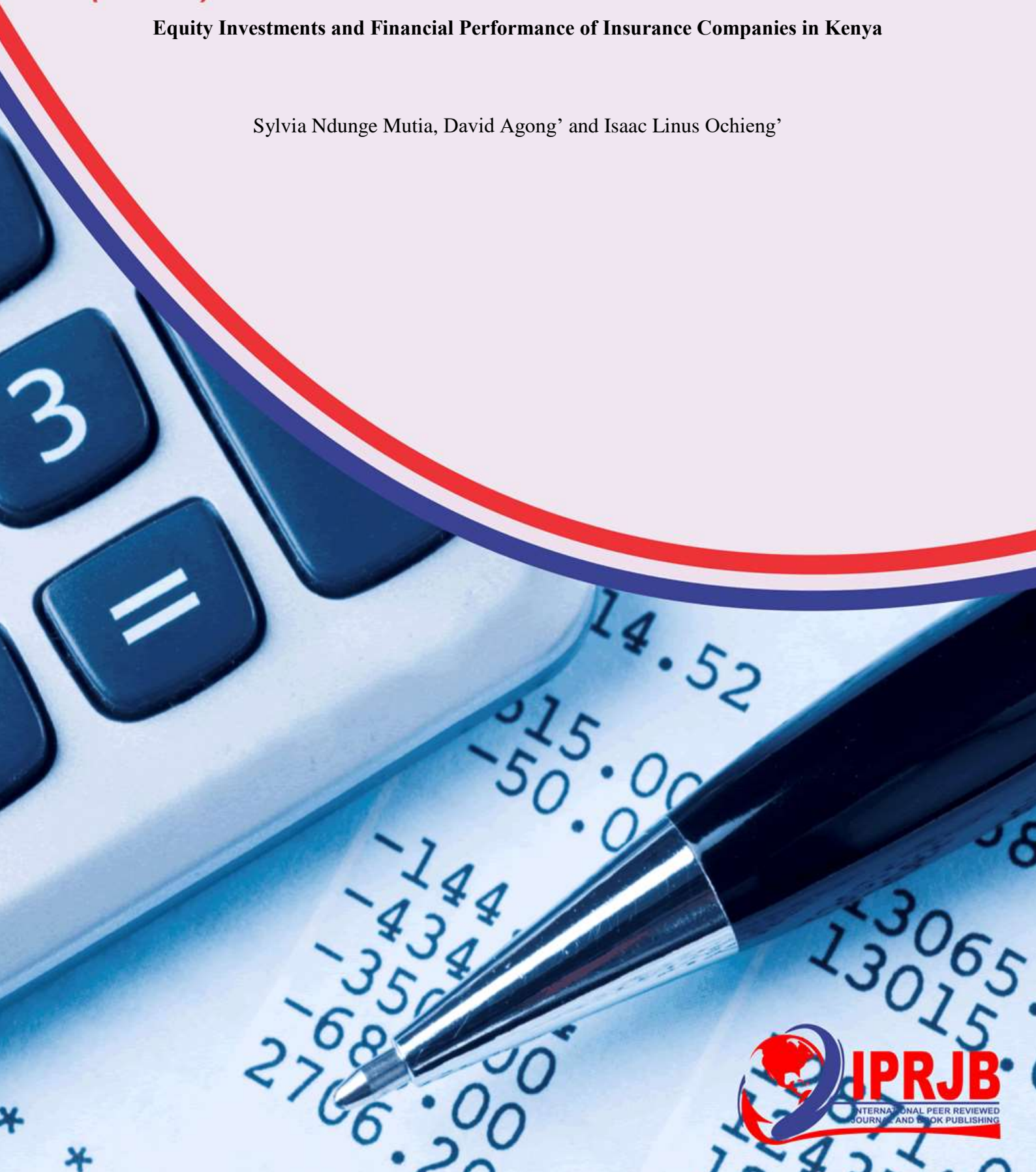


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**Equity Investments and Financial Performance of Insurance Companies in Kenya**

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## Equity Investments and Financial Performance of Insurance Companies in Kenya



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### Abstract

**Purpose:** Insurance firms are financial institutions that are important to the effective deployment of capital as well as the mobilization of contractual savings. The funds that insurance companies raise for their investments comes from insurance premiums. To optimize the utility of the assets they invest in, it is necessary to create a methodical and logical way of assessing investment alternatives. Nonetheless, a number of factors influence investment alternatives. The study sought to establish the effects of equity investment on financial performance of insurance companies in Kenya.

**Methodology:** The study applied causal research design in all the 55 insurance firms in Kenya. Census study was conducted for a period of 10 years between 2014 and 2023. Secondary data from IRA publications as well as the companies' websites. Panel regression analysis correlation analysis and diagnostic tests were employed to analyze data and test the hypothesis.

**Findings:** From the results, equity investment revealed beta values of 0.50041 and p-value 0.000, Panel regression results revealed a positive and significant effect between equity investment and financial performance of insurance firms in Kenya.

**Unique Contribution to Theory, Practice and Policy:** Based on the findings and conclusions, the study recommended that insurance companies to think about investing in other developing nations with thriving capital markets in order to increase their financial performance. By doing this, the companies will be able to take advantage of market possibilities and reduce their vulnerability to shifts in local markets. The recommendations of the study to the Capital Markets Authority was to rely on the findings of the study when developing benchmark guidelines on the minimum holding on various investment alternatives and to develop new policies to guide the assets management within the insurance industry to ensure that public funds are well-protected and the firms achieve value on their returns.

**Keywords:** *Equity Investments, Financial Performance, Insurance Firms*

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## INTRODUCTION

Insurance companies are essential to the growth of economies because they allow other companies to operate without fear of financial loss. The insurance business has changed over time, moving from informal operations to more professional management and operation (Borome, 2015). The modus operandi of insurance sector is different and unique from other financial sector players in the economy as it is involved in the management and spreading of financial risks for other businesses (Thaker et al., 2020). Based on probability theory, insurance sets its product prices (insurance premiums) before figuring out the precise cost of producing the same product. As a result, businesses and individuals may focus on building wealth and take on projects that they otherwise would not have taken on (Mehari & Aemiro, 2013).

Being viewed as an alternative to individual retirement plans, insurance helps to mobilize household savings and direct them for investment by financial entities, relieving pressure on the government budget on demand for government social security programs (Barakat, et al., 2022). By helping an economy better quantify and control the risk to which it is exposed, insurance also helps to lower the overall risk that the economy faces. It also helps to start risk mitigation initiatives (Regasa, 2014).

Simeyo, Bernard, Patrick, and Francis (2015) define an investment as the expenditure of a certain amount of money with the hope of a future return that more than offsets the initial outlay and an additional premium to account for risk, inflation, and interest forfeited. In order to anticipate an anticipated flow of benefits over a number of years, Pandey (2018) states that investment alternatives comprise a firm's decisions to allocate its current assets as efficiently as possible to long-term assets. Equity investment encompass a wide range of approaches to investing in the stock market (Otsyula, 2020). Investors use these approaches to make decisions regarding buying, holding, or selling of different stocks in the financial markets (Kitsios, Giatsidis & Kamariotou, 2021). These avenues are designed to achieve specific financial objectives, including capital appreciation, income generation, risk management, or a combination of these goals. In addition to growth stocks, insurance firms also invest in income stocks whose returns are used to pay regular dividends to their shareholders. These stocks provide banks with a consistent income stream, making them particularly attractive for income-oriented portfolios, retirees, and those seeking stability (Maina, 2021).

Jensen and Meckling (1976) defines financial performance as a tool that measures how well a company uses its resources in generating profit thus making it a vital tool to several stakeholders in a company. Financial performance stands for profits, extra payment, total or net sales, sales, investments, and their returns (Mutisya, 2015). Shareholders invest their money and expect returns at the end of the financial year, poor financial results can scare away potential investors, lead to losses, and reduction of firm value in the market (Mudi, 2017). Measuring financial performance helps managers arrive at a determination on whether they are achieving set objectives (Mukyala, Rono & Lagat, 2020). Financial performance therefore is crucial to any business organization's survival and continuous patronage by investors, potential investors, creditors, and other stakeholders in the business world.

### Statement of the Problem

For Kenya to attain its economic goals as envisioned in Vision 2030, it will require a stable insurance industry to mitigate risks, (IRA, 2024). A robust insurance sector reduces pressure on the government budget to the extent that they reduce pressure on demand for government social security programs as they are considered as the alternative choice to personal retirement

programs (Barakat, et al., 2022). According to Theuri, (2021), Insurance sector in Kenya contributes significantly to economic development. However, the Insurance firms face challenges that affect their financial performance. Reports by IRA 2015 indicate that insurance companies recorded an increase in ROA in 2014 rated at 4.4% and 4.9% in 2015 compared to 2.8% in 2013 and a 5-year average of 13.9% which fell below the expected 14.6% industry average. However, subsequent years saw a declining ROA for the insurance firms as recorded by AK Report, (2022). The industry ROA declined from 4.6% in 2016 to 4.2% in 2017. The year 2018 was a difficult one for insurance companies as firms posted an 18% decline in profits, which was the lowest in the sector. The average ROA dropped to 3.2 % in 2018 thereby dropping its profitability by a margin of \$ 26.6M from a high of \$144.8 to \$118.2M. The drastic drop was because of the capping of interest rates, a significant decrease in profits was observed in medical insurance as well as the motor insurance. The industry experienced considerably high losses due to the high number of claims leading to a decline of the gross written premiums (IRA, 2019). In 2019, ROA declined further to 2.8% and in 2020 it dropped again to 1.75%. (AKI, 2021). In 2021 and 2022 ROA recorded negative deviations of -0.7% and -1.6% respectively. Report from AKI, (2024) further indicates that the industry earnings and other incomes decreased further to -1.9 in 2023. This was as a result of weakened investment returns that led the firms to adjusting their product and asset portfolio in a bid to boost financial performance. The declining trend saw the collapse some insurance firms among them BlueShield, Standard, Access and Concord Insurance Companies. At global studies that were done include Kaya (2015) in Malaysia, Teodorovic (2016) in Croatia among others. However, the finding cannot be generalized to Kenya due to difference in legal framework and micro economic factors. In Kenya, (Kombo et al., 2016) assessed the effect of investment alternatives on performance of micro finance sectors in Nakuru County. Also, Kiboi and Bosire's (2022) used ROE to gauge financial performance. There are still a number of gaps in our understanding of real estate investments and financial performance, notwithstanding the studies that have been done. The current study tries to fill this gap by studying how equity investment affect the financial performance of insurance organizations using Return on Assets (ROA) as a financial performance metric.

### **Objectives of the Study**

The general objective of the study was to establish the effects of equity investment and financial performance insurance companies in Kenya.

### **Hypothesis of the Study**

**H<sub>01</sub>:** Equity investment does not have a significant effect on financial performance of insurance firms in Kenya.

### **LITERATURE REVIEW**

This chapter presented a review of studies that have been conducted by other researchers on investment decisions and financial performance of companies. The chapter first provides a theoretical literature review, an empirical review of literature related to each of the independent variables of the study and the conceptual framework illustrating the relationship between the variables is provided and explained.

#### **Theoretical Review**

Market Timing Theory was applied to discuss equity investment. According to a theory put forth by Wurgler and Baker (2002), firms time the issuance of additional shares so that they

only do so when there is a sense that the values of the stocks are too high. The firm's financing structure is impacted by changes in stock prices. The theory operates under the premise that all economic agents are rational. When there is a positive information release that lessens the asymmetric information flow between the firm's management and its shareholders, the securities are said to be issued directly. The decrease in information asymmetry aligns with the rising stock price. This hypothesis states that firms favor equity investment when they believe it has a low relative cost; in other cases, debt financing would be more appropriate (Salomon, Ondiek, & Ruto, 2013). According to Barker & Wurgler's (2002), when managers or business owners need finance, they will choose the financial tools that seem more advantageous.

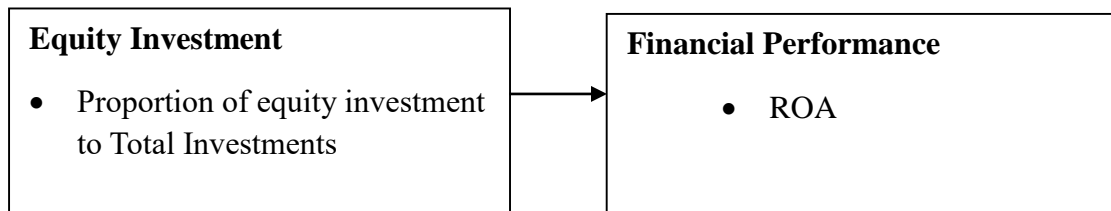
Even in situations where there are no development prospects, managers or business owners will still look for equity financing so that the cash flow they generate can be allocated to perks rather than increasing the value of their companies. Instead of using free cash flows to pay off debt, the manager would prefer to invest in cash-generating unproductive projects that increase compensation or benefits (Colabrese, 2011). According to the equity market timing theory of capital structure, managers can determine when equity issuance is more affordable than other external funding options since the market has overvalued the company's shares. Proxies for misvaluation should be connected with the timing of the decision to issue securities if managers have the ability to time the equity market (Brendea, 2012; Elliott et al., 2008). The ratio of debt to equity that a business uses to fund its operations is known as its capital structure. Because of the flaws in financial markets, investor emotions can cause stocks to temporarily disvalue.

Market timing is not only restricted to stock issuance but can be applicable to the other key financing channel, namely, issuing debt. According to Wurgler and Baker (2002), when determining a firm's success and developing the appropriate financial structure, market timing is crucial. Without a doubt, managers take advantage of the situation to issue shares in order to relieve the strain of debt restrictions and increase the likelihood of its entrenchment throughout the period of market expansion and prosperity. When the financial market is unfavorable and there is strong regulation enforced by the majority of shareholders, officials are constrained by the demands and limitations imposed by the market and are forced to issue less hazardous debt.

The theory has been criticized on several grounds. According to Havokimian (2006), whenever market timing exists, it does not significantly impact on the power of the firm. The market timing theory has increasingly challenged the rigid trade-off and pecking order theories in the wake of Baker and Wurgler's (2002) critique linking historical market-to-book ratios to capital structure. Many recent studies have contested Wurgler and Baker's proof that securities issued more than a year ago have long-lasting effects on capital structure. Existing shareholders are the main beneficiaries of market timing, but new investors those joining or leaving may experience information asymmetry or adverse selection. To benefit the current shareholder base at the expense of the market as a whole, management may decide to influence the timing of investments or other actions. This theory is relevant to the study because it explains why businesses fund investment projects with equity financing. Thus, the theory backs the essential elements of equity, such as retained earnings and reinvested profits, in guaranteeing the company's financial performance. The theory also aids in understanding how different aspects of equity financing relate to financial performance.

### Conceptual Framework

The framework has been used to present the equity investments and its impact on the financial performance of insurance firms in Kenya. Consequently, the dependent variable, that is financial performance, has been measured by Return on Assets (ROA).



### Independent Variable

### Dependent Variable

*Figure 1: Conceptual Framework*

### Empirical Review

Zarah (2017) conducted study to determine whether a company's stock prices accurately reflect the level of its financial success. The study's objective was to ascertain how financial performance affects stock prices. The study was carried out as a case study of a non-banking company that was listed on the Indonesian stock exchange. Secondary data from 2011 through 2015 were used in the study. Multiple linear regression analysis was used to determine the effect on the data. The research findings indicate that market valuation-related factors are the only ones that have the ability to affect stock prices; hence, stock prices are a reflection of a company's stock market valuation.

A study conducted by Harelimana (2017), analyzed the effects of equity securities on the financial performance and risk management of the Rwanda Social Security Board. Both primary and secondary data were collected under this study in order to capture the total variation of the two variables. A sample of 84 respondents out of 124 was selected using Solvins formula to respond the structured questionnaire and structured interviews. The researcher found there was a significance strong relationship between equity securities in portfolio and the financial performance risk management at RSSB where the Pearson correlation coefficient was found to be 0.964 and 0.789 respectively. The study therefore concluded that equity securities investment affects the financial performance of RSSB. The study recommended international equity security diversification to maximize financial returns on the portfolio.

Wafula (2014) conducted a study to determine the impact of equity securities investment on the financial performance of mutual funds in Kenya. The study took a descriptive research design approach. The study entailed a sample of 7 mutual funds that had balanced equity securities funds with complete records for the year 2013 for a period of 52 weeks. The study used secondary data sources available at the NSE and the CMA. Multiple linear regression was used to analyses the data. OLS was used as the method of estimation to establish the effect of equity investments on the financial performance of mutual funds in 24 Kenya. The study revealed that equity securities investment affects the portfolio and financial returns of mutual funds in Kenya. The study concluded that equity securities diversification positively influences the portfolio returns thus enhanced financial performance.

Oyucho, Ochieng' and Agong' (2023) conducted a study on the effect of foreign equity investment on market returns at the NSE 20 Share Index in Kenya. The research technique employed panel regression for inferential analysis and the Lagrange multiplier test to ascertain the pooled effect, utilizing STATA 18 software. Secondary data was obtained from the NSE annual reports, CMA bulletins, and CBK websites of the companies listed in the index for the period from 2013 to 2022. The study findings revealed a significant positive effect between foreign equity portfolios and market returns at the NSE 20 share index. The study recommended policies that will stabilize macroeconomic factors such as interest rates and exchange rates that will reduce volatilities of portfolio inflows thus promoting stable portfolio inflows into the economy.

### **Research Gap**

A comprehensive review of prior research reveals a number of conceptual, methodological, and contextual study gaps on the relationship between equity investment and Kenyan insurance companies' financial performance. Harelimana (2020), analyzed the effects of equity securities on the financial performance and risk management of the Rwanda Social Security Board. This study concentrated on Rwanda Social Security board thus presenting a contextual gap. Wafula (2014) conducted a study to determine the impact of equity securities investment on the financial performance of mutual funds in Kenya. This study concentrated on mutual funds thus presenting a contextual gap. Methodologically, some studies have been limited to primary data which may not capture current situations. The model of analysis and the period of study also varied with this study. This presented a methodological gap. It is therefore possible to argue that the effect of investment alternatives on financial performance of insurance companies of developed and emerging economies are somewhat different from those of a developing economy like Kenya. It is due to this paucity of studies that this study intended to fill the research gap on effects of investment alternative on financial performance of insurance companies in Kenya.

### **METHODOLOGY**

The study applied quantitative causal research design which suitable fit for the current study. According to Kabir (2016), a causal research design is necessary when a researcher thinks there might be cause-and-effect relationships between the study's variables. Causal quantitative design was appropriate in this study as it enabled the researcher to determine whether a group of variables together will influence a given dependent variable (Saunders et,al 2009). There were 55 insurance firms in total as of December 2023, according to the Insurance Regulatory Authority (2023). These informed the target population. This study applied a census due to the nature of the data being collected. A census inquiry is an exhaustive count of all the constituents that make up the population. Secondary data was collected for the purpose of determining the effect of investment decisions on financial performance of insurance companies in Kenya. The data was collected through a carefully designed data collection schedule that captured all the necessary measures of the independent and dependent variables.

The data to be collected was for the duration between 2014 and 2023. This translated to data for a ten-year period. STATA 18 statistical software was used to generate tables, graphs, regression, statistical analysis, and other statistical parameters and the data was entered on the data collection sheets. The data was recorded in the data collection sheet with columns for real estate investments, mutual fund investments, bond investments, equity investments and financial performance. Coding consisted of technical events whereby symbols, usually

numbers, are used to identify the raw data for the purpose of transforming into format that can be accounted and tabulated with ease (Russell, 2013). The study employed a panel regression model in which data will be pooled into a panel data set and estimated using a panel data regression.

The study will employ a panel regression model in the form below.

$$Y_{it} = \beta_0 + \beta_1 E_{it} + \epsilon_{it}$$

Where;

$Y_{it}$  represents financial performance of insurance companies in Kenya

$\beta_0$  represents the constant

$\beta_1$  is the regression coefficients for the independent variable

$E_{it}$  represents equity investments for insurance firms  $i$  at time  $t$

$\epsilon_{it}$  represents the error term

## FINDINGS AND DISCUSSIONS

In the pursuit of understanding the intricate interplay between real estate investment and its influence on the financial performance of insurance companies in Kenya, this chapter delves into a comprehensive analysis of the amassed data.

### Descriptive Statistics

The study sought analyze descriptive statistics by applying the composite measures of central tendency and measures of dispersion to summarize, organize and describe the distribution of the data objectively by applying the mean values, standard deviation, minimum and maximum values, skewness and kurtosis and show results of distribution of the data set. Table 4.1 below summarizes the descriptive analysis using the measures of central tendency and the measures of dispersion

**Table 1: Descriptive Statistics**

	Obs.	Min	Max	Mean	Std Dev.	Skewness	Kurtosis	Sig(P-value)
Equity Investments	550	1.90	73.30	28.50	13.75	0.952	1.420	0.001
Financial Performance	550	-0.85	5.60	2.15	1.34	-1.504	0.132	0.000

The study established the influence of equity investment on financial performance of insurance firms in line with the fourth study objective. The findings from Table 1 reveal that the average figure for equity investment was 28.50. The standard deviation of 13.75 which is an indication that equity investment data was dispersed around the mean since the values are fairly higher than the mean value. The minimum value was 1.90 and the maximum of 73.3. This implies that 28.50% insurance companies invested in equity investments. This further indicates that more than a quarter of insurance companies prefer equity investment as a key source for their returns. However, the maximum of 73.3% implied that there were firm(s) that had singled their investments at equity investments since it was more than three quarters of the total investments.



The skewness value of 0.952 suggests that the distribution of financial performance is slightly skewed to the right. This indicates that the majority of data points in the distribution are concentrated on the right side of the mean, with a longer tail extending toward the larger values. The kurtosis value of 1.420 is positive and indicates that the distribution of financial performance acceptable since they fall within the acceptable range of normality of + 2 and -2 for skewness and + 7 and -7 for kurtosis, (Black, 2023)

The study sought to measure financial performance of insurance companies in line with the dependent variable financial performance. The average return on assets (ROA) for the period under review was 2.15 suggesting that 2.15% of insurance companies utilized their assets successfully and efficiently thus recording financial performance. However the proportion was low at 2.15% out of 100%.The standard deviation of 1.34 reflected low variability in ROA compared to the mean which is an indication that insurance firms were not profitable and not using their assets efficiently at the period. The table revealed the minimum of -0.85and a maximum of 5.60 depicting that some insurance firms were investing in assets that were not lucrative and had high maintenance costs, thus investing in these assets did not yield a desirable income and therefore losses were incurred which ultimately had a detrimental consequence on how the insurance firms performed financially. The distribution measures of skewness and kurtosis, with coefficient values of -1.504 and 0.132, respectively, show that the data are roughly normally distributed and fall within the acceptable ranges asserted by Black (2023). According to Black (2023), the acceptable range of skewness should be between – 2 and +2 and kurtosis -7 and +7 for a normally distributed data which approximates Gaussian distribution. However the negative skewness suggests that the distribution of financial performance is slightly skewed to the left. This indicates that the majority of data points in the distribution are concentrated on the left side of the mean, with a longer tail extending toward the lower values.

### Correlation Analysis

The study carried out a correlation analysis on real estate investment and return on assets for insurance firms in Kenya in order to examine statistical relationships between equity investment and financial performance. Table 2 presents the correlation matrix considered in the study.

**Table 2: Correlation Matrix**

	ROA	Real Estate Investments
ROA	1.000	
Equity Investments	0.697*	1.000
	0.000	

The table reveals the coefficient value of 0.908 indicating that as equity investments increases, there is a strong positive relationship in financial performance of insurance firms in Kenya. The P value of 0.000( $P < 0.05$ ) indicate that the relationship is significant at 5% levels of significance. Therefore, the null hypothesis ( $H_0$ ) in line with the fourth objective which stated that equity investment had no effect on financial performance of insurance companies in Kenya was therefore rejected. Thus, the study observed that equity investment influenced financial performance in insurance companies in Kenya but in an inverse direction

### Model Summary

The model summary presents the summary findings of the regression model. It provides the R value, indicating the association between the dependent and the independent variable.

**Table 3: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error Estimate
1	0.751 <sup>a</sup>	0.565	0.553	0.02384

The findings reveal the results of the model summary. From the table, the results of the multiple correlation (R) which indicates the quality of the prediction of the dependent variable by the independent variables is 0.751. The correlation coefficient indicated a strong correlation between equity investment and financial performance measured by ROA of insurance firms in Kenya.

The R-Square which is the coefficient of determination is a good indicator of the models goodness of fit. In regression analysis, it is a statistical metric that evaluates the degree to which the regression line aligns with the real data. The findings revealed the R square value of 0.565. This implies that 56.5% of equity investment explain the financial performance of insurance firms in Kenya. From the findings of the random effect model, we can therefore conclude that, when all other factors remain constant, 56.5% of equity investment the variations of financial performance of insurance firms in Kenya

The adjusted R-squared, an improved version of R-squared, accounts for the number of independent variables that can be added or altered to improve the reliability of the regression model. The adjusted R-squared indicates whether the inclusion of extra factors enhances a regression model. Subsequently from the Adjusted Squared it is evident that after adjusting the model for inefficiencies the independent variables can explain 55.3% of performance of insurance firms in Kenya. The study can thus conclude that after adding other predictor variables, 55.3% of the variations in the percentage of equity investment will improve the financial performance of insurance companies in Kenya. However, it's noteworthy that the remaining 44.7 % of the variation in financial performance is not accounted for by equity investment, implying that other factors outside the scope of the study model play a significant role in influencing the financial performance of insurance firms in Kenya.

### Analysis of Variance (ANOVA)

The study further evaluated the model's significance through the Analysis of Variance (ANOVA) technique. The results are presented in the table below.

**Table 4: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.67	3	1.557	17.582	0.0000
	Residual	4.503	52	0.087		
	<b>Total</b>	9.173	54			

Critical value= 2.35

a. Dependent Variable: Financial performance of insurance firms

b. Predictors: (Constant), Investment alternatives

Table 4, as revealed by ANOVA, demonstrates that the regression model exhibited a significance level of 0.0000, corresponding to 0%. The p-value being less than 5% indicates that the data is optimal for drawing inferences on the population parameters. The importance of R square change is assessed using an F-statistic, which is derived from the F-test. A significant F change indicates the inclusion of a variable that significantly enhances model prediction. The regression model well explains the variation in financial performance, as seen by the estimated F value exceeds the threshold value ( $17.52 > 2.35$ ). The model was considered significant, as indicated by a significance value below 0.05. Consequently, we reject the null hypothesis stating the model's insignificance and conclude that equity investment significantly influence the financial performance of insurance companies in Kenya. This signifies that the model, in its entirety, is statistically significant at conventional levels of significance.

### Regression Analysis

The study sought to conduct panel regression analysis to determine the statistically significant relationship between equity investment and the financial performance of insurance firms in Kenya. The findings are displayed in Table 5.

**Table 5: Regression Coefficients**

Financial Performance	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]	
Equity Investments	0.50041	0.110795	4.52	0.000	0.283253	0.717561
_cons	0.01704	0.006660	2.56	0.011	0.003986	0.030091
sigma_u	0.0019938					
sigma_e	0.00367664					
Rho	0.22724817	(fraction of variance due to u_i)				

The following model was derived:

$$Y_{it} = 0.01704 + 0.50041EI_{it}$$

Where:

$Y_{it}$  represents financial performance of Insurance Firms  $i$  at time  $t$

$EI_{it}$  represents Equity Investments  $i$  at time  $t$

### Discussions

The study sought to establish the effects of equity investments and financial performance of insurance firms in Kenya. The null hypothesis was given as below. The criteria for accepting or rejecting null hypotheses stipulate that a p-value of 0.05 or greater results in the acceptance of  $H_0$ , while a p-value below 0.05 leads to the rejection of  $H_0$ . According to Table 4.13, the beta value for equity investment is 0.50041 with a p-value of 0.000. This indicates that, when controlling for other variables, a unit increase in equity investment will increase the financial performance of insurance firms by 0.50041. The effect is significant, as indicated by the p-value of 0.000 ( $P < 0.05$ ). Consequently, the study provides sufficient evidence to reject the null hypothesis and concludes that equity investment has a statistically significant impact on the financial performance of insurance firms in Kenya.

The study corroborated the findings of Bhattacharjee (2017) in India; Ilahi, Jamil, and Kazmi (2014) in Pakistan; Harelimana (2017) in Rwanda; Sang (2017); Rop, Muturi, and Bokongo (2015); Ngunjiri (2016); and Wafula (2014) in Kenya, all of whom concluded that equity

financing enhances shareholder value by optimizing firms' capital structures, thereby balancing the advantages of tax shields against the costs of financial distress and improving overall performance. The study contradicted the researches done by Zarah (2017); Hailu (2018) in Pakistan. Mutua (2020) and Oeta, (2019) in Kenya; Yemi and Seriki (2018) in Nigeria who all contended that equity investment had a negative and insignificant effect on return on assets. Yator ,(2023) and Musila, (2015) on the other hand found no significant effect of equity investment and financial performance on firms listed at the NSE, Kenya. Yator (2023) further indicated that Majority of manufacturing firms only prefer equity financing because it allows companies to raise capital without taking on debt.

## **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

This chapter provides a summary of the study's key findings, pertinent feedback, and conclusions, along with necessary recommendations.

### **Summary**

The objective of the study was to assess the effects of equity investment and financial performance of insurance firms in Kenya. This study utilized the ROA as the measure of financial performance so as to examine how equity investments affects the ability of insurance firms to efficiently use its assets to generate profits. Descriptive statistics, correlation analysis and panel regression analysis were used to arrive at the conclusions. The findings of the descriptive results depicted an average figure for equity investment was 28.50%. The findings of the correlation analysis conducted reveal a statistically .Coefficient results of financial performance of insurance firms in Kenya and equity investments shows a strong positive correlation implying that there is a strong positive relationship between equity investment and financial performance of insurance firms in Kenya. The P value indicate that the relationship is significant at 5% levels of significance. The results from the hypothesis testing indicate a positive coefficient value with a P Value that is less than 0.05 implying that when insurance firms in Kenya increases their investment in Equity shares by a unit, it increases the financial performance of this firms, and the increase statistically affects the financial performance of these firms at 5% levels of significance. Therefore, the null hypothesis was rejected at 5% and conclusion made that equity investment positively affects the financial performances of insurance firms in Kenya.

### **Conclusion**

The study found that equity investments have a positive effect on financial performance of insurance firms in Kenya. Specifically, results revealed that 28.50% of insurance firms in Kenya chose equity investments as their investment alternative which further indicates that more than a quarter of insurance companies prefer equity investment as a key source for their returns. Equity is a preferred investment option for investors and insurance companies because it offers an increased opportunity to participate in a company's growth and profits. Investors buy equity shares with the hope that they will increase in value over time and provide dividends or capital gains once they are resold. According to Yator (2023) equity provides a cheap source of financing. As a result, higher ownership in equity increases the amount of money that can be reinvested in both new and existing, profitable projects. New project investments would improve return on equity and boost financial performance. In addition, companies must lower their equity: debt ratio from costly external sources in order to accommodate the growing equity funding. This increases profitability by lowering the amount of interest paid. The study

thus concludes that insurance firms should increase their equity investments in order to increase their financial performance.

### **Recommendations**

Kenyan Vision 2030 has placed greater focus on the equity market as a means of attracting investments in order to boost both local and foreign flows and raise the GDP of the country. As a result, the study recommends insurance companies to actively investigate equity investment alternatives that may provide adequate returns in the medium term. In the long run, this might increase the return on assets and fortify the firm's liquidity position. Insurance companies could also think about investing in other developing nations with thriving capital markets in order to increase their financial returns. By doing this, the companies will be able to take advantage of market possibilities and reduce their vulnerability to shifts in local markets.

The recommendations of the study to the Capital Markets Authority to rely on the findings of this study when developing benchmark guidelines on the minimum holding on various investment portfolios. This will ensure there are set regulatory requirements that will guide insurance firms in the management of their investment alternatives which can significantly improve the public confidence in the institutions and drive their financial performance. Further, the regulator can be able to develop new policies to guide the assets management within the insurance industry to ensure that public funds are well-protected and the firms achieve value in their financial performance. CMA can improve market development and regulation in Kenya by utilizing research on equity investments and financial performance. In particular, the CMA can utilize this information to improve current rules, enact new ones, and advance market integrity and investor safety.

### **Areas for Further Research**

The study focused on equity investments. Additional research ought to be done to identify additional financial functions, such as financing alternatives, dividend decisions, and liquidity aspects, and assess how they affect the performance of insurance companies in Kenya. The study focused only insurance companies in Kenya, the study recommends a replica study to be done on other sectors of the economy like the infrastructure, commercial and services, industrial sectors, banking sector etc., and assess the effects of investment alternatives on financial performance in these market segments. This study relied on quantitative data from Insurance Regulatory Authority data and Nairobi Securities Authority bank. Future studies could incorporate a mixed approach by including primary data captured from Claims Managers of Insurance firms. According to the study's findings, the R square value is 56.5%. This shows that the independent factors do not account for about 43.5% of the variance in the dependent variable.

Future studies should therefore examine testing other independent variables that impact firm performance, such as hedge funds, money market investments, exchange-traded products, private capital, and natural resources. The application of other market-based performance metrics, such as Tobin Q, ROE, and leverage, among others, may yield different results. The study can also incorporate control factors like company size. Last but not least, insurance companies must optimize their premium collection procedures and processes in order to maintain operations, attain profitability, and comply with regulatory requirements. This is because the core investment of insurance corporations is the income generated from premium collection. Insurance companies can improve financial performance, lower administrative

costs, increase customer satisfaction, improve risk management, and offer competitive pricing to policyholders, and decrease delinquencies and late payments by streamlining the premium collection process and sealing revenue leaks.

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