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# Risk, Share Price Volatility and Dividend Policy: Evidence from Insurance Companies in Kuwait

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***Abstract:*** Fluctuations in share prices indicates risk and uncertainty for investors, rendering the share less appealing to a significant number of them. This study aims to investigate the main factors influencing the volatility of share prices among insurance firms listed on the Kuwait Stock Exchange (KSE) during the period from 2016 to 2022. Utilizing the panel OLS regression technique, findings indicated that dividend yield, leverage, and company age all exhibited a notable negative influence on share price volatility, while the dividend payout ratio and company asset size did not demonstrate any significant impact.

***Key Words:*** Dividend Payout Ratio, Dividend Yield, Share Price Volatility, Risk, Insurance Companies, Kuwait.

## INTRODUCTION

Investors are risk aversion by nature and share price volatility represent risk to them. Nel and Krugler (2001) describe share price volatility as the extent to which share prices fluctuate over a specific duration. Honggang and Rosser (2001) similarly describe share price volatility as an indicator of the risk associated with future returns on an investment. Montgomery (2002) also points out that share price volatility serves as a gauge for the frequency and magnitude of changes in a share's price.A key characteristic of a company's stock price is its steady fluctuations, whether increasing or decreasing. Zainudin et al. (2018) argue that the volatility of share prices accounts for the risk associated with a common stock, whereby the risk escalates alongside the volatility of the common stock price. The greater the stock price volatility, the higher the associated risk of those stocks. Phan and Tran (2019) view share price volatility as fluctuations in stock prices over time caused by uncertainty, instability, and various risks.

Comprehending share price fluctuations is crucial for investors, the impacted company, and portfolio managers. Given that investors are recognized for their rationality and aversion to risk, they generally do not settle for return premiums associated with high risk levels; instead, they favor lower risk while ensuring a certain level of returns. Nel and Kruger (2001) contend that share prices exhibiting higher volatility lead to increased risk that the shares may not perform as anticipated. They also deduce that when the volatility of a stock price rises, investors will view the stock as being riskier and the opposite is true. In a similar vein, Guo (2002) contends that the fluctuations in share price represent the systemic risk encountered by investors holding ordinary shares. Rajni and Mahendra (2007) observed that stock price fluctuations generally increase with the release of new information into the market; however, the magnitude of this increase is influenced by how pertinent the new information is and how much the news surprises investors.

Throughout the years, scholars have sought to clarify share price fluctuations and the factors driving them. Among the elements that demonstrated a notable effect on share price volatility were dividend policy aspects, with dividend yield and dividend payout ratio being the most influential factors. Beside dividend policy factors, leverage, company assets size, and company age were seen as a worthy factors in determining share price volatility.

Dividend yield is the actual return investor gets from dividends paid by the company to its shareholders. It is calculated by dividing dividend paid over share purchase price. Ajao and Robinson (2022) examined the data from 3 Sub-Sahara countries that included Nigeria, Kenya and South Africa over the period 2011 to 2019 and concluded that dividend yield, dividend payout and the firm size had a significant effect on share price volatility. In Sri Lanka, Sugathadasa (2018) observed the data of 30 companies listed on the Colombo Stock Exchange over the period 2014 to 2017 and concluded that dividend yield and dividend payout ratio had a negative effect on share price volatility. In Kuwait, AlAli et al. (2024a) used the data of insurance companies that are listed at Kuwait Stock exchange (KSE) over the period 2014 to 2022 to examine the relation between dividend policy and share prices and noticed a statistically inverse relation between dividend yield and share price volatility. Baskin (1989) examined 2344 U.S common stocks from the period of 1967 to 1986, and found a significant negative relationship between dividend yield and stock prices. Nguyen et al. (2019) also showed a

negative relation between dividend yield and share price volatility when investigating that relation using the data of 141 listed companies at Ho Chi Minh Stock Market between 2011 and 2016. AlAli et al. (2024b) conducted a comparison study on the effect of dividend policy on the share prices of ten conventional and Islamic banks in Kuwait over the period spanning from 2014 to 2023 and concluded that dividend yield had a significant inverse effect on share price volatility for conventional banks while that relation did not exist in Islamic banks.On the other hand, Suleman et al. (2011) when studying companies listed at Karachi Stock Exchange over the period 2005 to 2009 discovered significant positive relation between share price volatility and dividend yield.

Dividend payout is the percentage of company profits paid out to shareholders as dividend. Many researchers examined the relation between dividend payout and share price volatility and came out with conflicted results. Hussainey et al. (2010) used the data of 123 British companies over the period 1998 to 2007 to examine the relation between dividend policy factors on share price volatility and concluded that dividend payout ratio is the predominant determinant of share price volatility.Nishat and Irfan (2003) examined the effect of dividend policy on stock price volatility in the Karachi Stock Market in Pakistan between 1981 and 2000 and they observed that dividend yield and dividend payout ratio have significant influence on Stock Price Volatility. Also in Pakistan, Nadeem et al. (2014) investigated the impact of dividend policy on share price volatility in Pakistan. Using data of 17 banks on the KSE from 2007 to 2012, results showed that dividend payout ratio had a significant positive effect on share price volatility.

The same results were reached by Profilet and Bacon (2013) where a positive relationship was observed between the payout ratio and the stock price volatility in the U.S. market. On the flip side, AlAli (2020) used the data of 10 banks that are listed at Kuwaiti Stock Exchange (KSE) over the period 2008 to 2018 and found a statistically significant inverse relation between banks' share price and dividend yield and dividend payout ratio. Syed and Umara (2016) examined the role of dividend policy on share price volatility in the Pakistan between 2005 and 2012, using the data of 50 firms listed at Karachi Stock Market and discovered a significant negative relationship between dividend payout ratio and share price volatility. AlAli et al. (2024c) examined the effect of dividend policy on the share prices of 5 insurance companies in Kuwait over the period spanning from 2014 to 2022 and showed that dividend payout ratio did not have and significant effect on share price volatility while dividend yield showed a significant inverse relation with share price volatility.Leverage is another factor that literature found to have an effect on share price volatility. Kahraman (2021) examined dividend policy within the Indian financial market over the years 2000 to 2021.

The findings suggest that profitability, leverage, and liquidity are key elements influencing dividend policy choices. Using the data of 145 companies listed at Tehran's Stock Market from 2005 to 2006, Bahreini et al. (2013) found a significant negative relation between leverage and share price volatility. Mehmooda et al. (2019) used a sample of 15 firms from PSX over the period 2011 to 2015 and their results revealed that there was a positive relationship between stock price volatility and dividend payout ratio. Besides, earnings volatility and leverage had a negative relationship with stock price volatility. In contrast to their findings, Allen and Rachim (1996) observed positive relation between stock prices volatility and size, earnings and leverage after studying 173 Australian listed stocks. While, Nazir et al. (2010) examined the relationship between share price volatility and leverage for the period of 2003 to 2008 in 73 firms listed in Karachi Stock Exchange (KSE) and concluded that size and leverage have non-significant negative effect on share price volatility.

Baskin (1989) stated that "companies with a broader range of shareholders might be more inclined to utilize dividend policy as a signaling mechanism." Hashemijoo et al. (2012) discover that the size of a company has a considerable impact on stock volatility. The larger the company, the greater the variety of activities, which means that bigger firms often possess more public information and can lower the degree of price volatility. Sutrisno (2020) used the data of companies listed at Jakarta Islamic Index over the period spanning from 2014 to 2018 and found a significant inverse relation between firm size and price volatility. On the other hand, Mehmooda et al. (2019) conducted a study on 15 firms listed at Pakistan stock exchangeover the period 2011 to 2015 and discovered a positive relation between size and stock price volatility. While, Singh (2018) did not find any relation between company size and the share price volatility when studying that relation using 26 companies that are listed at Muscat Securities Market, Oman over the period 2011 to 2016.

When it comes to the effect of company age on its share price volatility, Al-Malkawiet al. (2007) investigated the Jordanian financial market during the period from 1989 to 2000 and concluded that firm size, profitability and firm age were the three variables that affects share price volatility. In Kuwait, Al-Sabah (2015) showed in his research a negative correlation between leverage and dividends and a negative correlation between firm age and share price volatility. However, Mili et al. (2017) revealed a positive correlation between share price volatility and firm age. While, Al-Sawalqa (2021) used the data of 179 non-financial companies over a period of five years and did not find significant relation between company age and share price volatility.

This research is set to examine the following hypotheses;

H1: Dividend yield significantly influenced on share price volatility

H2: Dividend payout ratio significantly influences share price volatility

H3: Leverage significantly influences share price volatility

H4: Company assets size significantly influences share price volatility

H5: Company's age significantly influences share price volatility

## RESEARCH METHODOLOGY

This study is set to examine the factors that affects share price volatility in Kuwaiti insurance companies. In this

research share price volatility (SPV) is set as a dependent variable while dividend yield (DY), dividend payout ratio (DPR), leverage (Lev), company asset size, and company age are set as an independent variables. That relation is examined using equation 1 as follows,

$$SPV_{i,t} = \alpha + \beta_1 DY_{i,t} + \beta_2 DPR_{i,t} + \beta_3 Lev_{i,t} + \beta_4 lnSize_{i,t} + \beta_5 lnAge_{i,t} + \varepsilon \quad (1)$$

Following Baskin (1989),Hussainey et al. (2010), and Nazir et al. (2012)share price volatility is calculated as follow;

$$SPV = \sqrt{\frac{H-L}{\left[\frac{H+L}{2}\right]^2}} \quad (2)$$

Where;
H; is the share highest price during the year
L; is the share lowest price during the year

## DATA AND EMPIRICAL RESULTS

The results in this research are based on the financial data of 4 insurance companies that are listed at Kuwait Stock Exchange (KSE) over the period 2016 to 2022. The data used in this research were obtained from companies annual reports, where these reports were downloaded from Kuwait Stock Exchange (KSE) website.

Descriptive analysis is presented in table 1, where it can be seen that the average volatility of the share prices was ±3% with a deviation of ±2%. Insurance companies under study had a dividend yield of 7.64% with a dividend payout ratio of 31.67% of their profits. The total liabilities presents 65% of the company's total assets with a standard deviation of ±14%. The average age of the companies under study is almost 56 years with an average assets size of 389.88 million Kuwaiti dinar. With Kurtosis laying between ±10 and Skewness between ±3 this would imply that the data used in this research are normally distributed.

**Table 1. Descriptive Analysis**

| | ***SPV*** | ***DY*** | ***DPR*** | ***Lev*** | ***Age*** | ***Size*** |
|---|---|---|---|---|---|---|
| Mean | 0.03 | 7.64 | 31.67 | 0.65 | 55.96 | 389.88 |
| Standard Deviation | 0.02 | 3.18 | 6.37 | 0.14 | 5.09 | 326.59 |
| Kurtosis | 3.92 | 3.75 | 8.26 | -0.58 | 2.15 | 3.20 |
| Skewness | 2.06 | 0.71 | -2.63 | -0.20 | -1.64 | 1.88 |
| Count | 28 | 28 | 28 | 28 | 28 | 28 |

The results of the panel OLS regression are presented in table 2, where it can be observed that the variables used were able to explain 79.6% of stock price volatility and the model can be labeled as a "good fit" since *Sig F* is 0. The regression results shows that dividend yield showed a significant inverse relation with share price volatility at the 10% confidence level which confirms Baskin (1989) and Sugathadasa (2018) findings. Leverage also showed significant negative effect on share price volatility at the 99% confidence level which is in line with Bahreini et al. (2013) and Mehmooda, Ullahb&Sabeeh (2019) while contradicting Allen and Rachim (1996). When it comes to company's age, results showed a significant inverse relation with share price volatility contradicting Mili et al. (2017) findings and confirming Al-Sabah (2015). Dividend payout ratio and the assets size of the company did not show any significant effect on share price volatility.

**Table 2. Panel OLS Regression Results**

| ***Regression Statistics*** | | | | |
|---|---|---|---|---|
| R Square | 0.840 | | | |
| Adjusted R Square | 0.796 | | | |
| *F* | 18.967 | | | |
| *Significance F* | 0.000 | | | |
| Observations | 28 | | | |
| | ***Coefficients*** | ***Standard Error*** | ***t Stat*** | ***P-value*** |
| Intercept | 0.361 | 0.051 | 7.018 | 0.000 |
| DY | -0.002* | 0.001 | -1.906 | 0.073 |
| DPR | 0.000 | 0.000 | 0.468 | 0.645 |
| Lev | -0.093*** | 0.025 | -3.738 | 0.002 |
| Ln Age | -0.005*** | 0.001 | -7.387 | 0.000 |
| Ln Size | 0.000 | 0.000 | 1.374 | 0.186 |

***,**,* represents the confidence level at 99%, 95%, and 90% confidence level respectively

## CONCLUSION

This study was set to examine the factors that mostly affects share price volatility of insurance companies listed at Kuwait Stock Exchange (KSE) over the period 2016 to 2022. Using panel OLS regression method, results revealed that dividend yield, leverage, and company age showed significant inverse relation with share price volatility while on the other hand, dividend payout ratio and company assets size did not show any significant effect on share price volatility. Result of this study showed conflicted results with other studies from other countries which means that while country specific studies are important to identify common country specific effects, study outcomes cannot be used to make a generalization of economic policies for other economies.

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