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Effect of Firm Characteristics on Financial Performance of Insurance Firms in Kenya

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Abstract:

The purpose of this study was to investigate the influence of firm characteristics on the financial performance of insurance firms in Kenya. The study was anchored on agency theory. The research philosophy adopted was positivism while the correlation research design was adopted. The study used secondary data which was collected using data collection sheet from Insurance Regulatory Authority (IRA), Association of Kenya Insurers (AKI) and individual firms' websites. The target population of the study was 52 insurers that operated in Kenya for the ten years (2010-2018). The unbalanced panel data was analyzed using Random and Fixed effect model where Hausman test was used to establish to test the hypothesis. The study found that Equity Capital had a significant negative effect on financial performance while the Premiums had a positive and significant effect on the financial performance of insurance firms in Kenya. Besides, they should divert their focus towards increasing premium to enhance their financial performance.

Keywords: Equity capital, premiums, financial performance, insurance firms

1. Introduction

Insurance industry helps to promote financial stability by transferring individual and entities' financial risks to itself. Individuals and firms are therefore able to specialize in wealth creation and to undertake projects that they would have avoided in absence of insurance (Mehari & Aemiro, 2013). Insurance helps to mobilize savings from the household level and channel them for investment by financial entities. Hence, improving performance of insurance is paramount. However, the financial performance of a firm is influenced by numerous factors, some internal and others external. External factors relate to forces beyond the control of the firm, for instance change in government regulation in terms of legal-regulatory framework and both fiscal and monetary changes (Ayuso, Ángel Rodríguez, García-Castro, & Ángel Ariño, 2011). Similar, internal factors commonly referred as the firm characteristics include both financial and non-financial factors. Examples of non-financial related factors are; human resource efficiency and effectiveness and the brand name of the firm, competition faced by a company from its peers and competitors (Madubuko, 2014). According to Kiruri (2013), the financial performance of an organization can be established by examining the firm's profitability, solvency and liquidity. Some of the common measures of profitability are the return on equity (ROE) and the return on assets (ROA) (Charumathi, 2012). Mumo (2017) claims that the performance of an insurance firm when it comes to financial aspects can be measured through net premiums earned, return on equity, annual turnover, return on investment and underwriting activities. The components are classified as profit as well as investment performance measures. The majority of researchers conducting studies in the field of insurance have done study on how the industry can become profitable.

According to Ngwili (2014), the financial performance of a company in the insurance sector has a negative relationship with leverage. Firm management and its effectiveness in contributing to financial performance is a reflection of growth and development within an organization. Most of the organization in the insurance sector measure profitability through liquidity, firm size and leverage. In a broader sense, financial performance ensures that the objectives of the company are accomplished and the goals are achieved successfully. Based on this argument the study analyzed asset tangibility, liquidity, leverage, age, Equity Capital are all specific to individual firms.

Despite various reforms done to improve the financial performance in Kenya, regrettably the financial performance of insurance companies in Kenya has been on a declining trend for the period 2010 -2016 (Insurance Regulatory Authority, 2016). This trend explains the high rate of insurance firms falling into receivership and liquidation problems. More than eight insurers have been put under statutory management since 2008 (Insurance Regulatory Authority, 2013). These worrying statistics are peculiar to the insurance sector since the commercial banks and SACCOs statistics support a different narrative (Sing'ombe, 2016). Therefore, the question that begs for answers is what specific

firm factors in insurance firms that are responsible for the persistent below average financial results in some of the insurance firms. Hence, this study hypothesized that;

- H₀₁: Equity Capital has no significant influence on the financial performance of the insurance companies in Kenya.
- H₀₂: Premiums has no significant influence on the financial performance of the insurance companies.

2. Theoretical Literature Review

Agency theory was developed by Jensen and Meckling (1976) and has gained immense recognition by various scholars and researchers in financial management, as it positions the shareholders as the main stakeholder, residual claimant, owner of the firm and the risk bearer (Lan & Heracleous, 2010). The use and adoption of the agency theory increased significantly in the 1980s as firms replaced the school of thought of managerial Equity Capitalism with managers being viewed as shareholders agents (Smith, 2011). Agency theory was able to address the growing concern and accusations that managers were involved in empire building with total disregard of shareholders interest in wealth maximization. The relevance of this theory to this study is increase in Premiums and volume of equity is congruent with the growth in the size of the company. Several researchers quantified the size of an organization using the natural log of net premium collected (Charumathi, 2012; Muhammad, Jibrán, Sameen, Kashif, & Nouman, 2016). Large sized firms develop agency problems due to the need to separate management and ownership. Agency costs incurred are; monitoring and commitment costs to ensure that the managers act in the best interest of the shareholders and win their trust. Smaller firms cannot afford these costs as it might eat up on their operational costs and impact negatively on their performance (Maina, 2014). Firms opt to link compensation to performance in order to eradicate and minimize agency problems. Other firms threaten the managers of takeovers by larger firms in a bid to push them to work harder and achieve better performance.

3. Empirical Literature Review

Empirical literature review relates to a collection of facts and ideas from published works, journals, articles, thesis, dissertations and other scholarly materials done in the area of the researcher's interest (Kothari, 2004). This section explains all the variables in which this study was anchored on. It gives justification on the reasons that informed the researcher to select the subject variables and not others.

3.1. Equity Capital

Berhe and Kaur (2017) conducted a study in Ethiopia on determinants of profitability of the insurance firms in operation in between 2006 – 2015. A total of 17 insurers both life and non-life formed the target population. The results of the fixed influence model indicated that the key determinants of financial performance of insurance firms were Equity Capital adequacy, firm size, and liquidity. Equity Capital was measured as the Equity Capital adequacy ratio presented as a ratio of equity to total assets. The profitability of the insurance firms was measured using ROA. The findings of the study proved that highly Equity Capitalized insurance firms are more profitable than the less Equity Capitalized counterparts. That was because firms with strong financial base have numerous investment opportunities at their disposal compared to the poorly financed insurance firms. Berhe and Kaur (2017) therefore encouraged the insurance firms' managers to increase the volume of Equity Capital in order to make the firms more profitable.

Wani and Dar (2013) supported the findings of Berhe and Kaur (2017) that an upward movement of the Equity Capital is followed by a similar increase in the profitability of the firm in question. That was despite the varying methodology employed by the two researchers. Wani and Dar (2013) used panel data analysis method and measured the volume of Equity Capital as a ratio between equity and total assets while Berhe and Kaur (2017) used multiple linear regressions as the natural logarithm of the book value of equity. Malik (2011) also suggested that an increase in the volume of Equity Capital enhances the financial performance of insurance firms in Pakistan. That was the outcome of a study on determinants of profitability of insurance firms and used leverage, age, loss ratio, the volume of Equity Capital as the explanatory variables. Volume of Equity Capital was measured as the natural logarithm of the book value of equity whereas profitability was measured by ROA presented as a ratio of profits before taxes divided by the total assets. The data collected and analyzed were sourced from the financial statements of firm covering a period of 4 years from 2005 to 2009.

Some studies differed with the narrative that the volume of Equity Capital is positively and significantly correlated to financial performance. Kripa and Ajasllari (2016) concluded in their study to investigate the driving factors for profitability of insurance firms in Albania, the volume of Equity Capital was positive but insignificantly correlated to the financial performance. The study suggested for firms to enhance their profitability, keen attention should be paid to size, liquidity and growth rate. The study used quantitative research design where a total of 7 life and non-life insurance firms operating in Albania were analyzed. Kripa and Ajasllari (2016) findings deferred strongly with Yuqi Li (2007) who suggested that highly Equity Capitalized firms have good survival mechanism and are able to cope with the turbulent financial sector characterized by frequent disruptions by macro-economic factors for instance the fiscal and monetary policies, balance of trade, inflation, exchange rate, gross domestic product growth rate.

Yuqi Li (2007) did a study on the determinants of banks profitability operating in UK in between 1999 and 2006. According to Yuqi Li (2007) strong Equity Capital base is equals to low bankruptcy risk and less dependence to external funding and hence good financial performance as a result of reduced credit cost. However, Charumathi (2012) in a study on the drivers of financial performance of Indian life insurers noted that increase in the volume of Equity Capital resulted in a reduction of profitability of the 23 insurance firms that were in operation in the Indian insurance sector between 2008- 2011. Charumathi (2012) explained that more than 50% increase in the volume of Equity Capital by the insurance

firms in India was used to offset the accumulated losses from previous years incurred by the insurers. Furthermore, Equity Capital influx leads to the opening of new branches which results in the increased cost of operations and hence reduced profitability.

Also, Ondigi and Muturi (2016) examined the determinants of profitability among listed insurance firms in Kenya. The research utilized secondary data for a period of five years right from 2010 to 2014. The results from the study indicated that liquidity was a key determinant of the firms' profitability. On the other hand, equity also contributed to the profitability of the insurance firms. The authors found it utmost necessary for insurance firms in Kenya to maintain adequate levels of liquidity so that their profitability levels are not affected. Regarding equity, the firms are required to utilize it optimally such that it does not become a liability as a consequence of the interest paid. It appears there is a paucity of knowledge with regard to the influence of Equity Capital on the performance of insurance firms in Kenya. This therefore warrants conducting the study.

3.2. Premiums

Kramaric, Miletic and Pavic, (2017) did an analysis of the impact of firm-specific and insurance industry specific macroeconomic variables that influence the performance of insurance markets in Poland, Croatia, Hungary and Slovenia. The period of focus was from 2010 to 2014. In measuring performance, the study relied on ROE and ROA. On the hand, the explanatory variables were Premiums, ownership type, the percentage of premium surrendered to reinsurance age and real GDP. The findings of the static panel model indicated that the age of the insurance firms positively influence their performance. Besides, Premiums significantly influenced the performance of insurance firms in terms of ROE ad ROA. The current study would therefore establish if financial Premiums elicits a similar effect on the financial performance of insurance firms in Kenya.

Further, Shawar&Siddiqui (2019) delved into the determinants of financial performance for insurance firms in Pakistan. The explanatory variables for the study were Premiums, interest rate, firm size, leverage and management expenditure. The target for the study was five insurance firms. The period of study was between 2013 and 2017. Panel regression was utilized in the research. On the three measures of financial performance, Premiums significantly influenced the financial performance of insurance firms. Further, firm size negatively impacted on the investment profit. However, management expenditure and interest rate had an insignificant effect on financial performance of insurance firms in Pakistan. Consequently, the study recommended for more focus towards increasing premium to enhance the financial performance of Pakistan insurance industry.

Also, Ishtiaq& Siddiqui (2019) investigated the determinants of financial performance in the life insurance sector in Pakistan. Secondary data between 2008 and 2017 from life insurance firms were utilized in addressing the study's objectives. The findings of the panel regression indicated that net premium, leverage and tangibility had an insignificant effect on the financial performance of the insurance firms. Further, debt to equity, Equity Capital, liquidity had a positive influence on the performance of life insurance firms.

Besides, Deyganto&Alemu (2019) did an analysis of the factors influencing the financial performance of insurance firms in Ethiopia. The motive of the study was to gather insights on practical policies that would enhance the financial performance of the insurance firms in Ethiopia. The study utilized a casual research design in addressing the objectives of the study. The target for the research was 17 insurance firms operating within Ethiopia. The period of focus was 10 years from 2008 to 2018. The study did a review of financial statements during the period of interest. The findings from the ordinary least square regression indicated that premium growth, underwriting and the solvency ratio positively impacted on the financial performance of firms in Ethiopia. However, firm size and interest rate had no significant effect on the financial performance of the insurance firms.

Moreover, Shaaban&Wahome (2018) examined the effect of premium deposits on the financial performance of insurance firms listed at NSE. The research was guided by the Arbitrage Pricing theory. The research utilized a descriptive research design with a target of six insurance firms listed at NSE. The unit of analysis was valuers, underwriters, credit managers, internal auditors and finance officers. The data was collected with the use of questionnaire. There was a preliminary study intended on ascertaining the validity and reliability of the study instrument. The analysis was done using descriptive and inferential statistics. The results of the analysis indicated that premium deposits had a positive impact on the financial performance of the listed firms at NSE. The implication was that premium deposits are instrumental in enhancing the performance of insurance firms in Kenya. Consequently, the focus needs to be on maximizing on the insurance deposits in a bid to stimulate the financial performance.

Additionally, Suheyli (2015) investigated the factors that contribute to the profitability of insurance firms in Ethiopia. The research relied on panel data covering a period from 2004 to 2014. The mixed research design was adopted with an in-depth interview as the data collection tool. The unit of analysis was firm managers of nine insurance firms in Ethiopia. The results of the analysis indicated that solvency ratio and the underwriting risk negatively impacted on the insurance firms' profitability. Nevertheless, the profitability of the insurance firms was negatively impacted by reinsurance dependence. On the flip side, premium growth, firm size, liquidity had a positive and significant influence on the profitability of the firms. The study concluded that the profitability of insurance firms in Ethiopia is majorly attributed to liquidity. Consequently, focus towards ensuring the availability of liquid assets within the insurance firms will contribute to their improved financial performance.

Also, Ortyński (2016) investigated the factors that contribute to the financial performance of general insurance firms in Poland. The research utilized panel data from the year 2006 to 2013. The analysis focused on macroeconomic factors and firm characteristics that influence the performance of the insurance firms. The findings of the analysis indicated a positive relationship between Premiums and the profitability of the insurance firms in Poland. Other than that,

the net operating expenses and underwriting activity negatively impacted on the insurance firms' performance. Regarding the macroeconomic variables, the GDP rate was significantly associated with the financial performance of the insurance firms. Clearly, there is a positive effect of Premiums on the financial performance of insurance firms in Poland. The only difference with the current study is that Ortyński (2016) focused on insurance firms in the motor industry while the current study's emphasis is on insurance firms regardless of the specific sector, they are dealing in.

Markonah, Sudiro&Rahayu, (2019) delved into the influence of premium growth and corporate governance on insurance firms' performance in Indonesia. The research was motivated by the fact that insurance firms in Indonesia have elicited a declined in their premium right from 2016 to 2019. Besides, there was also dismal performance for corporate governance in the country. The study did a review of past studies to establish how both corporate governance and premium growth impacted on the performance of the insurance firms in Indonesia. From the review of the literature, the study found mixed results as to the influence of both predictors on the financial performance of the insurance firms. On one end, corporate governance had no influence on the financial performance of insurance firms while on the other, premium growth positively impacted on the performance of the insurance firms. The specific findings from the study by

Markonah, Sudiro&Rahayu, (2019) indicated that both premium growth and corporate governance positively influence the financial performance of the Indonesian insurance firms. The current study establishes if the Premiums has an influence on the financial performance of insurance firms in Kenya.

Further, Banerjee &Majumdar (2018) delved into the influence of firm specific and macroeconomic factors on the profitability of insurance firms in the United Arab Emirates. The period of emphasis was between 2009 and 2013. The study was motivated by the fact that the insurance industry was still suffering from the financial crisis of 2007/2008. The research therefore sought to give an accurate account of the performance of the insurance industry in the UAE post the global financial crisis. The findings indicated that Premiums, leverage, firm size and market positively impacted on the financial performance of insurance firms in the UAE. For the macroeconomic variables, the growth in the gross domestic products positively impacted on the financial performance of the insurance firms. The take away from the study is that there is a positive link between the Premiums and insurance firms' financial performance.

As well, Ahmad &Prasetyo (2018) investigated the impact of premium income, underwriting income and liquidity on the profitability of Indonesian non-life insurance firms. The study utilized annual data from published reports from the year 2011 to 2014. Since the study was utilizing panel data, Hausman test was conducted to identify the ideal model to use for the regression analysis. The results indicated that the fixed effect model was best suited to address the study's objective. The findings from the regression analysis indicated that both premium income and underwriting income positively impacted on the profitability of the non-life insurance firms in Indonesia. On the other hand, liquidity had a positive but insignificant effect on the profitability of the non-life insurance firms in Indonesia for the period 2011 to 2014. Finally, Tegegn, Sera&Merra (2020) investigated the influence of premium growth rate, firm size, firm age, leverage, liquidity and tangibility of assets on the profitability of nine listed insurance firms in Ethiopia. The period of focus covered twelve years, right from 2005 to 2016. The secondary data was sourced from the financial statements of the targeted insurance firms as well as financial publications. The Hausman test indicated that the random effect model was appropriate for the regression analysis to ascertain the effect of the firm characteristics on the profitability of the listed insurance firms in Ethiopia. The regression findings indicated that the key determinant of profitability of the target insurance firms were firm age, liquidity and premium growth rate. On the flip side, firm age and liquidity were negatively associated with the firms' profitability. For tangibility of assets and leverage, they elicited no significant influence on the profitability of the listed insurance firms in Ethiopia. Consequently, emphasis of insurance firms needs to be on enhancing liquidity and premium growth to elicit a growth in their profitability levels.

3.3. Research Gaps

The reviewed literature has confirmed the existence of both conceptual and contextual gaps. The conceptual gap is evident since the researcher has ascertained no past studies have exactly the same variables with the current one. Furthermore, several studies which share similar one or two similar variables with the current research have registered differing results. The contextual gaps have been established as past studies were done in different time period, regions and in varying financial sector players. Numerous studies relating to financial performance was reviewed. However, most of the articles reviewed dwelled on commercial banks, savings and credit co-operative societies, small medium enterprises and manufacturing firms. Some were done in mature and developed economies. The number of studies done on specific factors and financial performance in Africa is scarce while an insignificant volume of studies relates to the financial performance of the insurance sector in Kenya. This study, therefore, is of paramount importance as it seeks to bridge the gap in the existing body of knowledge by addressing the influence of firm characteristics on the financial performance of insurance firms in Kenya with keen interest on the moderating influence of the listing of insurance firms on NSE.

4. Materials and Methods

The study seeks a quantitatively measured description and exploration of the perceived reality of firm characteristic and financial performance of insurance firms. Thus, the study used positivism research philosophy. This is because the research was highly structured, used large samples and in these cases a census and was quantitative in nature. Correlation research design was used to test the hypotheses on the assumed influence of specific firm factors on the financial performance of insurance firms in Kenya.

4.1. Sample (Inclusion and Exclusion Criteria)

The study included insurance firms operating in Kenya between 2010 and 2018. The list of insurance firms operating within the specified time period was obtained from Insurance Regulatory Authority and Association of Kenya Insurers' websites and annual reports. As at 31st December 2018, there were 52 insurance firms and they all form the target population for the current study. Hence, the study used census method for all the insurance firms that operated in Kenya from 2010 to 2018. The study used panel data over a period of 9 years (2010-2018).

4.2. Variable Measurement

The study used Returns on Assets (ROA) as a measure financial performance. ROA indicates the effectiveness of the assets of a firm in generating income. ROA was a proxy of Earnings before Interest and Tax (EBIT) over Total Assets (Burca et al., 2014).

Premiums are synonymous with the size of operations conducted by an insurer. The more the Premiums a firm boast of the large its size and vice versa. This variable has been measured as the natural logarithm of gross premium collected by numerous authors and researchers (Hailegebreal, 2016; Mwangi & Iraya, 2014).

The size of Equity Capital denotes the amount of the funds contributed by the shareholders of the firm and from retained earnings ploughed back. Debt and borrowed funds in a firm Equity Capital structure do not qualify as Equity Capital. Equity Capital shareholders are the residual claimant of the assets of the financially troubled firm and they rank in terms of priority of compensation to debt holders. Many other researchers, Charumathi (2012) measured this variable as a natural logarithm of Equity Capital.

Firm size which was used as moderator in the current study was measured using log of total asset (Işık, 2017)

4.3. Model Specification

The study used of panel data to establish the relationship among the study variables. Eviews statistical software was used to sort, categorize and analyze the data Panel data is also referred as combined or pooled data as it contains characteristics of both the time series and cross-sectional data. fixed effects models and the random effects models were used to analyzed data. In order to determine which model is most suitable for the current study, Hausman test was conducted. This involved sequentially testing the two models starting with FEM, against the alternative hypothesis that the random effect model is suitable at 5% significance level. The Hausman test output was in the form of the chi-square and the p-value which helped in making the decision whether to accept or reject the null hypothesis. The researcher used the following equation for the purposes of the study at hand.

$$\text{Lnperformance (ROA)}_{it} = \alpha_0 + \beta \text{LnEQTY}_{it} + \beta \text{LnP}_{it} + \mu_{it}$$

Where;

ROA_{it} = Returns on Asset of insurance i at time t

P_{it} = Premium of insurance i at time t

EQTY_{it} = Equity Capital of insurance i at time t

Ln = the natural log

α_0 = Constant return

μ_{it} = Composite error term

β 's = Coefficient of the independent variables

5. Findings and Discussion

This chapter presents the data analysis as well as the findings of the study based on the study objectives. First the study presented Univariate analysis of both descriptive statistics and correlation results which helped to identify trends, patterns and characteristics of the data in order to allow for further analysis.

5.1. Univariate Analysis

The summary statistics for the financial performance, Premiums and Equity Capital in Table 1. Findings showed that the return on assets was at a mean ratio of 0.05. The average Equity Capital is 1860 million and the Premiums is 3270 million. From the findings in Table 1, the relationship between Premiums and financial performance was found to be positive and significant, $\rho = 0.218$, p -value < 0.01. The relationship between Equity Capital and financial performance was found to be negative and significant, $\rho = -0.206$, p -value < 0.01.

stats	Min	Max	Mean	Sd	ROA	Equity Capital	Premiums
ROA	-0.67	2.89	0.05	0.17	1		
Equity Capital (in millions)	-837.00	23400.00	1860.00	2560	.218**	1	
premiums (in millions)	136.00	52800.00	3270.00	4500	-.206**		1
** Correlation is significant at the 0.01 level (2-tailed).							

Table 1: Univariate Analysis

5.2. Diagnostic Tests of the Data

The data sets were tested for the classical linear regression model assumptions before running the model. Heteroscedasticity was tested using White test is where the p-value it was not significant, meaning it is greater than 0.05 hence the null hypothesis was not rejected since the error variance is constant. The Jarque-Bera Test was used to assess normality which had p Chi (2) is 0.6592. The value surpasses the threshold value of 0.05, meaning there is no violation of normality. This study applies Levin-Lin-Chu unit-root test, Harris-Tzavalis unit-root test and Im-Pesaran-Shin unit-root. The p-values were all less than 0.05 showing that the null hypothesis can be rejected at all conventional significance levels for all the variables of the study, meaning that there is no unit root in the data. This implies that the means and variances in the data do not depend on time, hence the application of OLS can produce meaningful results (Gujarati, 2012). Wooldridge test for autocorrelation was used to test autocorrelation in the residuals from a statistical regression analysis. The results indicate a p value was more than 0.05 implied non-violation of the autocorrelation assumption. This study considers correlation coefficients and Variance Inflation Factor (VIF) tests for multicollinearity (Cerbioni&Parbonetti 2007; Haniffa& Cooke 2005). The results of the VIF test ranged between 1.31 and 3.49 based on the results of the diagnostic tests, it is concluded that there is no multicollinearity problem

5.3. Random and Fixed -Effects GLS Regression (Hypothesis Testing)

Hausman test was used to select either the fixed or random effects, regression model, to test for the hypotheses (Green, 2008). From the Hausman test table 2, which shows a summary of the results, the conclusion is that the null hypothesis of 'difference in coefficients not systematic' to determinants of financial performance is accepted. This is because the chi-square value of 1.22 was insignificant, p-value = 0.8754. Therefore, this implies that the effect of the hypothesis is tested using the random effects model.

- Hypothesis 1(H_{01}) stated that Equity Capital has no significant influence on the financial performance of the insurance companies in Kenya. Findings showed that Equity Capital had coefficients of estimate which was significant basing on $\beta_1 = -0.202$ (p-value = .002 which is less than $\alpha = .05$). The null hypothesis was thus rejected, and it was concluded that Equity Capital has a negative and significant effect on financial performance. This suggested that there was up to 0.202-unit decline in financial performance for each unit increase in Equity Capital. Consistent with the findings, Charumathi (2012) noted that increase in the volume of Equity Capital resulted in a reduction of profitability. Contrary to the findings, Berhe and Kaur (2017) indicated that the key determinants of financial performance of insurance firms was Equity Capital adequacy among other factors. Similarly, Malik (2011) suggested that an increase in the volume of Equity Capital enhances the financial performance of insurance firms in Pakistan. In a similar vein, Yuqi Li (2007) elucidated that strong Equity Capital base equals to low bankruptcy risk and less dependence to external funding and hence good financial performance. Moreover, Gugong, Arugu and Dandago (2014) established that owners' equity has the potential to further enhance firm performance in the sense that it serves as a check and balance mechanism.
- Hypothesis 2(H_{02}) stated that Premiums has no significant effect on financial performance. However, the regression results indicated that Premiums had a positive and significant influence on financial performance ($\beta_2 = .142$, $p < .05$). The null hypothesis was therefore not accepted, and it was concluded that an increase in Premiums by .142 units leads to an increase in financial performance by the same unit. In tally with the findings, Kozak (2011) confirmed that an increase in written premium with reduced costs of operations enhance the profitability of non-life insurance firms in Poland. In the same way, Burca et al. (2014) opined that for the firm to enhance profitability and reduce insolvency risk, the Premiums needs to be improved significantly. Similarly, Hailegebreal (2016), concluded that the Premiums had a positive and significant relationship with ROA. In the same way, Kramaric, Miletic and Pavic, (2017) espoused that Premiums significantly influenced the performance of insurance firms in terms of ROE ad ROA. Further support to the study findings is by Shawar&Siddiqui (2019) who found out that Premiums significantly influenced the financial performance of insurance firms. Moreover, Shaaban&Wahome (2018) indicated that premium deposits are instrumental in enhancing the performance of insurance firms in Kenya. In a similar vein, Ortyński (2016) found a positive relationship between Premiums and the profitability of the insurance firms in Poland. Further, Akotey et al., (2013) found that the growth of gross premium written was negatively correlated with investment income but positively correlated to sales profitability. On the flipside, Ahmed (2016) elucidated that Premiums had a positive but insignificant influence on the profitability of the insurance firms in Nigeria.

FV	Random Effect			Fixed Effect		
	Coef.	Std. Err.	P>z	Coef.	Std. Err.	P>t
Equity Capital	-0.202	0.064	0.000	-0.233	0.077	0.003
Premiums	0.142	0.022	0.000	0.139	0.022	0.000
_cons	-2.161	0.180	0.000	-1.445	0.170	0.000
sigma_u	0.663			0.718		
sigma_e	0.814			0.814		
rho	0.399			0.438		
R-sq: within	0.599			0.600		
between	0.626			0.624		
overall	0.619			0.616		
Wald chi2(3)	614.580		F(3,135)	130.580		
Prob> chi2	0.000		Prob> F	0.000		
Huasmantest						
b = consistent under Ho and Ha; obtained from xtreg						
B = inconsistent under Ha, efficient under Ho; obtained from xtreg						
Test: Ho: difference in coefficients not systematic						
chi2(6) = (b-B)'[(V_b-V_B)^(-1)](b-B)						
= 1.22						
Prob>chi2 = 0.8754						

Table 2: Random and Fixed -Effects GLS Regression Results

6. Conclusion and Recommendations

In conclusion, Equity Capital negatively impacts on the financial performance of insurance firms. The implication is that an increase in the Equity Capital brings about a decline in financial performance. It appears that the insurance firms are yet to devise ways of ensuring the sustainability of Equity Capital. Further, firm size does not moderate the relationship between Equity Capital and the financial performance of insurance firms. It appears that firm size does not act as a buffer for better performance. There is also a likelihood that the firms do not suffer from high information asymmetry since they are considered to be large firms. Consequently, firm size effect on Equity Capital does not influence financial performance.

Besides, the study findings elicited a positive link between Premiums and financial performance. Notably, Premiums improves the profitability of insurance operations and overall profitability. Also, the results suggest that insurance firms that underwrite more premium over the years have a better chance at superior financial performance. The explanation for this is that the insurance companies benefit from premium collected.

The findings of the study established that Equity Capital brings about a decline in the financial performance of insurance companies. Therefore, it is crucial for the insurance firms to utilize Equity Capital optimally such that it does not become a liability as a consequence of the interest paid. Further, the insurance firms could use the proceeds from Equity Capital funding to invest in projects that would enhance their financial performance.

Besides, Premiums enhances the financial performance of insurance companies. It is therefore essential for the firms to divert their focus towards increasing premium to enhance the financial performance of the insurance companies. Further, while increasing the gross premium, the insurance firms should ensure that it does not compromise stringent underwriting policies that would eventually lead to high claim costs and a decline in the profits.

This study dwelt on the firm characteristics influencing the financial performance of insurance firms in Kenya. The study relied heavily on the secondary data collected from the Insurance Regulatory Authority and the credibility and integrity of these data cannot be guaranteed to be flawless. A similar study may be done in future and primary data to be used as opposed to secondary data.

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