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Effect of Equity on Financial Performance of Listed Insurance Corporations in Kenya

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ABSTRACT

Efforts to revive ailing corporations across the world have mostly been centered on financial restructuring and re-engineering. Slow growth in the financial performance of insurance companies in Kenya coupled with low market penetration rate motivated the researcher's interest to investigate the effect of Equity on financial performance of these organizations. Three theories namely the Modigliani and Miller Theory, the Pecking Order Theory, and the Trade Off Theory guided the study. The concepts of capital structure and financial performance as well as empirical literature are discussed in chapter two. A descriptive research design was adopted to describe the relationship between the variables of the study. Whereas equity capital forms the independent variable, financial performance as measured by ROA formed the dependent variable. The target population was a census of all insurance firms listed at the Nairobi Securities Exchange (NSE). The study used secondary data extracted from the annual financial reports of respective firms from 2016 to 2020. Data coding and analysis was done using version 28 of the SPSS and STATA version 18 software while financial ratios were calculated using Microsoft Excel spreadsheet. The data was then summarized using descriptive statistics which included the standard deviation and weighted means. There were significant positive correlations between ROA and Equity Ratio, suggesting that higher equity was associated with better financial performance (ROA). Overall, the findings indicated that Equity had a positive correlation with financial performance according to regression and panel data analysis. The study recommends that insurance corporations should prioritize equity over debt in their capital structure decisions to increase their financial performance.

Key Words: *Enterprises Equity, Financial performance, Insurance corporations*

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1.0 Introduction

1.1 Background

The global economy has observed a series of critical and dramatic changes in the recent past, making the area of Equity and corporate financing decisions important in the survival of companies According to Baker and Martin (2011), corporations must constantly revisit their platforms to finance their desired assets and operations and future growth. The value of a company is independent of the venture's Equity only under stringent conditions of "competitive, frictionless, and complete capital

markets" (Baker & Martin, 2011). This assertion means that a firm's Equity directly determines its risk level and the cost of capital based on the provisions of its financial leverage terms. As a result, the sources of Equity are impactful to the overall performance of the business as they can affect both its value and the shareholders' wealth. Equity is a significant component of the capital structure of a firm. The objective of Equity decision is to maximize shareholders' wealth, and the way to measure the quality of such decisions is to examine a decision's impact on the corporation's financial performance (Cheruiyot, 2021). Poor Equity decisions may lead to high costs in a firm's capital that in the end may result in lower Net Present Values (NPV) and thus render projects unfeasible. The implication of this is that firms may lose good investment opportunities because of such decisions.

On the contrary, effective Equity decision will often lead to positive and higher NPVs and projects will be accepted. The target capital structure decision in a firm is very crucial to its survival and growth in the market (Gharaibeh, 2015). A firm that achieves an optimal Equity usually has a competitive edge over its customers (Abor, 2016). Given that the concept of capital structure is so diverse that relying on a single ratio to explain its trend might not be efficient, most managers of businesses in a wide range of industries use the Total Debt to Equity (TDE) value to assess the correlation between the organization's capital structure composition and their financial performance (Ekinci, 2016). The effect of Equity on financial performance has been conducted by several researchers across global markets and mixed results have been posted. Different parameters have been used to measure financial performance including ROA, ROE, and profit margin. A key underlying factor among various researchers is that different countries and industries have different characteristics that determine their access to Equity and how they choose to finance their operations (Du, Wu, & Zhao, 2018). This paper intends to focus on how Equity affects the financial performance Kenya's insurance corporations, with a focus on listed firms only. This research aims to fill the gap in previous researches by taking a specific industry focus.

According to the World Bank annual report (2019), the gross global GDP grew by a lower rate of 2.6 percent in 2019 compared to 3.2% in 2018 and further reductions is projected as the COVID-19 pandemic continues to negatively affect world economies. The Swiss Re Sigma No. 4/2020 report (2020) indicate that the global insurance has been on a slow growth with long term insurance premiums growing by 2.2 percent in 2019 as opposed to 2.6 in 2018. As a result, the industry premiums were higher than real GDP growth in over 60 percent of global insurance markets (The Swiss Re Sigma No. 4/2020 report, 2020). In total, global insurance premiums hit USD 6.3 trillion underpinning the vital role played by the insurance sector in leveraging global sustainable development (IRA Annual Report, 2019). However, with COVID-19 pandemic raging on, the world economy is expected to shrink and reduce uptake of insurance products especially in the long term. The Swiss Re Sigma 4/2020 Report indicates that Africa accounted for 1.08 percent of the global premiums with premiums of USD 68.16 billion in 2019, a decline of 1.8 percent from 2018. The reports also shows that whereas Africa's long-term insurance premiums reduced by 2 percent from USD 47.13 billion in 2018 to USD 46.20 billion in 2019, general premium premiums declined by 1.8 percent form USD 22.25 billion in 2018 to USD 21.95 in 2019.

The insurance industry in Kenya is governed by the Insurance Act Cap 487. This Act establishes the supervisory body, the Insurance Regulatory Authority, IRA. During the year 2019, there were 56 licensed insurance companies, 5 reinsurance companies, 220 insurance brokers, 17 reinsurance brokers, 35 medical insurance providers,144 insurance investigators, 138 motor assessors, 33 insurance surveyors, 31 loss adjusters, 8 claim settling agents, 11 risk managers and 8,612 insurance

agents, (IRA Annual Report, 2019). Out of the 56 licensed insurance companies, only six of them were listed at the NSE as at December, 2019.

According to the Kenya National Bureau of statistics (2020), the economy grew by an estimated 5.4 percent in 2019 compared to a better growth of 6.3 in 2018. Although Kenya's insurance industry remained resilient in 2019 with 56 insurance corporations up from 53 in 2018, it was faced with a number of risks and regulatory challenges that resulted in some insurance firms failing to comply with IRA in submitting their annual returns (IRA Annual Report, 2019). A total of KES 229.5 billion was recorded in 2019 representing a nominal growth of 6.1 percent (0.9 percent in real terms) from 2018. Kenya ranks third in Africa with a market share of only 2.2 percent behind South Africa (47.1 percent) and Morocco (4.6 percent). Kenya's insurance industry is dominated by general insurance which forms a total of 57.6 percent (IRA Annual Report, 2019). Long-term insurance premiums increased by 8.4 percent (in real terms) in 2019 while general insurance registered a growth of -2.5 percent (IRA Annual Report, 2019).

1.2 Statement of the Problem

Equity is a critical determinant of an organization's decisions on formulation of an appropriate investment portfolio aimed at ensuring maximum return to shareholders. The choice between shareholders' equity and debt depends on an organization's risk appetite, urgency of funds, and nature of projects (Ayuba et. al, 2017). In this regard Equity is viewed as a critical consideration in achieving organizational goals. The insurance industry is crucial to Kenya's economy in several ways including providing employment, promoting indirect and direct investments, mobilizing savings, generating revenues in form of taxes, and building capital. The industry in Kenya has witnessed mixed financial performance results across different parameters in the recent past characterized by low market penetration and decreasing profitability. While the global average insurance penetration rate was reported to be at 7.2 percent, in Kenya, the penetration rate decreased from 2.43 percent in 2018 to 2.34 in 2019. Insurance penetration is a measure of direct insurance premiums as a proportion of Gross Domestic Product. The disparity is an indication that the industry is not growing as it should and if this trend continues or worsens, some of the insurance firms in Kenya may go into liquidation in the near future. Further, in 2019, 1,962 complaints were registered representing a slight decrease from 2,233 in 2018 (IRA Annual Report, 2019). Long term insurance accounted for 20 percent of the complaints while 80 percent comprised general insurance. The complaints were distributed as follows; delayed payments (1161), declined claims (382), unsatisfactory offers (177), miscellaneous (107), erroneous deductions (96), and cancelled payments (38) (IRA Annual Report, 2019). During the year, 48 percent and 70 percent of general and long-term insurers respectively were resolved while the remainders remain unresolved. The delayed payments and satisfactory offers are indicative of liquidity challenges in the industry which is affected by the nature of capital structure composition adopted by the organizations.

Amidst the declining financial performance, high number of complaints, and insurance market penetration in Kenya, the question on what drives financial performance of these corporations continues to attract debate among stakeholders. Given that more debt implies more financial risks to the organization, does that necessarily translate to lower organizational performance? What have been the trends in the appetite of both debt and equity financing among insurance corporations in Kenya and does it have a positive or negative implication on financial performance? While scholars and researchers continue to grapple with these questions, previous published studies on the relationship between capital structure compositions and firm performance are focused on precise countries or specific industries or sectors, there exists limited research focusing on the relationship

between capital structure composition and financial performance among all insurance firms listed at the Nairobi Securities Exchange. A significant gap exists between the theoretical perspective of capital structure and its practical situation specifically to the Kenyan insurance sector. Furthermore, Du, Wu, & Zhao (2018) confirm that there exists no universal theory on the effect of capital structure composition on financial performance. For this reason, there is a need for the financial managers, investors, and policy-makers in the Kenyan insurance sector to understand the implications of capital structure composition on financial performance so as to make well-informed decisions. This paper evaluated the nature of relationship existing between a firm's Equity decisions and financial performance in the insurance industry in Kenya.

1.3 Objectives of the Study

To determine the effect of Equity on financial performance of listed insurance firms in Kenya.

2.0 Literature Review

2.1 Theoretical Review

2.1.1 Modigliani and Miller Theory

Modigliani and Miller, MM (1958) are regarded as the originators and pioneers of Equity theories. Their preposition on Equity triggered a debate by other scholars and thus the development of other theories on the same. MM stated that a firm's Equity is deemed to be of no relevance to its value under the assumption of a perfect market with no transaction costs on the firm. MM's theory of irrelevance of Equity is premised on the belief that a firm has available external and internal funds that can be perfectly substituted and hence the debt level is of no significant influence to its value. According to De Bruin et. al (2018), the MM theory is anchored on several assumptions that are not realistic in an ideal market. The theory assumes that there no agency costs as managers act on behalf of shareholders ensuring that their wealth is maximized. Under the theory, it is also assumed that there is information asymmetry in the market, meaning that all involved parties have access to the same information. Another assumption is that of absence of taxes as well as transaction costs in the firm

The theory was helpful in providing an understanding on whether shareholders are indifferent to Equity as it proposes. The study put to test the preposition that Equity does not affect the firm's value. The results of the study validated the theory's argument that there is no relationship between firm performance and Equity.

2.1.2 The Pecking Order Theory

Majluf and Myers (1984) and Myers (1984) argued that a firm chooses its Equity from capital structure mix based on certain preferences. The assumption under the pecking order theory is that there is no target or rather optimal capital structure mix. According to this theory, internal finance in form of retained earnings is the most preferred form of Equity (Majluf and Myers, 1984). This theory assumes that since managers have access to inside information unlike investors, they will always act in the interest of shareholders (Myers, 1984). This assumption contradicts the irrelevance proposition of Modigliani and Miller where firms and individuals have access to the same information. Under this theory, a firm would opt for debt financing rather than equity in the event that the internal cash flows are inadequate for its capital expenditure. The justification of this proposition is that firms would want to minimize on resources and reduce the costs associated with convincing potential investors to inject funds onto the firm's projects (Kengatharan, 2019). The presence of asymmetric information also makes firms opt for debt financing over equity financing. In a nutshell, this theory

argues that firms with high retained earnings will rarely require either debt or equity financing because it can sufficiently fund its operations.

Baskin & Wilson (1986) supported this theory when he argued that high gearing levels and high profits are negatively related. Baskin & Wilson (1986)'s preposition is in contradiction to optimal capital. Critics of the pecking order theory argue that the theory may lead to firms pursuing projects that do not have positive net present values because of adverse selection costs (Singh & Bagga, 2019). The form of financing that a firm chooses can minimize adverse selection costs meaning that capital structure is significant where information is asymmetric. The value of the firm may be affected by asymmetric information since potential and existing investors may decide to withdraw their investments if managers introduce changes in the firm's capital structure (Singh & Bagga, 2019). The pecking order theory was helpful in understanding the effect of leverage on financial performance of insurance corporations in Kenya under the period under review.

2.2 Concept Equity Capital

According to Omukaga (2017), equity capital defines the interest accruing to a firm's shareholders in form of assets net of the firm's liabilities and can be in the form of retained earnings, premiums, common stock, revenue reserves, preferred stock, and capital surplus. Uremadu & Efobi (2012) describe share capital as funds raised by an organization through issuance of shares in return of cash or cash equivalents and comprise of preferred and ordinary stocks. Servaes & Tufano (2016) refer to share premium as the amount over and above a share's par value as paid by shareholders. On the other hand, revenue reserves comprise of the percentage of an organization's profits that remain within the firm for purposes of future investments, payment of dividends, and pursuit of growth objectives (Uremadu & Efobi, 2012). Companies usually maintain reserves in form of retained earnings for purposes of strengthening their financial position, settling short-term debts, replacing old assets, and conducting research and development targeted at spurring growth and maximizing shareholders' wealth (Cho, 2014). This study used retained earnings and common equity as parameters of assessing how equity financing affected financial performance of listed insurance corporations in Kenya. The first reason for choosing these forms of equity is that they are readily available at the respective annual reports of the organizations and second, relatively, there has been limited holistic empirical focus that combines all these two forms of finances in one paper with a specific focus on the insurance sector in Kenya.

2.3 Concept of Financial Performance

Effective evaluation of an economy is best accomplished by evaluating the financial performance of key sectors that include manufacturing, banking, health, infrastructure, education, and insurance (Haque & Sharma, 2011). According to Haque & Sharma (2015), financial performance can be defined as the measure of an organization's policies, activities and operations in monetary terms. It is the measure of how well a firm's resources are utilized in order to make profit. Financial statements provide the basis for analysis of a firm's performance and help the management in predicting the future by means of trend analysis, evaluation of data and comparative analysis (Miglo 2016). Financial performance of a firm answers questions on whether the firm is able to meet its obligations when they mature. An effective financial evaluation should, therefore, have the ability to meet the goal of promoting congruence and coordination, motivating, communication expectations, benchmarking and providing feedback (Kani, 2017).

There are various sources of financing the business operations in today's environment. Managers have to make decisions based on the interest of the shareholders and that of the firm on the best

possible avenue to pursue (Goh et. al, 2018). Critical decisions are always made on when to use debt capital, equity capital or retain earnings when making financing decisions. The common measures of financial performances include Earnings per Share, return on the firm's Assets, Profit Margins, and Return on shareholders' funds (Miglo 2016**)**. No one measure should be taken alone, rather, a thorough assessment of a firm's financial performance takes into account the different measures, (Harcourt 2017). According to Edem (2017), ROA refers to the ratio of an organization's earnings before tax and interest to total assets and is a reflection of investors' earnings from commercial operations. On the other hand, ROE compares an organization's earnings before interest and tax to its equity and portrays what equity holders earn form their investments (Edem, 2017). A firm's success is highly dependent on the development and implementation of sound financial management systems that allow for review of financial performance, reassessing of company objectives and re-definition of the business (Ekinci, 2016). Therefore, organizations should always be able to determine their growth patterns through the different finance sources available to the organization. Due to its robust nature, this study employed ROA as a measurement of financial performance in analyzing the nature of relationship between capital structure composition and financial performance.

2.4 Empirical Literature

2.4.2 Equity Capital and Financial Performance

Shubita & Alswallah (2012) analyzed how capital structure is related to profitability among 39 listed industrial firms in Amman Stock Exchange between 2004 and 2009. The study used multiple regression analysis to analyze date derived from financial reports of the organizations and established that debt was negatively related to financial performance while equity was positively related and resulted in higher firm value.

Al-Taani (2013) assessed the relationship between financial performance and company capital structure among 45 manufacturing organizations in Jordan between 2005 and 2009. The researchers employed multiple regression analysis to investigate the relationship between debt to equity and financial performance as measured by profit margin and ROA. The study found out that ROA is positively related to equity-debt ratio but profit margin was negatively related to profit margin. Also, Bagh et. al (2017) investigated the impact that internal financing policy has on shareholders' wealth among 91 manufacturing entities listed at the Pakistan Stock Exchange. The study covered the period between 2009 and 2014. Share value and share price were used as dependent variables while paid dividends and retained earnings were the independent variables. Firm value and net total assets were intervening variables. The study revealed that retained earnings and payout positively and significantly affect stock prices while book value effect on the same is positive but insignificant. However, retained earnings relationship to stock prices was stronger than that of dividend payout.

Ejupi & Ferati (2010) also investigated the nature of the relationship between financial performance measure by use of firm profitability and capital structure composition among 150 SMEs in Macedonia. The study, which covered a period of ten years revealed that equity financing has a significant and positively effect on ROE. Likewise, Tirmizi &Ahmad (2013) assessed how retained earnings affect shareholders' wealth among corporations in Pakistan. The study to a cross-sectional survey and used a quantitative questionnaire to collect primary data. According to the study, Pakistani companies retained an average of 77 percent as retained earnings between 2000 and 2009. The study established that the retention rate positively and significantly impacted on shareholders' value.

Iorpev and Kwanum (2012) investigated the impact of capital structure composition on the financial performance of manufacturing firms listed in Nigeria. The study used annual financial statements of 15 firms listed at the Nigerian Stock Exchange between 2005 and 2009. Financial performance was measured using ROA and profit margin while the independent variables included total debt to equity, short-term debt to equity, and long-term debt to equity. The researchers established that long-term debt to total assets and short-term debt to total assets had negative and insignificant relationship with financial performance as measured by the profit margin and ROA while on the other hand, total debt to equity was found to be negatively related to profit margin but positively related with ROA. Statistically, the study reveals that capital structure composition is not a major determinant of an organization's financial performance.

Another study was done in Nigeria by Ekwe & Inyiama's (2014) on the relationship between retained earnings (corporate retentions) and financial performance among firms in the brewery sector of the manufacturing industry in the country. The study used ex-post facto research design and utilized secondary data obtained from the organizations' annual reports between 2000 and 2013. The research established that retained earnings is strongly and positively related to share value (net).

In Kenya, Buigut, et. al (2013) assessed the correlation between share prices and capital structure of businesses quoted at the Nairobi Stock Exchange in Kenya. The study analyzed the effect of equity, debt and the gearing ratio on the share price. The population of the study was a census of firms under the energy sector at the NSE. Data collected covered a six-year period. The study employed both the Pearson's coefficient of correlation and descriptive statistics for data analysis, and testing the model's validity. Equity, debt and the gearing ratio were found to influence the share prices of corporations in the energy sector. While the gearing ratio and debt was found to positively affect the share price, equity was found to have a negative correlation to the share price. The study was only focused on the energy sector and thus did not represent firms in other sectors.

Muturi & Njeru (2019) assessed the effect of equity finance on financial performance of small and medium-sized businesses in Kenya. The study targeted 291,449 licensed SMEs and developed a sample of 384 respondents across six counties in Kenya including Nairobi, Kitui, Mombasa, Kajiado, Makueni, and Machakos counties. The study used secondary data and employed both qualitative and quantitative data analysis. Data analysis was done using inferential and descriptive statistics. The researchers concluded that that there is no form of finance that contribute to financial performance in Kenya. The study recommended that SMEs in Kenya should employ all sources of funds but should utilize more of trade credit to better their financial performance.

Also, Achieng, Muturi & Wanjare (2018) investigated the effect of financing options on the financial performances of listed non-financial corporations in Kenya. The independent variables in the study included common stock, retained earnings, and total equity as ratios of total assets while the dependent variable (financial performance) was measured using ROE and ROA. The research covered the period between 2009 and 2015. The study established that common stock and financial performance are negatively and significantly related while retained earnings was significantly and positively related to ROA.

3.0 Research Methodology

This study employed a descriptive research design and cross-sectional survey methods to collect data. Suleman et. al (2019) describes a cross sectional survey as a study that intends to explain the relationship between one element and other elements of interest existing in a specific population at a particular period in time, without reference to what may have happened before or during the period of

study. This type of survey is usually convenient when studying a sample from a given population at a given time period (Mugenda & Mugenda 2003). The study compares the quantitative reasoning of a sample of subjects under study thus allowing for prudence when comparing the findings. Descriptive and cross-sectional survey attempt to define a given subject, often by developing a profile of a group of people, events or problems through data collection and tabulation of the frequencies on the research variables (Ye et. al, 2019). Descriptive design allows for measurement of the significance of the results on the whole population under study (Wilcox, 2018). According to the Nairobi Securities Exchange (2020), the number of listed insurance firms in Kenya as at 31st December 2020 is six. The firms have been consistently listed over the period of study. Owing to the small number of listed insurance corporations in Kenya, the research was a census study which covered the entire population.

This study collected secondary data from the organizations' books of accounts published online in the official websites of respective firms under review. The data collection covered a five-year period between 2016 and 2020. Data was captured using Microsoft Excel and later fed to the SPSS software version 28 for analysis. This study collected data, validated, and coded it properly using version 28 of the SPSS and STATA version 18 software. Multicollinearity tests were conducted to establish the level of correlation between the research variable and no multicollinearity problems were found. Trend analysis was used to depict the trends in the various components of the variables over the five-year period. Relationship maps were incorporated to illustrated the relationship between the independent and dependent variables over the five-year period. Regression analysis was employed to determine the nature of existing relationship between the variables. Variance analysis (ANOVA) helped in the determination of p-values in the research that formed the basis for acceptance of the null hypotheses of the research. To cover the effect of time, panel data analysis was also conducted to determine the nature of relationship between the variables. The findings of the study were presented in tables and figures.

Version 28 of SPSS has robust inbuilt features that were used to test data and verify the goodness of fit. Power analysis of one-way ANOVA, power analysis of one-sample and paired-sample t tests, power analysis of univariate linear regression test, and power analysis of independent variables sample tests were all employed in data diagnosis to determine goodness of fit of data. The multicollinearity problem was verified using the Variance Inflation Factor (VIF). The researcher sought approval to collect data from MMU and thereafter, sought the authorization of the same from the National Commission for Science, Technology & Innovation (NACOSTI). This research utilized publicly available secondary information that has been published by respective organizations and thus, the question of infringing on privacy of others does not arise. All references made to previously work done by other researchers were properly acknowledged such that the outcome of the study was strictly the original input of the researcher's findings. The study complied with all procedures and requirements laid down by MMU. Additionally, the findings of the study will be available to all listed insurance firms in Kenya through publication as well as documentation in the MMU library

4.0 Data Analysis and Interpretation

4.1 Descriptive Statistics

This section summarizes descriptive statistics of analyzed data over the five-year period. Table below is a summary of the statistics.

Table 1: Descriptive Statistics

	N	Min	Max	Mean		Std. Dev
ROA	30	-.4652	.0910	.011323	.0174342	.0954909
Equity Ratio	30	.0526	.9181	.342260	.0466129	.2553096
Valid N (list wise)	24					

Source: research data (2023)

From the output in table above, cross-sectional analysis of data from the six insurance corporations over the five-year period covers all the five research variables. The results show positive means for the variables. The median row indicates the range of the research variables with a further illustration of the minimum and maximum statistic per variable. The mean for ROA is 1.1323 % while the standard deviation is 9.549%. Equity ratio has a mean of 65.77% and standard deviation of 25.531%.

4.2 Regression Analysis

4.2.1 Effect of Equity Ratio on financial performance

Table 2: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.926[a]	0.857	0.852	0.03696

Predictors: (Constant), Equity Ratio (TE/TA)

Source: research data (2023)

The coefficient of determination (R-squared) was 0.857, indicating that approximately 85.7% of the variance in ROA could be explained by the predictor variable. The adjusted value was 0.852, which considered the number of predictors and sample size to provide a more accurate measure of model fit.

Table 3: ANOVA2

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.229	1	0.229	167.322	.000[b]
	Residual	0.038	28	0.001		
	Total	0.267	29			

a. Dependent Variable: ROA (NI/TA)

b. Predictors: (Constant), Equity Ratio (TE/TA)

Source: research data (2023)

The ANOVA table showed that the regression model was statistically significant. The regression model accounts for a significant amount of variation in ROA, as indicated by the significant statistic (167.322) and p-value (0.000).

Table 4:Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.014	0.007		-1.963	0.06
	Equity Ratio (TE/TA)	0.262	0.020	0.926	12.935	0.00

a. Dependent Variable: ROA (NI/TA)

Source: research data (2023)

The coefficient for equity ratio (TE/TA) predictor was 0.262 and the standardized coefficient (Beta) for the Equity ratio was 0.926, indicating a strong positive relationship with ROA. Both the coefficient and standardized coefficient were statistically significant, as indicated by the t-statistic value of (12.935) for the Equity ratio and p-value of 0.000.

4.3 Estimated Model Coefficients

The regression model derived from data analysis is summarized as per table below;

Table 5: Estimated Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0.020	0.010		-1.871	0.073
Equity Ratio (TE/TA)	0.209	0.027	0.738	7.853	0.000

a. Dependent Variable: ROA (NI/TA)

4.4 Summary of Findings

The coefficient for equity ratio (TE/TA) predictor was 0.262 and the standardized coefficient (Beta) for the Equity ratio was 0.926, indicating a strong positive relationship with ROA. The R square of 85.7%, adjusted R square of 85.2%, and p-value of 0.00 which was less than 0.05 show that there is a statistically significant difference between the means of the study variables, and equity capital has a significant effect on financial performance. Panel data analysis posted similar results where equity ratio had a co-efficient of 0.2092005 and a low p-value of 0.00. Therefore, the null hypothesis, which

stated that there is no statistically significant relationship between equity capital and financial performance of listed insurance firms in Kenya, is rejected.

5.0 Conclusion and Recommendation

5.1 Conclusion

R-squared (between) 0.9636 represented the proportion of variance in ROA that could be attributed to differences between firms. R-squared (Overall) 0.8941 is an overall measure of how well the model fits the data. The lower the p-value associated with this test, the more evidence there was to suggest at least one independent variable had a statistically significant effect on the dependent variable. The p-value of cons (0.061) was slightly above the convectional significance level, indicating marginal evidence to suggest a significant relationship between the intercept and ROA. This value 0, for sigma_ u suggested that there was no significant variation in ROA across firms beyond what was explained by the independent variables in the model. According to the panel data results, equity was found to have a statistically significant positive effect on the financial performance of listed insurance corporations in Kenya, as measured by ROA.

The overall objective of the study was to investigate whether Equity affects financial performance of listed insurance corporations in Kenya. The study concludes that Equity significantly affects a company's financial performance. The study findings opine that listed insurance organizations should be careful when choosing between debt and equity as capital in their financing decisions. The study has shown that whereas increase in equity leads to improvement of financial performance, increase in debts brings about risks that negatively affects financial performance. Further, the findings indicate that a firm's proportion of current assets to current liabilities has significant effect on its financial performance. Thus, organizations should strive to maintain as high current assets as compared to current liabilities.

5.2 Recommendations

Management of insurance corporations ought to make informed financial decisions based not only on potential returns of projects they invest in but more so, on the source of capital for investment. The results of the study have shown that the more equity capital an organization employs, the higher the financial performance. In sum, insurance corporations in Kenya should not disregard the relevance of Equity on their profitability but rather, they should seek to employ a desirable Equity taking into consideration the benefits of equity capital and the risks of debt capital as highlighted in the study.

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