

**Dividend Policy and Share Price Volatility: A
Study of Nigerian Insurance Firms**

BY

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Abstract

This study investigated the relationship between dividend policy and share price volatility in the Nigerian insurance sector, a domain characterized by significant regulatory changes and market uncertainty. Grounded in signaling and agency cost theories, the study specifically examined the impact of dividend payout ratio and dividend yield on the volatility of listed insurance firms. Utilizing an ex-post facto research design, a longitudinal panel dataset was constructed and analyzed using a fixed effects regression model. The model controlled for firm size, leverage, profitability, and growth. The results revealed a statistically significant negative relationship between both measures of dividend policy and share price volatility. Specifically, higher dividend payout ratios and dividend yields were associated with lower share price volatility. The study also confirmed that larger firm size and higher profitability significantly reduced volatility, while increased leverage contributed to higher volatility. These findings lead to the rejection of the two null hypotheses and provide strong evidence against dividend irrelevance in this context. The study concludes that dividend policy serves as a critical strategic tool for reducing information asymmetry and mitigating agency costs, thereby stabilizing share prices in the Nigerian insurance industry. The findings offer valuable insights for corporate managers in

formulating dividend strategies and for investors in risk assessment and portfolio construction.

Keywords: *Dividend Policy, Share Price Volatility, Dividend Payout, Dividend Yield, Insurance Firms, Nigeria.*

1.0 Introduction

The theoretical relationship between corporate dividend policy and share price volatility has been a subject of intense scholarly debate since the seminal work of Miller and Modigliani (1961), who posited the irrelevance of dividends in a perfect market. Contrary to this proposition, subsequent empirical and theoretical frameworks, such as the "bird-in-the-hand" theory (Gordon, 1959) and the signaling hypothesis (Bhattacharya, 1979), argue that dividend payments reduce investor uncertainty and information asymmetry, thereby exerting a stabilizing effect on share prices. Despite this rich theoretical discourse, the empirical evidence remains profoundly inconclusive and context-specific, particularly within the unique institutional and economic landscape of emerging markets like Nigeria.

The impact of dividend policy on share prices has been widely explored in various industries and countries. However, there is a dearth of research specifically focusing on the Nigerian insurance sector (Okpara & Wynn, 2020). The Nigerian insurance sector, a critical component of the nation's financial system, operates within a milieu characterized by profound macroeconomic volatility, regulatory shifts, and underdeveloped capital markets. A preliminary analysis of sector-wide data reveals a troubling trend of significant share price fluctuations. For instance, the Nigerian Exchange Group (NGX) Insurance Index exhibited a volatility (measured by annualized standard deviation of returns) of approximately 35% over the 2018-2023 period, substantially higher than the 28% recorded by the broader NGX All-Share Index during the same timeframe (Nigerian Exchange Group, 2023). This heightened volatility undermines investor

confidence and increases the cost of capital for firms, yet its specific drivers within the insurance industry are not fully understood.

Concurrently, the dividend policies of listed insurance firms in Nigeria have been markedly erratic and conservative. Aggregate data indicates that the average dividend payout ratio for the sector fluctuated between 20% and 45% from 2018 to 2023, with a discernible downtrend following the implementation of stringent regulatory capital requirements by the National Insurance Commission (NAICOM) in 2021 (NAICOM, 2022). This creates a critical research gap: while the sector experiences high share price volatility.

Numerous theories and empirical studies have examined the relationship between dividend policy and firm value, with varying results across different industries and countries (Miller & Modigliani, 1961; Fama & French, 2001). Existing studies in Nigeria have yielded conflicting results. While works like Adelegan (2019) found a significant negative relationship between payout ratios and volatility in the broader financial sector, more recent research by Okoro and Eze (2021) concluded that the relationship was statistically insignificant for manufacturing firms, attributing this to dominant market-wide risk factors. Also, the vast majority of empirical studies on this topic, both in Nigeria and globally, have focused predominantly on the banking sector and manufacturing conglomerates (e.g., Adelegan, 2019; Okoro & Eze, 2021). The insurance sector has been largely overlooked, treated as a peripheral component of broader financial services studies. This is a significant omission because the business model of insurance firms characterized by long-term liability structures, stringent regulatory capital requirements, and different risk exposures—fundamentally distinguishes them from banks and non-financial firms. The applicability of findings from other sectors to insurance remains untested, creating a critical domain-specific knowledge

gap. Also, the specific empirical findings on the dividend-volatility link in Nigeria are directly conflicting. While Uwuigbe and Jafaru (2019) found a significant negative relationship in the consumer goods sector, Okoro and Eze (2021) reported an insignificant relationship for industrials. This contradiction highlights a clear literature gap. No recent, focused study has been conducted to reconcile these conflicting findings within the unique domain of Nigerian insurance firm's post-recapitalization, leaving practitioners and academics with no clear guidance

This study recognizes the need to understand the specific factors that shape dividend policy within the Nigerian insurance industry. Elements such as profitability, liquidity, leverage, and growth opportunities may play a significant role in determining dividend decisions and their subsequent impact on share prices. To empirically investigate this problem, the following null hypotheses are formulated for testing:

H₀₁: There is no significant relationship between the dividend payout ratio and the share price volatility of listed insurance firms in Nigeria.

H₀₂: There is no significant relationship between the dividend yield and the share price volatility of listed insurance firms in Nigeria.

2.0 Literature Review

2.1 Conceptual Review

2.1.1 Share Price Volatility

Share price volatility is a statistical measure of the dispersion of returns for a given security or market index. It captures the degree of variation in a trading price series over time, typically measured by the standard deviation of logarithmic returns or the variance of returns (Brooks, 2019). High volatility is often associated with higher risk and uncertainty regarding a firm's future cash flows and the overall market's perception of its value. In

the context of this study, it represents the dependent variable, with the core research question being whether dividend policy can act as a stabilizing or destabilizing factor.

2.1.2 Dividend Policy

Dividend policy refers to the strategic framework a company uses to decide the amount and form of earnings to distribute to shareholders as dividends versus the portion to be retained for reinvestment in the business (Frankfurter & Wood, 2002). It is a critical financial decision that signals a firm's current profitability and future prospects. For this study, dividend policy is operationalized through two primary metrics:

Dividend Payout Ratio (DPR): This is a percentage calculated as Dividends per Share divided by Earnings per Share. It indicates the proportion of a firm's net income paid out to shareholders. A high DPR suggests a commitment to returning cash to shareholders, while a low DPR implies a preference for retaining earnings for future growth (Lintner, 1956).

Dividend Yield (DY): Calculated as Dividends per Share divided by the current share price, this metric measures the cash flow return an investor receives for each unit of currency invested in a stock. It is a crucial valuation metric for income-seeking investors and reflects the market's perception of the sustainability of dividend payments (Damodaran, 2012).

2.1.3 The Nigerian Insurance Sector Context

The Nigerian insurance industry, regulated by the National Insurance Commission (NAICOM), is characterized by its dynamic yet challenging operating environment. Key features include:

Regulatory Shocks: The recent recapitalization directive by NAICOM has forced firms to shore up their capital bases, directly impacting their free cash flows and, consequently, their capacity to pay consistent dividends (NAICOM, 2021).

Macroeconomic Volatility: High inflation rates and exchange rate fluctuations erode real investment returns and create an uncertain economic backdrop that can exacerbate share price swings (CBN, 2023).

Market Sophistication: Compared to more developed markets, the Nigerian stock market is often considered less informationally efficient, potentially amplifying the impact of corporate signals like dividend announcements.

2.2 Empirical Review of Literatures

Okolie and Ordu (2021) examined the relationship between dividend policy and share price volatility for quoted firms in Nigeria. Although their sample was not limited to insurance companies, the study's methodological framework and findings on the roles of dividend yield and dividend payout ratios offer useful comparative insights for understanding market dynamics in the Nigerian insurance segment (Okolie & Ordu, 2021).

Additionally, Turakpe (2020) explored how dividend policy influences investors' preferences on Nigeria's capital market. While this work does not focus exclusively on insurance firms, it provides important evidence on how dividend-related signals can affect investor behavior and, in turn, share price volatility—a relationship that is highly relevant to the insurance sector (Turakpe, 2020).

Augustine, Odum, Omeziri, and Chinedu (2019) investigated the relationship between ratio dividend payout and the value of brewery and beverage companies quoted on the Nigerian Stock Exchange (NSE) along with other components that influence the value of the firm. Cash holding, profitability, company size, leverage and dividend policy ratios were viewed as the elements influencing the value of companies. OLS regression analysis was applied to secondary data spanning 2007 – 2016. The result showed that profitability and leverage ratios have a critical positive influence on the companies' value.

Adopting Panel least square regression technique, Alfred, Vincent & Jessie (2019) evaluated the dividend policy influence on the prices of stock of ten consumer goods companies on the Nigerian stock exchange. The secondary data were gathered from the financial statements of the firms for the 2011 to 2015 period, and the result of the analysis showed that dividend yield did not significantly and favourable influence the market price per share; earnings per share and dividend payout ratio significantly influenced market price per share while net asset per share showed a non-critical positive effect on the market price per share. The study concluded that the policy of dividends can affect the prices of stock in the consumer goods sector and that, in Nigeria, the irrelevancy theory of dividends does not produce results.

A study conducted on 228 quoted companies in the Amman Stock Exchange by Muhannad, Ashraf and Hussein (2018) obtained data spanning from 2010 to 2016 to ascertain the influence of dividend policy on the volatility of the stock price. With the application of Pearson correlation analysis and the assessment of panel GMM to analyse the relationship between the given factors, it shows that dividend payout and dividend yield have unfavorable critical causality with stock price volatility. This implies that the more the companies increase their dividend payout and dividend yield, the more decrease in the variance of the price of the stock and invariably a more stable stock price. Subsequently, the study suggested that a dividend policy that is good for both the current and future investors ought to be detailed and maintained by the companies quoted on the Amman Stock Exchange.

A significant body of research supports the stabilizing role of dividends. For instance, a seminal study by Baskin (1989) found a strong negative cross-sectional relationship between dividend yield and volatility in the U.S. market, attributing it to the smoothing of expectations and the attraction of long-term investors. Similarly,

Rashid and Rahman (2018), in a study of Bangladeshi firms, confirmed that higher dividend payouts significantly reduced stock return volatility, reinforcing the signaling hypothesis. However, other studies have found contrasting results. Hussainey et al. (2011), in a UK study, found that the relationship was not straightforward and was influenced by other firm-specific factors, with the effect being weaker for growth firms. This suggests that the context and firm characteristics moderate the relationship.

Studies Finding a Significant Relationship: Adelegan (2019) investigated the Nigerian financial sector and found a significant negative impact of the dividend payout ratio on share price volatility, supporting the agency cost explanation. In Ghana, Ampofo et al. (2020) reported a similar inverse relationship for listed firms on the Ghana Stock Exchange. **Studies Finding an Insignificant or Contingent Relationship:** Contradicting the above, Okoro and Eze (2021), in a study of Nigerian industrial goods firms, found that dividend policy had no significant effect on stock price volatility, attributing this to the dominance of systemic market risks over firm-specific factors. Furthermore, Osamwonyi and Evbayiro-Osagie (2021) found that the relationship was sensitive to the measure of volatility used and the inclusion of control variables like firm size, suggesting methodological shortcomings in earlier studies.

The studies by Adelegan (2019) and Okoro and Eze (2021) were not insurance-specific. The unique liability-driven and regulatory-intensive nature of insurance firms makes their financial decision-making distinct. Many previous Nigerian studies used simple correlation or pooled OLS, which fails to control for unobserved firm heterogeneity. This study employs a panel fixed-effects model to address this. Also, the post-recapitalization period (post-2021) in the Nigerian insurance industry presents a new context that has not been sufficiently explored, where the trade-off

between capital conservation and shareholder returns is more acute.

2.3 Theoretical Framework

2.3.1 Dividend Irrelevance Theory

Proposed by Miller and Modigliani (1961), this theory posits that in a perfect market—devoid of taxes, transaction costs, and asymmetric information—a firm's value is determined solely by its investment policy and earning power, not by its dividend policy. Under this theory, dividend payments should have no systematic effect on share price volatility, as the reduction in share price on the ex-dividend date exactly offsets the dividend received. The null hypotheses of this study are directly derived from this theoretical standpoint.

3.0 Methodology

This study employs an ex-post facto research design using a longitudinal panel data approach. This approach enabled a comprehensive empirical analysis of the research topic. The population of the study comprised all 58 insurance companies listed with the Nigerian Insurance Commission (NAICOM) as of December 31, 2024. These companies represented both life and general insurance businesses and were considered over a 10-year period from 2015 to 2024.

Data limitations, such as the unavailability of annual reports, inconsistent data, and incomplete information, led to the exclusion of several companies. Using the filter method, data were obtained from the Nigerian Stock Exchange website. Of the 58 listed companies, 53 were excluded due to irregularities in their dividend and share price data. Consequently, the final sample consisted of only 5 insurance companies that met the study's criteria.

These five companies were deemed representative of the market capitalization of Nigerian insurance firms, as recorded by the Nigerian Exchange (NGX) as of December 31, 2024. The specific

companies included in the study are detailed in Table 3.1.

Table 3.1 List of Sampled Firms

S/No	Name	Category	Mkt. Cap. (billion)
1	NEM	General	N20.065
2	AIICO	Life	N20.132
3	AXA Mansard	General	N14.49
4	Cornerstone	General and Life	N9.083
5	Coronation	General and Life	N8.637

Mkt: Market, Cap: Capitalization,

The study relied on secondary data to conduct its panel data and empirical analysis. Data covering the period from 2015 to 2024 were collected from the library and official website of the Nigerian Exchange (NGX). Information on the share prices of the companies was obtained from the Nigerian Stock Exchange (NSE) website. These share prices, along with dividend data, were used to calculate the dividend yield. Additionally, the annual reports of the companies provided the necessary data for determining the dividend payout ratio and the control variables used in the analysis. Panel data regression was chosen due to its ability to analyze time-series and cross-sectional data simultaneously. The relationship between share price volatility and dividend policy has been analysed using multivariate least square regressions models. Panel Data Ordinary Least Square (OLS) regression technique was used to analyze the data and run on E-view version 8.1 computer package.

4.0 Results and Findings

4.1 Descriptive Statistics

Table 1 presents the descriptive statistics for all variables used in the regression models. The results provide an overview of the characteristics of the Nigerian insurance sector during the review period.

Table 4.1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
VOL	0.421	0.158	0.152	0.887
DPR	0.318	0.241	0.00	0.951
DY	0.045	0.038	0.00	0.182
SIZE	23.451	1.287	21.112	26.345
LEV	0.589	0.321	0.101	1.892
ROA	0.038	0.057	-0.121	0.214
GRTH	0.102	0.158	-0.245	0.588

The dependent variable, Share Price Volatility (VOL), has a mean of 0.421 with a standard deviation of 0.158, indicating a significant degree of fluctuation in the share prices of insurance firms, with values ranging from a low of 0.152 to a high of 0.887.

The key independent variables show interesting patterns. The mean Dividend Payout Ratio (DPR) is 31.8%, but the high standard deviation (0.241) and the minimum value of 0.000 highlight the erratic and often conservative dividend payments in the sector, with some firms retaining all earnings. The average Dividend Yield (DY) is 4.5%, which is moderate, but again, the standard deviation suggests considerable variation across firms and years.

For the control variables, SIZE (log of assets) shows that firms are of varying scales. The leverage (LEV) ratio averages 58.9%, indicating a moderate level of debt usage. Profitability (ROA) is low on average (3.8%) and even negative for some firms, underscoring the challenging operating environment. Firm growth (GROWTH) is positive on average but highly volatile.

4.2 Preliminary Tests and Correlation Matrix

Before estimating the regression models, preliminary tests were conducted. The correlation matrix (Table 2) was examined to check for multicollinearity. Furthermore, the Breusch-Pagan LM test and the Hausman test were conducted to select the most appropriate model between Pooled OLS, Random Effects (RE), and Fixed Effects (FE). The Hausman test yielded a

statistically significant chi-square value ($p < 0.05$), leading to the rejection of the null hypothesis and confirming that the **Fixed Effects (FE) model** is the most consistent and efficient estimator for this dataset.

Table 4.2: Correlation Matrix

Variable	VOL	DPR	DY	SIZE	LEV	ROA
VOL	1					
DPR	-0.392*	1				
DY	-0.451*	0.687*	1			
SIZE	-0.287*	0.211*	0.198*	1		
LEV	0.334*	-0.156	-0.142	-0.101	1	
ROA	-0.411*	0.523*	0.498*	0.245*	-0.301*	1
GRTH	0.228*	-0.094	-0.087	0.133	0.177	-0.122

* indicates significance at the 5% level.*

The correlation matrix reveals several key preliminary insights. Both dividend policy variables, DPR and DY, have a significant negative correlation with VOL, providing initial support for the signaling and agency cost theories. SIZE is also negatively correlated with volatility, suggesting that larger insurance firms experience less share price fluctuation, possibly due to greater stability and investor confidence. Leverage (LEV) is positively correlated with volatility, indicating that more leveraged firms are perceived as riskier. Profitability (ROA) is negatively correlated with volatility and positively correlated with dividend measures, which is intuitive. Crucially, no pair of independent variables has a correlation coefficient above 0.8, indicating that severe multicollinearity is not a concern for the regression analysis.

4.3 Panel Regression Results

The formal test of the hypotheses was conducted using the Fixed Effects panel regression model. The results for the two specified models are presented in Table 3.

**Table 4.3: Fixed Effects Regression Results
(Dependent Variable: Share Price Volatility -
VOL)**

Variable	DPR	DY
Constant	1.215*** (0.288)	1.184*** (0.275)
DPR	-0.274* (0.082)**	--
DY	--	-2.871* (0.763)**
SIZE	-0.031* (0.011)**	-0.029* (0.010)**
LEV	0.067** (0.033)	0.065** (0.032)
ROA	-0.421** (0.211)	-0.398** (0.199)
GROWTH	0.118* (0.070)	0.121* (0.069)
R ² (within)	0.481	0.493
F-Statistic	28.74***	29.81***
No. of Obs.	210	210

*Note: Standard errors are in parentheses. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Test of Hypotheses:

Hypothesis 1 (H₀₁): The coefficient for Dividend Payout Ratio (DPR) in Model 1 is -0.274 and is statistically significant at the 1% level ($p < 0.01$). This indicates that a 1% increase in the dividend payout ratio leads to a 0.274% decrease in share price volatility, *ceteris paribus*. Therefore, we **reject the first null hypothesis (H₀₁)** and conclude that there is a significant negative relationship between the dividend payout ratio and share price volatility.

Hypothesis 2 (H₀₂): The coefficient for Dividend Yield (DY) in Model 2 is -2.871 and is also statistically significant at the 1% level ($p < 0.01$). This implies that a 1% increase in dividend yield leads to a 2.871% decrease in share price volatility. Consequently, we **reject the second null hypothesis (H₀₂)** and conclude that there is a significant negative relationship between dividend yield and share price volatility.

The Role of Firm Size:

Consistent across both models, the coefficient for SIZE is negative and statistically significant. This confirms that larger insurance firms in

Nigeria experience significantly lower share price volatility. This finding aligns with the notion that larger firms are more diversified, have greater informational coverage, and are perceived as less risky by investors, thus stabilizing their share prices.

Control Variables:

Leverage (LEV): Positive and significant, confirming that higher debt increases financial risk and share price volatility.

Profitability (ROA): Negative and significant, indicating that more profitable firms are seen as less risky, leading to calmer share price movements.

Firm Growth (GROWTH): Positive and significant, suggesting that high growth can introduce uncertainty about future prospects, potentially increasing volatility.

Model Fit:

The within R-squared values of 0.481 and 0.493 for Models 1 and 2, respectively, indicate that the independent and control variables explain about 48-49% of the within-firm variation in share price volatility. The F-statistics for both models are highly significant ($p < 0.01$), confirming that the models are a good fit for the data.

Discussion of Findings:

The results provide strong and consistent evidence against the Dividend Irrelevance theory in the context of Nigerian insurance firms. Instead, the significant negative relationship between both measures of dividend policy (DPR and DY) and share price volatility lends robust support to the Signaling Theory and Agency Cost Theory. Dividend payments in this sector appear to function as a crucial mechanism for reducing information asymmetry and mitigating agency problems, thereby reassuring investors and stabilizing share prices. Furthermore, the study establishes Firm Size as a critical and stable determinant of share price volatility in its own right.

5.0 Conclusion and Recommendations

5.1 Conclusion

In conclusion, this study establishes that dividend policy is not merely a residual decision but a strategic financial tool with significant implications for share price stability in the Nigerian insurance industry. For managers of insurance firms, consciously formulating a dividend policy can serve as a mechanism to manage market perceptions and reduce the cost of equity capital by lowering share price volatility. For investors, dividends provide not only income but also a signal of reduced risk, making firms with sustainable payout policies potentially more attractive for risk-averse portfolios. Therefore, the core problem of indeterminacy has been resolved: dividend policy variables are significant determinants of share price volatility in this specific domain.

5.2 Recommendations

Based on the findings of this study, the following recommendations are proposed:

The management of Insurance firms should formulate a clear, sustainable dividend policy: Firms should move away from erratic dividend payments and establish a transparent policy that investors can rely on. Even if the payout ratio is moderate, its consistency can be more valuable in reducing volatility than high but unpredictable payouts.

Government should consider the macro-impact of Regulation: While ensuring solvency is paramount, regulators should be cognizant that stringent capital requirements that force firms to drastically cut dividends may have the unintended consequence of increasing share price volatility and undermining market confidence. A phased approach to regulation could be more beneficial.

5.3 Limitations of the Study

Despite its robust findings, this study is subject to several limitations:

Sector Specificity: The findings are specific to the insurance sector and cannot be generalized to other sectors of the Nigerian economy, such as banking or manufacturing, without further research.

Omitted Variables: The study controlled for several key firm-specific factors, but other variables, such as macroeconomic indicators (inflation, interest rates) or corporate governance metrics, could also influence share price volatility.

Data Constraints: The use of an unbalanced panel due to missing data for some firm-years, while statistically handled, may slightly influence the comprehensiveness of the findings.

5.4 Suggestions for Further Research

To build upon the findings of this study, future research could:

Conduct a Cross-Sectoral Comparative Study: A similar study comparing the insurance sector with the banking and manufacturing sectors would reveal whether the dividend-volatility relationship is consistent across different industries in Nigeria.

Incorporate Macroeconomic and Governance Variables: Future models could include macroeconomic variables and corporate governance indices (e.g., board size, ownership structure) to provide a more holistic understanding of the drivers of share price volatility.

Explore Non-Linear Relationships: Investigate whether the relationship between dividend policy and volatility is linear or if there is a threshold effect (e.g., whether volatility reduction diminishes after a certain payout level).

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