShs.376859.5B in 2020 and finally KShs.400403.9B in 2021. The resulting minimum debt-to-equity ratio was 1.7 reported in 2019 and maximum of 2.2 recorded in 2020. The mean Debt-to-Equity ratio was 1.92.

For firm leverage, the null hypothesis (H01) stated that firm leverage does not have an effect on dividend payout of insurance companies in Kenya. However, based on the findings, the results indicated that firm leverage does have a significant effect on dividend payout. The coefficient estimate for firm leverage was 0.612, with a t-value of 1.420 and a significance p-value of 0.018. Since the p-value is less than the significance level of 0.05, the null hypothesis is rejected, providing

evidence to support the alternative hypothesis that firm leverage has a significant impact on dividend payout.

Firm Liquidity and Dividend Payout

The study established that the total annual current assets of the insurance companies during the five years period ranged between KShs. 229.0981Tn reported in year 2020 and KShs. 698.9874Tn reported in year 2021. The average current assets during the study period amounted to KShs. 577.5621Tn. The least amounts of current liabilities during the five years' period were KShs.346097.6Tn posted in 2019 and the maximum was KShs. 372.9892Tn reported in 2021. The mean of current liabilities was KShs. 361.1036Tn. The minimum current ratio was 0.61 which coincides with year 2020, the maximum was 1.9 reported in 2019 and the average for the five years' period was 1.61. There was a general upward trend in current assets, current liabilities and current ratio between years 2017 and 2019 before a drastic drop in 2020 followed by further increment from 2020 to 2021.

Regarding firm liquidity, the null hypothesis (H02) posited that firm liquidity does not have an effect on dividend payout of insurance companies in Kenya. However, the findings revealed that firm liquidity does have a significant effect on dividend payout. The coefficient estimate for firm liquidity was 0.478, with a t-value of 1.094 and a significance p-value of 0.031. As the p-value is less than 0.05, the null hypothesis is rejected, supporting the alternative hypothesis that firm liquidity has a significant influence on dividend payout.

Firm Profitability and Dividend Payout

The study further revealed that the the mean annual net income reported by the insurance companies was KSHs. 106,163 Billions; the deviation on net income was KSHs. 25,699 Billions; the maximum net income was KSHs. 136869 Billions reported in 2019 while the minimum was KSHs. 64,006Billion. The amount of total assets over the five years averaged at KShs. 15,3865Billions; the dispersion from the calculated mean was KShs. 10,286Billions; the maximum worth of total assets was KShs. 1,716,019 millions shown in year 2019 whereas the minimum was KShs. 1,429,467Billions recorded in year 2020. The mean of ROA in the five years period was 6.8% and the standard deviation was 1.31%. The maximum ROA was 8.0% corresponding to year 2019 while the minimum ROA was 4.5% reported in year 2020. There was a general rise in net income, total assets and ROA between year 2017 and 2019 followed by a slight drop in 2020 and finally a gradual increment till year 2021. These results imply that despite the harsh economic conditions, the insurance companies posted healthy financial performance as shown by ROA values above 5%.
For firm profitability, the null hypothesis (H03) stated that firm profitability does not have an effect on dividend payout of insurance companies in Kenya. However, based on the findings, firm profitability was found to have a significant effect on dividend payout. The coefficient estimate for firm profitability was 0.898, with a t-value of 2.332 and a significance p-value of 0.021. Since the p-value is less than 0.05, the null hypothesis is rejected, providing evidence in favor of the alternative hypothesis that firm profitability has a significant impact on dividend payout.

Firm Size and Dividend Payout

From the study, the average value of total assets was KShs. 5320532.04B. The mean amount of net sales was KShs.367366.8B. The overall regression analysis revealed that firm size variable had a coefficient of 0.755. Accordingly, firm size contributes the most to the dividend payout of insurance companies in Kenya.

Regarding firm size, the null hypothesis (H04) posited that firm size does not have an effect on dividend payout of insurance companies in Kenya. However, the findings indicated that firm size does have a significant effect on dividend payout. The coefficient estimate for firm size was 0.755, with a t-value of 1.781 and a significance p-value of 0.042. As the p-value is less than 0.05, the null hypothesis is rejected, supporting the alternative hypothesis that firm size has a significant influence on dividend payout.

Dividend Payout

The study found that the average value of total assets was KShs. 5320532.04B. The average net income was KShs. 20932.60B and the standard deviation was KShs.4594.356B. The average profits over the study period amounted to KShs. 6.45B and the dispersion from the calculated mean was 2.178. From the results, the average ROA posted by the insurance companies within the period was 4.69%. From the model summary, the independent variables would provide a 76.8% of the prediction of the dependent variable. There was a strong correlation between the independent and dependent variables. The ANOVA model computed if was higher than the if critical (at 4 50, if critical= 2.44). This was an indication of the model's overall importance. The study therefore reveals that there was a substantial link between determinants of dividend payout for insurance companies in Kenya. if all other factors are held constant, the dividend payout of insurance companies in Kenya would be 5.970. The unstandardized beta coefficient of Firm leverage variable was 0.612, that of Firm liquidity variable was 0.478, firm profitability variable had a coefficient of 0.898, and firm size variable had a coefficient of 0.755.

The results of the hypothesis testing indicate that firm leverage, liquidity, profitability, and firm size all have significant effects on dividend payout for insurance companies in Kenya. These findings provide empirical evidence to support the alternative hypotheses for each variable, suggesting that these factors play crucial roles in determining dividend payout decisions.

Conclusions of the Study

The study findings offer key insights in relation to the effects of firm leverage, firm liquidity, firm profitability and firm size and dividend payout of the insurance companies in Kenya. This section provides a summary of the conclusions drawn from the findings.

Firm Leverage and Dividend Payout

The study concludes that the insurance companies have been recording growth financial leverage. This trend was observed during the recent five years period with an exception of year 2020 during which insurance operations were disrupted by the outbreak of COVID-19 pandemic. Accordingly, the debt ratios of the insurance companies in Kenya increased during the period under investigation. From the findings, the insurance companies in Kenya have mainly been recording increase in financial leverage over the recent five years.

Firm liquidity and Dividend Payout

The study deduces that there was a general upward trend in current assets, current liabilities and current ratio between years 2017 and 2019 before a drastic drop between 2019 and 2020 followed by further increment from 2020 to 2021. In this case the shareholders are entitled to dividends only when the earnings and liquidity position of the insurance companies are favourable.

Firm Profitability and Dividend Payout

The study concludes that despite the harsh economic conditions, the insurance companies posted healthy financial performance as shown by ROA values above 5%. The insurance companies experienced a decline in returns with Return on Capital falling from 10.4% in 2017 to 4.41% in 2018, indicating that the industry has struggled to capitalize on the expanding economy's insurance opportunities.

Firm Size and Dividend Payout

The study also concludes that firm size has a significant influence on the dividend payout and consequently the financial performance of firms. As such, there is a correlation between the sizes of the dividend and the cost of capital, which has an effect on the entire equity share valuation. Large firms can easily access funds to finance their growth and also their cash flow requirements. Firms pay out dividends from their earnings hence profitable firms are generally expected to pay dividends.

Dividend Payout

From the inferential analysis, there exist a substantial link between various determinants and dividend payout for insurance companies in Kenya, a unit increase in the firm leverage, firm liquidity, firm profitability and firm size would result to a corresponding increment in the dividend payout of insurance companies in Kenya. Firm size contributes the most to the dividend payout of insurance companies in Kenya followed by firm profitability, then Firm leverage while firm liquidity contributes the least. Accordingly, firm size, dividend payout policies play a very crucial role on the dividend payout of the insurance companies in Kenya.

Recommendations of the Study

Regarding firm leverage, insurance companies should carefully manage their debt-to-equity ratio to ensure sustainable dividend payments. Maintaining an optimal level of leverage will benefit both shareholders and creditors. Shareholders will appreciate a stable and reliable dividend stream, while creditors will be more confident in the company's ability to meet its debt obligations.

Firm liquidity also plays a crucial role in dividend payout decisions. Insurance companies should prioritize maintaining a healthy level of liquidity to support dividend payments during economic downturns. This will reassure shareholders and investors that the company can weather challenging periods and continue to provide returns.

The study emphasizes the significance of firm profitability in determining dividend payouts. Insurance companies should focus on enhancing profitability through efficient cost management and revenue growth strategies. A higher profitability level will result in increased dividend payments, attracting more investors and encouraging long-term commitment from existing shareholders.

In light of the influence of firm size on dividend payout, insurance companies should carefully consider their growth strategies. Larger firms may have more stable cash flows and access to capital, allowing them to maintain consistent dividend payments. Smaller companies should focus on growth and profitability enhancement to support sustainable dividend distributions, which will in turn attract more investors and foster confidence in the company's future prospects.

Suggestions for Further Study

The study sought to establish the determinants of dividend payout for insurance companies of insurance companies in Kenya. The firms that pay out dividends in Kenya are spread out in various other sectors which differ in their way of management and have different settings all together. Such sectors include investment firms which are actively attracting a lot of attention due to the growing nature of the Country’s economy. This warrants the need for another study which would ensure generalization of the study findings for investment sector firms in Kenya and hence pave way for new policies. The study therefore recommends another study be done with an aim to investigate the influence of dividend payout policy on financial performance of investment firms listed in the NSE, Kenya. In addition, further study could be conducted in the SACCOs as well as other financial firms with a broader view of the East African Community.

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