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**Effect of Financial Policies on Shareholders' Wealth of Quoted Insurance Companies in Nigeria**

AINA, Hannah Egbetooki and JACOB, Zaccheaus  
Department of Banking and Finance  
Faculty of Administration  
Nasarawa State University Keffi

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**Abstract**

This study aims to examine the effect of financial policies on the shareholders' wealth of quoted insurance companies in Nigeria. Data were collected from the annual financial reports of each insurance company and the Nigerian Exchange Group Factbook. The study utilized panel regression to analyse the data from a sample of six (6) quoted insurance companies on the Nigerian Exchange Group (NGX) from 2016 to 2021. The results of the panel regression revealed that the dividend payout ratio and debt-to-equity ratio have a significant effect on the shareholders' wealth of the selected quoted insurance companies in Nigeria. The study recommends that insurance companies should increase their dividend payout, especially in the wake of a 200% increase in the third-party vehicle insurance policy by the National Insurance Commission as this will increase shareholders' wealth and boost the investor's confidence in the sector. Also, insurance company management should have a balanced capital structure between debt and equity such that it will not hamper the continuity of the business and will not over-dilute the equity of the shareholders.

**Keywords:** Shareholders' Wealth, Dividend Payout Ratio, Debt to Equity Ratio

**Introduction**

The insurance industry in Nigeria is an important sector that plays a crucial role in the country's economic development. It protects against risks to individuals and businesses and also mobilizes funds for investment in the economy. The industry has seen significant growth in recent years, with the number of insurance companies increasing and more people purchasing insurance products (Okparaka, 2018). However, there are concerns about the performance of the industry, particularly in terms of shareholders' wealth. Shareholders' wealth is a crucial factor in the long-term success and sustainability of insurance companies. Shareholders invest in insurance companies with the expectation of receiving returns on their investment, which is reflected in the company's share price and dividends paid out.

One of the key factors that can influence shareholder wealth is the financial policies adopted by insurance companies. Financial policies are crucial to the performance and success of insurance companies. Financial policies refer to the strategies and decisions made by management

regarding the use of financial resources, such as debt financing, dividend payments, and investment decisions (Bravo et al., 2022). These policies can have a significant impact on the company's financial performance and ultimately on the shareholders' wealth (Abdulla,2017).

The insurance industry in Nigeria has faced various challenges, including low penetration rates, a poor regulatory environment, and inadequate capitalization. However, one of the key challenges facing the industry is the lack of shareholder wealth. Investors in insurance companies expect to see a return on their investment, however, many insurance companies have not performed up to these expectations. There is a need to identify the factors that contribute to the lack of shareholder wealth in the industry.

Despite the importance of financial policies, there is limited research on the effect of financial policies on shareholders' wealth of quoted insurance companies in Nigeria. Especially in the wake of the 200% price increment in the compulsory third-party vehicle insurance policy by the Nigerian government through the National Insurance Commission (NAICOM). The existing studies have focused mainly on the banking sector (Fabian et al., 2014), the information and communication technology industry (Bravo et al., 2022), service companies (Mohammed et al., 2021) and Non-Governmental Organizations (Njiru & Githinji-Muriithi, 2018) with limited research on the insurance industry. Also, most of these studies were carried out on financial performance rather than shareholders' wealth as considered by this study. Therefore, there is a need for research that specifically examines the effect of financial policies on shareholders' wealth of quoted insurance companies in Nigeria. This study focused on the impact of two key financial policies: debt financing and dividend payments. This study examined the relationship between these financial policies and shareholders' wealth and identified the factors that contribute to their effectiveness.

The study was guided by the following research questions:

- i. What is the effect of the dividend payout ratio on shareholders' wealth of quoted insurance companies in Nigeria?
- ii. How has the debt-to-equity ratio affected shareholders' wealth of quoted insurance companies in Nigeria?

The study hypothesized that:

**H<sub>01</sub>:** The dividend payout ratio has no significant effect on shareholders' wealth of quoted insurance companies in Nigeria.

**H<sub>02</sub>:** Debt-to-equity ratio has no significant effect on shareholders' wealth of quoted insurance companies in Nigeria.

## **Literature Review**

### **Financial Policies**

Financial policies are guidelines that help organizations manage their financial resources effectively, minimize risk, and achieve their financial goals (Brigham & Ehrhardt, 2013). These policies are crucial for insurance businesses to maintain financial stability and ensure that their

financial activities align with their overall strategic goals. Financial policies typically cover areas such as budgeting, investing, borrowing, and financial reporting, among others. One of the primary objectives of financial policies is to ensure that financial resources are used efficiently and effectively (Ross et al., 2013). Effective budgeting can help insurance firms avoid overspending, reduce waste, and ensure that sufficient funds are available to invest in new initiatives and growth opportunities. Financial policies also help organizations manage risk by establishing guidelines for risk management and developing strategies to mitigate risk. For example, insurance companies may establish policies for diversifying their investments to reduce the impact of market fluctuations or establish a contingency fund to prepare for unexpected events (Gitman & Zutter, 2012).

Another essential aspect of financial policies is financial reporting (Ross et al., 2013). Businesses including insurance firms are required to report their financial activities to various stakeholders, including investors, creditors, and regulatory bodies. Financial policies can help ensure that financial reporting is accurate, transparent, and compliant with relevant regulations. This includes establishing procedures for financial reporting, ensuring that accounting practices are consistent with industry standards, and ensuring that financial statements are audited by independent third parties (Bravo et al., 2022).

Effective cash flow management is also crucial for businesses, and financial policies can help organizations manage cash flow by establishing guidelines for invoicing and payment processing, managing inventory levels, and establishing credit policies for customers and suppliers (Brigham & Ehrhardt, 2013). Financial policies can also help businesses manage debt levels by establishing guidelines for borrowing and repayment, developing strategies for managing interest rates and repayment terms, and monitoring debt levels to ensure they are sustainable over the long term (Mohammed et al., 2021; Gitman & Zutter, 2012). This study focused on two main financial policies, which are dividend payout and debt financing policies, using both the dividend payout ratio and the debt-to-equity ratio.

### **Dividend Payout Ratio**

The dividend payout ratio is a financial metric that measures the percentage of a company's net income that is paid out to shareholders as dividends (Akit et al., 2015). It is calculated by dividing the total amount of dividends paid by the company by its net income for a specific period, such as a quarter or a year (Brigham & Ehrhardt, 2013). The dividend payout ratio is a critical measure of a company's dividend policy and can provide insights into its financial health and stability (Samuel et al., 2022). A high dividend payout ratio indicates that a company is distributing a significant portion of its profits to shareholders as dividends (Alfred et al., 2019). This may be attractive to income-seeking investors who are looking for a dependable source of income. However, a high dividend payout ratio may also indicate that a company is not reinvesting its profits back into the business to support growth and development initiatives (Ogunseye & Eniola, 2020).

Equally, a low dividend payout ratio suggests that a company is retaining more of its earnings to reinvest in the business to support growth and expansion (Alfred et al., 2019). This may be

attractive to investors who are looking for capital gains rather than income. However, a low dividend payout ratio may also signal that a company is not generating enough profits to support its dividend payments (Farrukh et al., 2017). The optimal dividend payout ratio varies by industry and company, and there is no one-size-fits-all approach. The decision to pay dividends and the dividend payout ratio should be based on a range of factors, such as the company's financial performance, cash flow, growth opportunities, and investor preferences (Samuel et al., 2022).

### **Debt to Equity Ratio**

The debt-to-equity ratio is a financial ratio that measures the proportion of a company's debt to its equity (Amos & Francis, 2014). It is calculated by dividing the total liabilities of a company by its total shareholder equity. The debt-to-equity ratio is an essential financial metric that provides insights into the financial health and stability of a company (Brigham & Ehrhardt, 2013). A high debt-to-equity ratio suggests that a company has a high level of debt relative to its equity. This may indicate that the company is highly leveraged and may have difficulty servicing its debt obligations. However, a high debt-to-equity ratio may also indicate that a company is using debt financing to support growth and expansion initiatives.

Conversely, a low debt-to-equity ratio indicates that a company has a low level of debt relative to its equity. This may indicate that the company has a strong financial position and is less risky for investors. However, a low debt-to-equity ratio may also suggest that a company is not using debt financing to support its growth and expansion initiatives and may be missing out on opportunities (Nukala & Prasada-Rao, 2021). Companies should aim to maintain a debt-to-equity ratio that is appropriate for their business model and objectives (Ross, Westerfield, & Jordan, 2013).

### **Shareholders Wealth**

Shareholders' wealth is the present value of the expected return that shareholders will get from the companies that they have invested in. Shareholders can benefit from their investments when the stock price appreciates or an increase in dividend payments (Akit, Hamzah, & Ahmad, 2015). Shareholder's wealth is defined as the present value of the expected future returns to the owners (Shareholders) of the firm. These periodic returns can take the form of periodic dividend payments and/or proceeds from the sale of Stock. Shareholders wealth is measured by the market value of the firm's common stock. Shareholders' wealth is represented in the market price of the company's common stock, which, in turn, is the function of the company's investment, financing and dividend decision (James & John, as cited in Azhagaiah & Priya, 2008). Managements' primary goal is shareholders' wealth maximization, which translates into maximizing the value of the company as measured by the price of the company's common stock. Shareholders' wealth is mainly influenced by growth in sales, improvement in profit margin, capital investment decisions and capital structure decisions (Azhagaiah & Priya, 2008). Hence, in making decisions that maximize shareholder wealth, management should consider the long-run impact on the firm and not just focus on short-run (i.e., current period) effects. For example, a firm could increase short-run earnings and dividends by eliminating all research and development expenditures. However, this decision would reduce long-run earnings and dividends, and hence shareholder wealth, because the firm would be unable to develop new products to produce and sell. Shareholders'

wealth creation has become the new corporate paradigm in recent years (Burlacu,2018). Shareholders expect management to generate value over and above the costs of resources consumed, including the cost of using capital.

### **Empirical Review**

#### **Dividend Payout Ratio and Shareholders' Wealth**

Samuel et al. (2022) investigated the influence of the dividend payout ratio on the share prices of quoted companies on the Nigeria Stock Exchange (NSE) between 2014 and 2020 across fifteen (15) companies. panel least square estimation, using Hausman's test, was used to analyze the data. In the econometric model, the dependent variable (proxy by the market share price) was regressed on the following explanatory variables earning per share, dividend yield, return on investment, dividend payout ratio, and retention rate. This research discovered a joint significant relationship between earnings per share, dividend yield, return on investment, dividend payout ratio, retention rate and market share prices. The research recommends that firms may be well aware that dividend payment may not necessarily be a factor that affects market share.

Ogunseye and Enola (2020) examined the relationship between dividend policy and shareholders' wealth of selected listed firms in Nigeria. In this regard three specific objectives were developed, which are; to determine the impact of retained earnings on the wealth of the shareholders; to determine the effect of dividend per share on market price per share and; to examine the effect of return on equity on shareholders' wealth. For this, a longitudinal research design was adopted where time series data from 2015 to 2019 were collated from reports of quoted companies from the Nigeria Stock Exchange. A sample of 20 companies from the Nigeria stock exchange was purposively selected. The study carried out descriptive and inferential analysis including the Hausman test, and fixed effect regression model to assess the effect of dividend policy on the shareholder's wealth of listed firms in Nigeria. The regression results showed that dividend share per share (DPS) and retained earnings (RE), independently have a negative but insignificant relationship with market price per share which is used as a proxy to measure the shareholders' wealth while return on equity (ROE) has a positive but insignificant relationship with market price per share which is used as a proxy to measure the shareholders' wealth. Therefore, this study concludes that there is a negative but insignificant relationship between dividend policy and the shareholders' wealth of Nigerian firms listed on the Nigeria Stock Exchange.

Alfred et al. (2019) examined the effect of dividend policy on stock prices with empirical evidence from Nigeria. Panel data covering a period of five years from 2011 to 2015 was used. The results showed that DY has an insignificant negative effect on MPS, DPO has a significant positive effect on MPS, EPS has a significant positive effect on MPS and NAPS has an insignificant positive effect on MPS. The study thus concludes that dividend policy can influence the stock prices in the consumer goods sector of the Nigerian stock market indicating that the theory of irrelevancy of dividends does not hold in the case of Nigeria.

Farrukh et al. (2017) investigated the influence of dividend policy on shareholder wealth and business performance in Pakistan. Dividend policy, as measured by dividend per share and

dividend yield, has a positive substantial influence on shareholders' wealth and business performance, according to the regression results. The dividend relevance theory, the signalling impact theory, the bird-in-hand theory, and the clientele-effect hypothesis were all validated by the research.

### **Debt to Equity Ratio and Shareholders' Wealth**

Nukala and Prasada-Rao (2021) analyzed the asset returns for two different companies and the risk and returns from capital projects using the standard capital asset pricing method. To demonstrate how the present values of future cash flows are influenced by discount rates when the debt-to-equity capital structure ratio is varied between 0 and 2.5 debt-to-equity. The breakeven sensitivity was also conducted about the different gross margin ratios of the company. It was found that the high value of the debt-to-equity ratio yielded a flatter net present value with an increase in gross margins. Capital appraisal techniques were applied to illustrate the project returns and annual cash flows and their relationship with the change in the cost of capital. Analysis showed that when the average cost of capital is increased beyond a threshold value, the net present value from the firm's project investments is reduced significantly. A covariance analysis was performed to determine individual returns from two stocks traded in BSE Sensex and S&P 500 indices using the beta values. Comparing the individual and total returns of the two stocks revealed that returns not only increased with increasing beta values—but also varied with earnings potential, growth rate of the firm, dividend payout ratios and trading stock price. The standard deviation on the portfolio of two stocks has been computed for varying asset weight ratios. It has been found that a positive correlation between two stocks increases equity risk when weight ratios are not balanced in a portfolio, while a negative correlation reduces equity risk.

Amos and Francis (2014) examined the relationship between shareholders' wealth and the debt-equity mix of quoted companies in Nigeria. The study was based on a panel data set from 1997 to 2011 comprising sixty non-financial companies. The study specified two-panel regression models. Two measures of shareholders' wealth: Return on Equity (ROE) and Earnings per Share (EPS) were taken as the dependent variables respectively. The principal explanatory variable for each of the models was the Debt Ratio (DR). The results of the study conform to our a-priori expectation that there is a significant negative relationship between shareholders' wealth and the debt-equity mix of quoted companies in Nigeria. This is not unexpected considering the inactive debt market in Nigeria, the dominance of the money market in the Nigerian financial system, the shallow nature of the Nigerian capital market, the buy-hold syndrome of the Nigerian investors and the macroeconomic instability in the country. It was recommended that adequate fiscal policies, relevant capital market institutional and legal frameworks should be put in place. They believed these measures would enhance the development of the Nigerian capital market and create a more conducive environment for businesses to thrive.

Thauti (2013) investigated the relationship between capital structure and shareholder value for companies listed in the Nairobi Securities Exchange. The causal study design was employed in this research. The study population was composed of all 60 companies listed at the NSE. The study sampled 40 companies which were stratified by periods for a period of five years between years 2007 to 2011. The data collected from the secondary source was quantitative. Data analysis

was done using SPSS Version 20 whereby inferential statistics was applied whereby a multiple regression model was employed. The empirical model was used in the study to test the relationship between capital structure and shareholder value for companies listed in the Nairobi Securities Exchange. The findings of the study confirmed that there exists a negative relationship between leverage and Market to Book ratio. The study recommends that companies at NSE must follow the financing hierarchy as postulated by the pecking order concept i.e. internal funds should be used before debt financing and then equity as equity and debt financing are more expensive and reduce shareholder value in the company compared to internal funds.

### **Theoretical Framework**

#### **Modigliani and Miller's Theory**

Over the years, alternative capital structure theories have been developed to determine the factors that affect capital structure decisions. Modigliani and Miller (1958) in their first proposition, Modigliani and Miller (1958) state that the market is fully efficient when there are no taxes. Thus, capital structure and financing decisions affect neither the cost of capital nor the market value of a firm. In their second proposition, they maintain that interest payments of debt decrease the tax base, thus the cost of debt is less than the cost of equity. The tax advantage of debt motivates the optimal capital structure theory, which implies that firms may attain optimal capital structure and increase firm value by altering their capital structures. The impact of investment and financing decisions on firm value has been the focus of extensive research since Modigliani and Miller (1958) proposed the "separation principle". The theory asserts that in a perfect capital market, the value of the firm is independent of how its productive assets are financed. Some authors like Bravo et al. (2022) support their view. However, others have contrasted the findings of the earlier studies suggesting that investment, financing, and dividend policy are related (Njiru & Githinji-Muriithi, 2018). This is predicated on the assumption that Modigliani and Miller's ideal world does not exist. Financial markets are not perfect given taxes, transaction costs, bankruptcy costs, agency costs, and uncertain inflation in the marketplace.

According to Samuel et al. (2022), management usually addresses the dividend target payout level in the context of forecasting the firm's sources and use of funds. Considering prospective investment opportunities and the internal cash generation potential of the firm, both capital structure and dividend policy are chosen to ensure that sufficient funds are available to undertake all desirable investments without using new equity (Mohammed,2021). But what constitutes a "desirable" investment? If it has an expected return greater than the cost of funds that finance it, and if the cost of retained earnings is different from the cost of new equity capital, then dividend policy, capital structure, and investment strategy are necessarily jointly determined (Black & Scholes, 1974).

The investment opportunities available to the firm constitute an important component of market value. The investment opportunity set of a firm affects the way the firm is viewed by managers, owners, investors, and creditors (Abdulla, 2017). The literature has given considerable attention in recent years to examine the association between investment opportunity set and corporate policy choices, including financing, dividend, and compensation policies (Meero,2015). According to Jones (2001), an investment opportunity set represents a firm's investment or

growth options but to Myers (1984) its value depends on the discretionary expenditures of managers. Myers (1984) further explains investment opportunity as a yet-to-be-realized potentially profitable project that a firm can exploit for economic rents. Thus, this represents the component of the firm's value resulting from options to make future investments (Thauti, 2013).

### **Methodology**

This study adopts an ex-post facto research design. This is because the phenomenon observed in the study has already taken place. Ex post facto research is ideal for conducting social research when is not possible or acceptable to manipulate the characteristics of human participants (Kerlinger, 1986). The population of this study comprises all twenty-three (23) insurance companies quoted on the Nigerian Exchange floor. Non-probability sampling method was adopted to determine the sample size. This research adopted a judgmental sampling technique to pick insurance companies based on the availability of data for the period under review, they are A.R.M Insurance Plc, Custodian Assurance Plc, Mutual Benefits Assurance Plc, Spring Assurance Plc, Wapic Life Assurance Plc and Royal Exchange Prudential Life Plc. The six (6) quoted insurance companies represent the sample size for this study, for a six (6) year period spanning from 2016-2021. The six (6) year period is chosen to have fairly, reasonable, and reliable up-to-date financial data. This study made use of panel secondary data precisely. The data were sourced from the publication of the Nigeria Exchange Group (NGX) and the annual report and accounts of the selected quoted insurance companies.

To establish the relationship between dividend payout ratio, debt-to-equity ratio and shareholders' wealth for selected quoted insurance companies, the study employed panel regression analysis. The panel regression model is formulated below:

$$SHW_{it} = \beta_0 + \beta_1DPR_{it} + \beta_2DER_{it} + \varepsilon_{it}$$

Where:

$SHW_{it}$  = Shareholders' Wealth in  $i$  year  $t$

$\beta_0$  = Coefficient of the constant variable

$DPR_{it}$  = Dividend Payout Ratio in  $i$  year  $t$

$DER_{it}$  = Debt to Equity Ratio in  $i$  year  $t$

$\beta_1, \beta_2$  = Regression coefficients of independent variables

$\varepsilon_i$  = error term.

The study employed descriptive statistics to know the characteristics of the variables, Pearson product moment correlation; to know the relationship among the variables and panel regression technique to test relationships among theoretically related variables and estimate the effects of one variable on the other with the aid of statistical package (EVIEW 10). To ensure the reliability of results, the study carried out some diagnostic tests like Normality, Autocorrelation and Heteroskedasticity. The essence is to guard against spuriousness as observed by Granger and Newbold (1974) and Gujarati and Porter (2009) that, the presence of these factors usually introduces bias in the OLS estimators and thus, any conclusion drawn from the results will be spurious.



The model is considered appropriate because the major purpose of regression is: first, the possibility of determining the independent variables that can best explain the variation of the dependent variable. Second, recognizing whether the independent variables are still significant while the other independent variables are controlled or held constant (Omar, 2007).

**Data Analysis and Discussion**

Table 1: Descriptive Statistics

	SHW	DPR	DER
Mean	1.403333	0.129369	0.147781
Maximum	6.250000	1.190000	0.442037
Minimum	0.200000	0.190000	0.000451
Std. Dev.	2.144585	0.296052	0.135264
Observations	36	36	36

Source: Eview Version 10 Output

The table above revealed the data used in the study with the shareholders' wealth having a mean value of 1.403333, while the deviation from the mean (standard deviation) was 2.144585. This means that shareholders' wealth was not normally distributed because the standard deviation value was greater than the mean value. The maximum value for shareholders' wealth as of the period of this study was 6.250000 which means that the returns added to shareholders were not more than 6.25% while the minimum return to shareholders was 0.2%.

Also, the dividend payout ratio had a mean value of 0.129369 while the deviation from the mean (standard deviation) was 0.296052. This means that the dividend payout rate was not normally distributed because the standard deviation value was greater than the mean value. The maximum dividend payout ratio as of the period of this study was 1.190000 which means that the dividend payout ratio was not more than 1.19% while the minimum dividend payout ratio was 0.19%.

In a similar vein, the debt-to-equity ratio showed a mean value of 0.147781 and a standard deviation of 0.135264. This means that the debt-to-equity ratio was normally distributed because the standard deviation value was lower than the mean value. The maximum debt-to-equity ratio as of the period of this study was 0.442037 which means that the debt-to-equity ratio was not more than 0.44% while the minimum debt-to-equity ratio was 0.000451%.

Table 2: Correlation Matrix

	SHW	DPR	DER
SHW	1	0.831468	0.747459
DPR	0.831468	1	0.504209
DER	0.747459	0.504209	1

Source: Eview Version 10 Output

The table above explains the relationship between financial policies and shareholders’ wealth of quoted insurance companies in Nigeria where the dividend payout ratio was correlated with shareholders’ wealth to the extent of 0.831468 (83%), While the debt-to-equity ratio was correlated with shareholders’ wealth to the extent of 0.747459 (75%).

Table 3: Hausman Test

Correlated Random Effects - Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.250196	2	0.5352

Source: Eview Version 10 Output

To choose between fixed and random effect models, the Hausman specification model was run. In a situation where the chi-square value was less than 5%, the fixed effect model would be more appropriate but where the chi-square value was greater than 5%, the random effect model would be more appropriate. In this case, the chi-square value was 0.5352 which was greater than 5%. This means that the random effect model was appropriate for the study.

Table 4: Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.048042	0.053686	19.52186	0.0000
DPR	0.543178	0.047260	11.49350	0.0000
DER	1.928667	0.150838	12.78638	0.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.117387	0.8730
Idiosyncratic random			0.044775	0.1270
Weighted Statistics				
R-squared	0.276924	Mean dependent var		0.215921
Adjusted R-squared	0.104461	S.D. dependent var		0.332542
S.E. of regression	0.314694	Sum squared resid		3.268073
F-statistic	3.041305	Durbin-Watson stat		0.324605
Prob(F-statistic)	0.031341			

Source: Eview Version 10 Output

The dividend payout ratio had a significant effect on shareholders’ wealth because the p-value was 0.0000 which was less than 5% signifying that an increase in the dividend payout ratio will automatically increase shareholders’ wealth to the extent of 0.543178.

Also, the debt-to-equity ratio had a significant effect on shareholders’ wealth because the p-value was 0.0000 which was less than 5%, this signified that an increase in debt-to-equity ratio will increase shareholders’ wealth to the extent of 1.928667.

The coefficient of determination ( $R^2$ ) is 0.276924 which means that financial policy variables used in this study explained variation in shareholders' wealth to the extent of 28% while the

remaining variation was explained by other variables not captured in the model. The model is a good fit with an F-statistics p-value of 0.0313.

Table 5: Post-Estimation Test

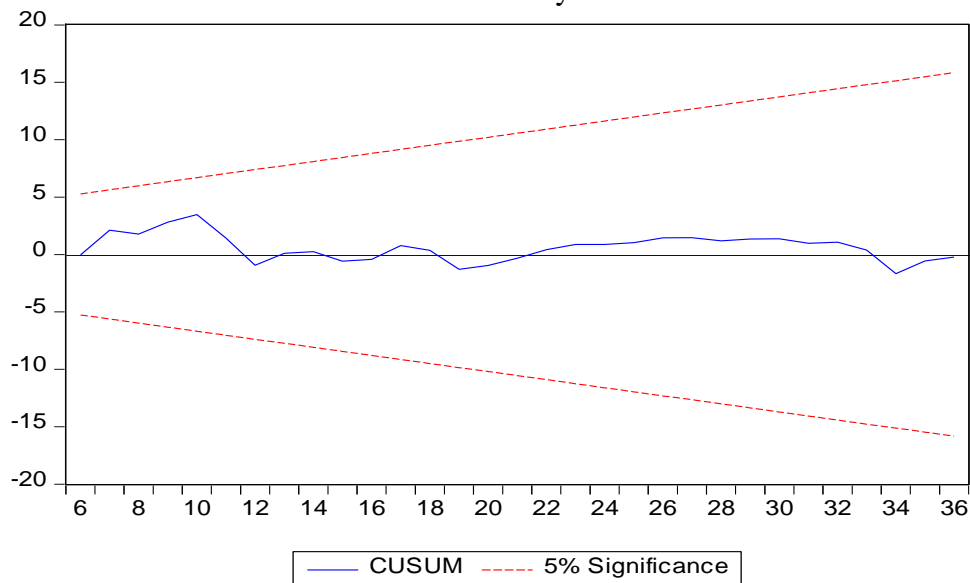
Description	Probability values
<b>Normality Test:</b>	
Jarque-Bera	0.472844
P-value:	0.789448
<b>Serial Correlation</b>	
F-statistics	0.838176
P-value	0.4421
<b>Heteroskedasticity Test</b>	
F-statistics	2.912797
P-value	0.0684

Source: Researcher’s computation, 2023

Table 5 above indicates that the data is skewed, denoting that the data are normal. This is corroborated by the Jarque-Berra Statistic of 0.472844 and its corresponding P-value of 0.789448 which is greater than the p-value of 0.05.

The Breusch-Godfrey Serial Correlation LM Test indicates that there is no autocorrelation. This is given by the F-statistic of 0.838176 and its corresponding P-value of 0.4421. The Breusch Pagan Test of Heteroskedasticity with F-statistics 2.912797 and its corresponding P-value of 0.0684 indicates that there is no problem with heteroskedasticity.

Table 6: Stability Test



Source: Eview Version 10 Output

The stability of the model was checked using the CUSUM test and it shows that the model is stable as it is within the 5% boundary.

### **Conclusion and Recommendations**

Based on the findings of this research, the study concludes that financial policies have a significant effect on shareholders' wealth of quoted insurance companies in Nigeria. This means that the financial decisions made within each of the insurance companies affect their shareholders' wealth.

The study also concludes that dividend payout ratios have a significant effect on the shareholders' wealth. This is in tandem with the findings of Farrukh et al. (2017) and Alfred et al. (2019). This implies that insurance companies with higher dividend payout will have a commensurate increase in share price which will increase the shareholders' wealth. Finally, the study concludes that the debt-to-equity ratio has a significant effect on shareholders' wealth. This indicates that the capital structure of insurance companies determines the shareholders' wealth. This finding aligns with the finding of Amos and Francis (2014) who concluded that the debt-to-equity ratio has a significant effect on shareholders' wealth.

It is recommended that insurance companies should increase their dividend payout, especially in the wake of a 200% increase in the third-party vehicle insurance policy by the National Insurance Commission as this will increase shareholders' wealth and boost the investor's confidence in the sector. Also, insurance company management should have a balanced capital structure between debt and equity such that it will not hamper the continuity of the business and will not over-dilute the equity of the shareholders.

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