RELATIONSHIP BETWEEN INVESTMENT AND SOLVENCY MARGINS OF INSURANCE COMPANIES IN KENYA

BY

CAROLINE AWINO WUAW

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DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature: ……..Date:……

CAROLINE AWINO WUAW

SUPERVISOR

This research project has been submitted for examination with my approval as the University Supervisor.

Signature…….….Date…….

J.M KARANJA

DEPARTMENT OF FINANACE AND ACCOUNTING

UNIVERSITY OF NAIROBI

DECLARATION

This research project is dedicated to my beloved husband Mr.Ongore Abanja and my children Valery, Abanja, Linda and Nyager for the financial, spiritual and moral support during this study.

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ABSTRACT

Investment is the commitment of a person's fund to derive future income in the form of income, dividend premium, pension benefit, or appreciation, in the value of their capital. Most institutional investors around the globe such as insurance companies invest the money they receive in various sectors in order to receive returns. The most common investment opportunities that are pursued by most of these institutions world over include investment in real estate, equities, treasury bills and bonds, deposits with banks, and certificates of deposits. The objective of the study was to establish the relationship between investment and solvency margins of insurance companies in Kenya. The study was anchored on resource dependency theory, the agency theory, and slack resources theory. This study utilized a descriptive research design to gather and analyse data. In this study, the population consisted 51 insurance companies licensed by Insurance Regulatory Authority (IRA) and that have been in operation during the period 2012 to 2016. The study was facilitated by use of secondary data that was extracted from published financial reports of the insurances, articles and papers. The diagnostic tests for the regression assumptions in this study included test for Normality, Heteroscedasticity, Multicollinearity, Sampling Adequacy and Tests of Independence (Autocorrelation). The data collected was therefore cleaned, coded and systematically organized in a manner that facilitates analysis using the Statistical Package for Social Sciences (SPSS). Quantitative analysis was used through descriptive statistics such as measure of central tendency to generate relevant percentages, frequency counts, mode, and median and mean where possible. Regression analysis was used to determine the relationship between between investment and solvency margins of insurance companies. The study found that firm size, government securities, real estate investments, investments in stocks, investment in corporate bonds, investments in certificate of deposits and liquidity are positively and significantly related to solvency margins of insurance companies. The study concluded that firm size was more related to solvency margins of insurance companies followed by government securities then real estate investments then investments in stocks then investment in corporate bonds then investments in certificate of deposits while liquidity had the least relationship with solvency margins of insurance companies. the study recommends that there is need for insurance companies to exercise caution in real estate investments since this may lead to huge losses in case of a global financial crisis that may lead to devaluation of property, that there is need for insurance companies in Kenya to maintain an adequate level of liquidity depends on the institution's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the solvency condition of the institution and that there is need to increase investments into these sectors since they seem to contribute more to the financial performance of the insurance firms.

ABBREVIATIONS

AKI - Association of Kenya Insurers

IRA - Insurance Regulatory Authority

IRDA - Insurance Regulatory and Development Authority

MIPs - Medical Insurance Providers

OECD - Organisation for Economic Co-operation and Development

SPSS - Statistical Package for Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Most institutional investors around the globe such as insurance companies invest the money they receive in various sectors in order to receive returns. The most common investment opportunities that are pursued by most of these institutions world over include investment in real estate, equities, treasury bills and bonds, deposits with banks, and certificates of deposits. For instance in the year 2012 alone, most institutional investors invested more than 80% of their portfolio in bonds and equities. However, there seems to be a trend where most organizations are now moving away from bills and bonds and investing in other assets such as real estate. The income earned by the institutions from these investments is largely positive in many countries despite the economic pressures that lead to economic instability in some countries (OECD, 2013).

The study will be anchored on resource dependency theory (Pfeffer & Salancik, 19780, the agency theory (Jensen & Meckling, 1976), slack resources theory (March & Simon, 1958). The resource dependency theory established factors that have significant influence on the level of dependence an organization has on particular resources. The agency theory recommended the office hypothesis in a hypothesis of the firm in view of irreconcilable circumstances between different gatherings, for example, investors, corporate supervisors and indebted individuals. The Slack Resources theory equates an organization to a living organism that struggles to survive amid turbulence from the environment within which it operates. The theory

suggests that slack performs four main functions in an organization. The first function of slack is acts as an inducement to members.

The global insurance industry has suffered a number of incidents since the year 2010 that have led to its dismal performance. Some insurers in specific countries have been affected by natural catastrophes that have forced them to make huge payments in terms of compensation. There is also evidence of sluggish demand for insurance products due to several factors such as the low yields that are provided by insurers to those who invest in insurance products; stiff competition from commercial banks in search of sources of funding as well as the desire among individuals to maintain some level of liquidity to cushion them from adverse economic conditions. Insurers' investment portfolios are also characterized by high levels of debt thus making it difficult for them to earn any reasonable income (Barsuto, Romero & Idris, 2012).

1.1.1 Investments

Investment is the commitment of a person's fund to derive future income in the form of income, dividend premium, pension benefit, or appreciation, in the value of their capital. Examples include purchasing of shares, debentures, post office saving certificates, insurance policies are all investments in the financial sense such investment generates financial assets. Most insurers do not report a separate category of short-term investments but instead include them in cash or investment in securities. Short-term investments include primarily short-term fixed income instruments such as commercial paper and T-bills (Weebly, 2013).These investments are reported at either fair value or amortized historical cost which, due to the short-term nature of the instruments, approximates fair value, long term investments include stocks and bonds

of other companies and real estate. Given the importance of business investment as a determinant of output growth and contributor to aggregate supply, much recent work has focused on the determinants of investment (Aghion, Angeletos, Banerjee & Manova, 2010).

Insurance companies depend on insurance premiums to raise money for their investments. However, it can be noted that most insurers across the globe have been faced with decreasing insurance premiums and this largely affects the level of income they earn since the investments are limited to the amount of money available. There are different types of investments that can be made by firms. Both individuals and companies can have investments. This may include stocks, mutual fund distributions, investment in Government securities, interest-bearing bank accounts, bonds, and other debt instruments. A firm may also opt to invest in rental property or real estate or other assets owned for investment purposes.

1.1.2 Solvency Margins

Dissolvability is the capacity of a budgetary foundation to meet its commitments in case of end of action or liquidation. It alludes to an organization's for some time run money related reasonability and its capacity to cover long haul commitments. Protection is viewed as dissolvable if the aggregate resources surpass add up to liabilities. On the off chance that the aggregate resources are lower than add up to liabilities, the bank confronts an indebtedness chance and is said to be actually wiped out. Bankruptcy chance demonstrates the likelihood of default of an agent Insurance. The dissolvability issue has a tendency to be more long haul than the beforehand

portrayed liquidity issue and verifiably, protection have constantly clutched supports and quit loaning when there is a dissolvability emergency (Mason, 2009).

The term `solvency edge' came into vogue in the 1970s, in Europe. Till at that point, the main necessity to be fulfilled by a disaster protection organization was that, after the dispersion of overflow, assuming any, the estimation of its benefits ought not be not as much as the estimation of its liabilities. Rather, it was stipulated that the estimation of benefits ought to surpass the estimation of liabilities by a specific edge. This edge was known as the dissolvability edge. No scientific procedure has so far been created to decide the quantum of edge required. The European Union built up an experimental recipe in view of past involvement and the same has now been embraced in India, with a few changes (Harvey, 2012).

The dissolvability of an insurance agency relates to its capacity to pay claims. The dissolvability proportion is a way speculators can gauge the organization's capacity to meet its long haul commitments. A safety net provider is bankrupt if its advantages are not sufficient [over indebtedness] or can't be discarded so as to pay the cases emerging. At the end of the day, it is the additional capital that an insurance agency is required to hold. According to the IRDA (Assets, Liabilities, and Solvency Margin of Insurers) Rules 2000, both life and general insurance agencies need to keep up dissolvability edges. Disaster protection organizations are relied upon to keep up a 150% dissolvability edge. The higher the proportion is the better prepared an organization is to pay off its obligations and get by in the long haul (Weebly, 2013).

All insurance agencies need to pay cases to arrangement holders. These could be present or future cases of strategy holders. Safety net providers are required to set

aside a specific whole to cover these liabilities. These are likewise alluded to as specialized arrangements. Protection, be that as it may, is dangerous business and unanticipated occasions may happen once in a while, bringing about higher cases not expected before. For example, cataclysms like the Mumbai surges, J&K seismic tremor, fire, mishaps of an expansive size, may force a terrible weight on the guarantor. The dissolvability edge is accordingly gone for turning away such an emergency. The motivation behind the additional capital all back up plans are required to keep according to the administrative standards is to ensure arrangement holders against unanticipated occasions (Barsuto, Romero and Idris, 2012).

The dissolvability edge is intended to deal with issues that are generally not expected. It additionally gives breathing room to the chiefs of safety net providers to redress issues and take prudent steps. Be that as it may, regardless of whether an insurance agency bombs additionally relies on the size of the emergency. Normally, an insurance agency with the essential dissolvability edge is not liable to fall flat. Be that as it may, protection Business is dangerous in nature and there can be no undeniable certainty. Occasions, for example, the psychological oppressor assault on the World Trade Center in New York can make sudden liabilities of extreme trouble to foresee and cover. Liabilities can likewise expand complex because of misrepresentation by workers. No protection controller or organization can totally make preparations for misrepresentation, dissolvability edge standards in any case. In any case, such events are uncommon (Weebly, 2013).

1.1.3 Relationship Between Investment and Solvency Margins

Investment plays a very significant role in the solvency of an organization. Organizations invest their resources in order to earn returns that will enable them enhance their financial performance. The is a position that has been confirmed by Loof and Heshmat (2008) who assert that there is a positive relationship between investment and the level of solvency margins achieved by an organization. However, they argue that the effect of investment on the solvency margins of a firm may not be long-lasting but a temporary position that may last for some short time (Weebly, 2013).

Insurance companies are often faced with challenging investment decisions on how best to optimize their portfolios for both general and life insurance lines of business which have unique laws and regulations that govern them. The ultimate goal with these decisions are to maximize shareholder value through profits and at the same time not jeopardize policyholders by allocating too much of the fund into risky assets which may result in the company not being able to meet its future liabilities in the form of insurance claims (Auma, 2013).

Investments help insurance companies diversify their investment risk and ultimate solvency margins which benefit both the shareholders and policyholders in the long-run. Roitberg (2012) notes that the diversified portfolio approach helps companies reduce risk without decreasing the expected rate of return with a lower overall standard deviation of returns. Since the expected return for the portfolio remains the same, the measure of diversification known as the diversification ratio is computed as the ratio of the standard deviation of the weighted entire portfolio of assets to the

standard deviation of the selected property asset. Portfolios therefore affect risk more than they affect returns since their main objective is to eliminate the effects of downside risk associated with investing in a single asset (Auma, 2013).

The rental income and capital appreciation of all the property investments in an insurance company's portfolio are reported as part of the investment income for the respective year. Nissim (2010) notes that insurance companies with large asset bases report higher amounts of investment income compared to insurance companies with smaller asset bases. Property investments owned by companies in Kenya tend to report significantly more income through capital appreciation compared to rental income and as a result the various methodologies used to determine the fair value that the property appreciated by is often under close scrutiny (Komen, 2012).

1.1.4 Insurance Companies in Kenya

The Insurance business in Kenya has 51 players altogether, 28 by and large/here and now protection, 9 in disaster protection and 14 composite organizations. The fleeting protection space is divided with the main 5 organizations controlling 40 % of the market (single biggest piece of the pie of 10. 98% held by Jubilee Insurance; 11 recorded firms represented 27.8% of industry premiums). Be that as it may, the life showcase is thought as the main 5 organizations represent 70 % of premiums. Notwithstanding the above there exists likewise 161 authorized protection specialists, 24 Medical Insurance Providers (MIPs), 3931 protection operators, 2 privately joined re - safety net providers. There are likewise 21 misfortune agents, 2 claims settling operators, 193 misfortune assessors/specialists, 26insurance surveyors, and 8 chance administrators (Kiragu, 2014).

This was influenced conceivable because of springing to up of various organizations in the 1990s because of progression of the economy. In Kenya, it is apparent that protection clients are gathered in the significant towns and the items have stayed extremely conventional after some time. This infers the expansion in the quantity of organizations, forty five (45) in number as toward the finish of 2011, offering Insurance administrations has expanded at a more prominent pace than the quantity of clients looking for the administration prompting serious rivalry (AKI, 2011).

Under area 41 of Insurance Act CAP 487, Insurance organizations are required to keep up least dissolvability edge. Presently, an Insurer carrying on in Kenya long haul protection business yet not general protection business might keep constantly add up to conceded resources of at the very least his aggregate conceded liabilities and ten million shillings or five for every centum of the aggregate conceded liabilities, whichever is higher while an Insurer carrying on in Kenya general protection business yet not long haul protection business should keep consistently conceded resources of at the very least the total estimation of his conceded liabilities and ten million shillings, or fifteen for every penny of his net premium wage amid his last going before money related year, whichever is the more prominent (AKI report, 2011).

1.2 Research Problem

The basic goals of a company's existence are to maximize shareholders wealth and generate profits. There seems to be a number of challenges facing the global insurance industry such as increasing levels of unemployment and sluggish economic growth and they negatively impact on the growth of the industry. These challenges impact negatively on the investments made by insurance companies and this also has effects

on the solvency margins. People are also reducing the amount of money saved and invested in insurance products due to worsening economic times that force them to retain money for transactionary motives (Barsuto, Romero & Idris, 2012).

The insurance industry is one volatile industry in the financial services sector. It has unique characteristics that make it vulnerable to changes in the operating environment. There seems to be a number of challenges facing the global insurance industry such as increasing levels of unemployment and sluggish economic growth and they negatively impact on the growth of the industry. These challenges impact negatively on the investments made by insurance companies and this also has effects on the financial performance of the insurers (Mason, 2009).

According to the Insurance Regulatory Authority (IRA, 2015), solvency management is a crucial element in supervision of insurance companies. It is therefore important for any insurance institution to not only measure solvency on an ongoing basis but also examine ways of mitigating during distress. Insurance companies hold large amounts of funds that need to be invested prudently. Investment income forms a critical component of an insurance company's income and profit. The commissioner of insurance annual report of indicates that the industry made underwriting losses of Kshs. 453,736,000 for the first quarter of 2017 as compared to Kshs. 166,393,000 for the same period 2016. An analysis of the performance of insurance companies as per the report indicates that most companies made underwriting losses and depended mainly on investment income for profitability and sustainability. The investment activities of insurance companies in Kenya are regulated by the Insurance Act, Cap 487. The Act stipulates the maximum proportion of the total investment that an insurance company can invest in any given asset class. Most insurance companies in

Kenya tend to be conservative in their investment pattern as they aim for long-term stability (AKI report, 2015). Solvency management is a crucial element in supervision of insurance companies. It is therefore important for any insurance institution to not only measure solvency on an ongoing basis but also examine ways of mitigating during distress (IRA, 2015).

Locally, several studies regarding investment and also on solvency have been carried out. For instance, Komen (2012) studied the determinants of solvency margins of insurance companies in Kenya, Muthoni (2012) established the effect of inflation on investment among insurance companies in Kenya, Taiana (2012) looked on extra-financial performance in socially responsible investment. These studies looked at investment and also solvency on different dependent variables such as sales, value added, profit, cash flow, capital structure and employment. Therefore, there exist a gap on the relationship between investment and solvency margins which this study sought to fill this gap by answering the question; what is the relationship between investment and solvency margins of insurance companies in Kenya?

1.3 Research Objectives

The objective of the study was to establish the relationship between investment and solvency margins of insurance companies in Kenya.

1.4 Value of the Study

Insurance companies' managers would benefit from this study to improve on their market share as they would gain knowledge on the relationship between investment and solvency margins would be of value to them.

To the insurance company's regulators, this research work would provide useful information regarding the relationship between investment and solvency margins and hence provide a clear framework on supervision and regulation. It would also benefit the policy makers in creation of a conducive environment to encourage innovations at different levels in the insurance sector.

Theoretically, the study would be helpful to researchers and academicians who seek to develop theories on the relationship between investment and solvency margins that exist between insurance companies. It would help them build up their research work since this study provides a keen look at the investment that influences the solvency margins. Academicians would use this study at source of their study materials especially those that are specializing in insurance studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, theories surrounding the study of the relationship between investment and solvency margins of insurance companies in Kenya are presented. Empirical literature related to relationship between investment and solvency margins of insurance companies is reviewed as presented by various scholars and researchers in both global and local perspectives. This chapter presents the theoretical review, determinants of solvency margins of insurance companies, empirical studies and summary of literature review.

2.2 Theoretical Review

The study was anchored on resource dependency theory, the agency theory, slack resources theory.

2.2.1 Resource Dependency Theory

This theory was developed by Pfeffer and Salancik (1978). Pfeffer and Salancik (1978) established factors that have significant influence on the level of dependence an organization has on particular resources. The first factor relates to overall importance of the resource to the firm; second is the scarcity of the resource. The scarcer a resource is the more dependent the firm becomes. Finally, another factor affecting asset reliance is the opposition between associations for control of that asset.Together, every one of the three of these elements demonstration to impact the level of reliance that an association has for a specific asset. Asset reliance hypothesis

likewise construes that an association's vital alternatives are resolved, as it were, by the earth. Since firms are subject to the earth for assets, they have to institute methodologies that would enable them to obtain these assets. Thusly, the outside condition has just been resolved for these organizations, and they encounter minimal vital decision (Pfeffer and Salancik, 1978).

The defenders of the asset reliance hypothesis trust that the earth is the wellspring of rare assets that are basic to an association's survival. It is the absence of control over these basic assets, as opposed to an absence of data that offers ascend to natural vulnerability. Situations that contain large amounts of assets are seen as less unfriendly to the strength of associations, though those with low levels of assets act to build the force of rivalry among firms. Subsequently, the advocates of this hypothesis additionally contend that so as to diminish the effect of this ecological vulnerability on authoritative execution, it is essential for associations to create and maintain powerful associations with their outer condition (El-Nadi, 2013). Accordingly, this hypothesis is important to this investigation as it clarifies why insurance agencies take part in land's speculation for its survival. Associations must create approaches to misuse these assets, which are additionally being looked for by different firms, with a specific end goal to guarantee their own survival as clarified by this hypothesis.

2.2.2 Agency Theory

Jensen and Meckling (1976) were the main individuals to recommend the office hypothesis in a hypothesis of the firm in view of irreconcilable circumstances between different gatherings, for example, investors, corporate supervisors and indebted individuals. However from that point forward, the fund hypothesis has created both

hypothetically and observationally to permit a more full examination of the issues caused by divergences of enthusiasm amongst investors and corporate chiefs. The Agency hypothesis demonstrates that organization issues emerge on account of the inconceivability of impeccably contracting for each conceivable activity of an operator whose choices influence the two his own particular welfare and the welfare of the chief, Brennan (1995b). The fundamental test that emerges from the office struggle is the manner by which to incite the operator to act to the greatest advantage of the main.

As indicated by McColgan (2001), the extent of each kind of organization struggle will vary starting with one firm then onto the next, as will the viability of administration components in diminishing them. Each sort of administration component can be vital in diminishing the organization expenses of the detachment of proprietorship and control. What is required is a more point by point comprehension of what makes these instruments imperative for a few firms and incapable for others. Administrative familiarities with the danger of takeover maybe prompts entrenchment at bring down levels, as does the conceivably ineffectual market for corporate control in restraining administration.

This hypothesis grounds the comprehension of insurance agencies' interests in government securities and interests in stock as this hypothesis explains irreconcilable situations between different gatherings, for example, investors, corporate chiefs and indebted individuals that association must be set up for it capability and survival.

2.2.3 Slack Resources Theory

The Slack Resources theory was first published by March and Simon (1958). This theory equates an organization to a living organism that struggles to survive amid turbulence from the environment within which it operates. The theory suggests that slack performs four main functions in an organization. The first function of slack is acts as an inducement to members. The second function of slack is to act as a resource for conflict resolution (Tan & Peng, 2003). However some critics of the slack resources theory argue that slack resources are an additional cost to an organization hence an excessive level of slack cannot be tenable by any organization. According to Shaffman et al (1988), organizational slack can be split into absorbed and unabsorbed slack. The latter refers to resources that are currently not committed to any activity hence can easily be redeployed to another activity depending on the environmental requirements. The absorbed slack refers to excess costs in the organization and these are usually very difficult to redeploy (Tan & Peng, 2003).

This theory equates an organization to a living organism that struggles to survive amid turbulence from the environment within which it operates. This is relevant to the study on insurance companies' survival that require them to invest in corporate bonds and certificate deposits that are explained in this study.

2.3 Determinants of Solvency Margins

Investment is a key factor to the solvency margins of insurance companies. In this section real estate investments, investments in government securities, investment in stocks, investment in corporate bonds and investments in certificate of deposits are discussed in light of the solvency margins of insurance companies (Weebly, 2013).

2.3.1 Investments

Investment performance discloses the effectiveness and efficiency of investment decisions. As such, investment performance becomes critical to the financial solidity of and insurer.

2.3.1.1 Real Estate Investments

The gains from real estate investments contribute to the overall investment income of an insurance company. Investment income is one of the two major components which contribute to the overall profit before tax on the income statement of an insurance company with underwriting profit from insurance operations being the other. During periods of low underwriting margin performances, it is essential that the investment income generated through property and other asset classes are sufficient to make up for the underwriting losses for insurance companies. Investment income for these larger firms takes up a larger portion of the overall profits compared to underwriting profits which are generated purely though insurance business (Barsuto, Romero & Idris, 2012).

Insurance companies in Kenya are major investors in land and buildings. They further noted that like other low liquidity investments, investments in real estate are expected to produce higher return. The return from investments in real estate is normally in form of rental income. Investments in real estate have been attractive to insurance companies due to earning stability and the relative low risk of default. The biggest drawback of investment in real estate is the large amount of funds required and the low liquidity of the investment (Megbenu, 1976).

2.3.1.2 Investments in Government Securities

The government occasionally borrows money to finance its expenditure from the domestic market. Investment in government securities is an attractive option to insurance companies in Kenya. The 2000 commissioner of insurance report shows that insurance companies' investments in government securities were 31.29% of the total investments. The securities are considered riskless in terms of liquidity and default risk. Government securities are liquid assets as they can be traded on secondary markets at the stock exchange (Marshall, 1992).

Treasury bills and bonds are the main securities under this category, and are instruments that governments use to borrow funds from the general public. Returns from these assets are higher than that derived from cash and fixed deposits but is lower than that from real estate and equity with an equally lower risk profile. Treasury bills and bonds are considered to be significantly safer investments compared to the other asset classes given that the likelihood of a government running out of money and defaulting on its interest payments are very low since it can print more money or borrow more (Reid, 2014).

2.3.1.3 Investments in Stocks

Ordinary shares Ordinary shares represent ownership position in a company. Ordinary shareholders provide permanent capital and are the legal owners of the company. Ordinary shareholders have a right of control by participation in the appointment of directors and voting company's annual general meetings (Francis, 1994). Kamanda (2001) evaluated the equity portfolios held by insurance companies in Kenya. He

concluded that the equity portfolio of insurance companies in Kenya was poorer than the market portfolio in terms of risk-return trade off (Mason, 2009).

Preference shares normally have a fixed dividend rate. Even when a firm performs exceptionally well, the preferred shareholders still receive the fixed stipulated dividend and all residual earnings go to the ordinary shareholders. A debenture is an unsecured bond. Debentures are relatively risky and normally attract high interest rates. In Kenya, the most common form of debentures are commercial papers (Konzolo, 2001). Debentures are attractive to investors due to the relatively high return and ease with which they can be arranged. The default risk is assumed to be low since only well-established companies issue commercial papers. Debentures also have a relatively short maturity period. In Kenya, relatively few companies issue debentures (Weebly, 2013).

2.3.1.4 Investment in Corporate Bonds

A bond can be defined as a security that is issued with a borrowing arrangement. The borrower or the issuer sells a bond to a lender or the investor for a certain amount of money define bond as a long-term debt security with contractual obligations regarding interest payments and redemption. The intrinsic features of a bond are: the coupon, maturity, its indenture provisions and type of ownership. A variety of features affect bond maturity. These are the provisions that allow the issuer to buy back all or part of its outstanding bonds at a specified call price before maturity of the bond (Solnik & Mcleavey, 2009).

An assorted variety of financial specialists cultivates exchanging movement. With such decent variety, it turns out to be more outlandish that distinctive financial

specialists will wind up on a similar side of the market, either as merchants or purchasers. They will probably differ on the credit nature of a backer and in this way be all the more eager to exchange, and they are more averse to require liquidity in the meantime. In Kenya, such decent variety is by all accounts rather restricted. Here the financial specialist base for corporate securities has a tendency to be commanded by government-controlled provident assets, insurance agencies and banks. Once a bond is issued, it ordinarily vanishes into the arrangement of purchase and-hold speculators (Vuong, 1997).

2.3.1.5 Investments in Certificate of Deposits

Financial institutions accept deposits from investors and offer an interest in return. Banks offer various types of products for investments. These include fixed deposit accounts, savings accounts bank deposits are attractive to insurance companies due to their high liquidity and ease of recalling the investment (Megbenu, 1976).

2.3.2 Liquidity

Li (2016) defines Liquidity as “Liquidity means how quickly you can get your hands on your cash. In simpler terms, liquidity is to get your money whenever you need it”. Liquidity is the ability of a safety net provider to pay liabilities, which incorporate working costs and installment for misfortunes/benefits under protection strategies, when due. A financial institution that has a higher investment in current assets has a higher liquidity level. The key ratios used to measure liquidity are the current ratio and the quick ratio. Current ratio is calculated by dividing the total current assets by total current liabilities whereas the quick ratio is computed by deducting inventories

from current assets and dividing the result by current liabilities. The higher the current ratio and the quick ratio, the better the financial position of the business.

According to Ding (2014), the relationship between liquidity and profitability could become positive over the medium and long run, in the sense that a low liquidity would result in a lower profitability due to greater need for loans, and low profitability would not generate sufficient cash flows, thus forming a viscous cycle. In a study done to determine the impact of liquidity and solvency on the profitability of chemical firms in Pakistan, the researchers postulated that liquidity has a positive relationship with profitability whereas solvency has an indirect relationship with the profitability of the chemical firms (Aghion et al., 2010). Li (2016) found that the result for liquidity on solvency is mixed and not significant which indicates that conclusion about the impact of liquidity remains questionable and further research is needed.

2.3.3 Firm Size

The financial health of any organization is influenced by, among other factors, the size or total assets of the firm. As regulators are less likely to liquidate large insurers, it is expected that small insurers are more vulnerable to insolvency (Weebly, 2013). Variables used to measure firm size include total admitted assets.

The monetary strength of any association is affected by, among different variables, the size or aggregate resources of the firm. Factors used to quantify firm size incorporate aggregate premium, add up to conceded resources, and capital and overflow (BarNiv and Hershbarger, 1990). Venture execution uncovers the adequacy and effectiveness of speculation choices. Accordingly, speculation execution winds up plainly basic to the money related steadiness of any back up plan. Exact outcomes

have discovered that speculation execution is contrarily related to bankruptcy rate (Kim et al., 1995) and Kramer (1996).

2.4 Empirical Studies

The number of researchers dealt with the subject of the investment and impact on solvency margins of organizations from several different directions, Loof and Heshmat (2008). Their main objective was to establish whether the relationship that exists between the two variables is that of correlation or causality. The performance variables for the study included sales, value added, profit, cash flow, capital structure and employment. The study findings revealed that there exists a two-way causal relationship mainly temporary in nature. It was further established from the study that some heterogeneity in the firms' investment and performance behavior by their size existed.

A study was also carried out by Taiana (2012) studied extra-financial performance in socially responsible investment. The study focused on 76 large global equity funds in Switzerland. The results from the study confirm that demonstrate the importance of accurate sector and company analysis during the construction and management of the fund. The analysis of the fund's holdings shows a big overlap between securities listed in SRI and non-SRI funds. This is evidence of the wide-scale application of the best-in-class approach to company selection in fund construction practice. As a result, the comparison of SRI versus non-SRI funds is difficult and mostly inconclusive.

Lareefi and Gretha (2008) completed an examination on the money related execution of solidarity stores. The examination included solidarity back which covers the 90/10 reserves, where 10% of assets are put resources into Government - perceived

solidarity organizations, and income sharing assets, where holders acknowledge that all or part of their compensation is given to an association with a social or compassionate reason. The outcomes from the investigation uncover that while solidarity speculation stores offer money related execution that is lower than advertise lists, there is no econometric confirmation of these solidarity supports failing to meet expectations, especially with shared income reserves, contrasted and customary moral assets. While the holders of shared income finance titles acknowledge a lower rate of return exclusively, the supervisors of these assets can seek after indistinguishable execution destinations from regular store directors.

Another examination was led by Ismail (2013) on the determinants of money related execution of Takaful and Insurance Companies in Malaysia. The investigation used the financial aspects worldview in breaking down execution and not behavioral worldview. The investigation of the budgetary execution of the Takaful and insurance agencies was especially noteworthy in perspective of the money related scene that is winding up progressively difficult. The developing number of insurance agencies' disappointments as of late has brought on additional worries on the budgetary dependability of the careful and protection businesses to partners. The discoveries demonstrate that organization's size, careful reliance and dissolvability edge are measurably noteworthy determinants of the monetary execution of the general prudent organizations in Malaysia. For Malaysian general back up plans, all components are measurably noteworthy determinants of money related execution, aside from value returns. As these variables are essential in deciding the Malaysian general prudent and insurance agencies' money related execution, it ought to be promoted to additionally enhance and support the monetary execution.

Schich (2009) additionally completed an investigation on insurance agencies and the money related emergency. The examination tried to build up how the 2008 managing an account emergency that began from the United States of America influenced the budgetary execution of the insurance agencies. The outcomes from the investigation affirmed that insurance agencies were influenced, and in for the most part unfriendly ways. Murungi (2013) likewise did an examination on the connection between macroeconomic factors and money related execution of insurance agencies in Kenya. The money related execution of insurance agencies was measured by Return on Assets processed from the monetary proclamations of the organizations. The other macroeconomic factors were acquired from the figures accessible from the Central Bank of Kenya. The investigation appeared as a clear research plan with an objective populace of 46 insurance agencies that were enrolled by the Association of Kenya Insurers in the year 2013. The discoveries uncover that loan fee, GDP, guarantee proportion and cost proportion were measurably critical in impacting monetary execution of insurance agencies.

Komen (2012) contemplated the determinants of dissolvability edges of insurance agencies in Kenya. The examination configuration was an enumeration overview of all insurance agencies in Kenya. The objective populace was characterized as all insurance agencies, which worked in the protection business from January 2001 to December 2010. Various relapse examinations were completed so as to see their effect on the dissolvability edge of insurance agencies. The multivariate relapse for the back up plans has produced factually huge outcomes predictable with dominant part of the speculations planned on firm-particular elements. The investigation uncovered that four of the seven considered factors were of the anticipated sign.

Liquidity proportion, working edge, joined proportion (cost s and cases proportion) and premium development were of the anticipated sign while development in surplus venture execution and firm size were in opposition to the anticipated outcomes.

2.6 Conceptual Framework

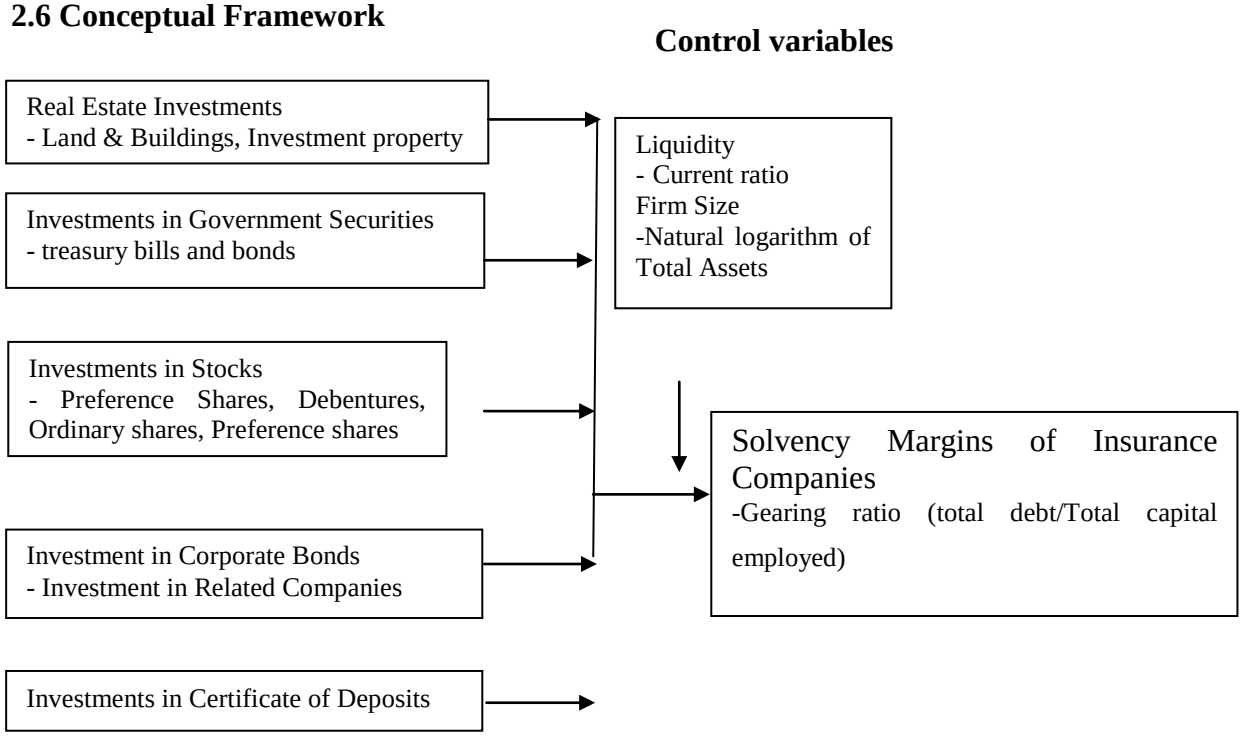

Figure 2. 1: Conceptual Framework

The conceptual framework shows the relationship between the independent variables (real estate investments, investments in government securities, investments in stocks, investment in corporate bonds and investments in certificate of deposits) and the dependent variable (Solvency Margins of Insurance Companies).

2.5 Summary of Literature Review

This chapter has reviewed the literature on the relationship between investment and solvency margins of insurance companies. The study is anchored on resource dependency theory, the agency theory, and slack resources theory. The researchers

have different views on the subject of how the investment affect solvency margins of insurance companies, and while some do not seem to find a direct relationship between investment and solvency margins of insurance companies, most of the studies reviewed are done on general insurance companies. Studies done locally have concentrated on Komen (2012) studied the determinants of solvency margins of insurance companies in Kenya. Murungi (2013) also carried out a study on the relationship between macroeconomic variables and financial performance of insurance companies in Kenya. Taiana (2012) looked on extra-financial performance in socially responsible investment, but not a direct relationship between investment and solvency margins of insurance companies. These studies have not however been extensive on insurance companies. This paper therefore seeks to establish the relationship between investment and solvency margins of insurance companies in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter includes the various stages that was followed to complete the study. The chapter therefore comprise of the following subsections: research design, target population, data collection and data analysis and presentation.

3.2 Research Design

According to Amin (2011), a research design research design alludes to the methodology or method used to gather data, measure and analyze the data. It also implies the relationship among variables or the structure of the problem being addressed. This study utilized a descriptive research design to gather and analyze data. This method was selected as it has many advantages as it showed the real relationship between variables they exist.

3.3 Target Population

In this study, the population consisted 51 insurance companies licensed by Insurance Regulatory Authority (IRA) and that have been in operation during the period 2012 to 2016.

3.4 Data Collection

The study was facilitated by use of secondary data that was extracted from published financial reports of the insurances, articles and papers relating to relationship between between investment and solvency margins of insurance companies five-year period

commencing 2012 up to 2016. The secondary data was collected by the use of data collection form designed to record data.

3.5 Diagnostics Tests

The diagnostic tests for the regression assumptions in this study included test for Normality, Heteroscedasticity, Multicollinearity, Sampling Adequacy and Tests of Independence (Autocorrelation).

3.6 Data Analysis

Data obtained from the field in raw form is difficult to interpret unless it is cleaned, coded and analyzed Mugenda and Mugenda (2003). The data collected was therefore cleaned, coded and systematically organized in a manner that facilitates analysis using the Statistical Package for Social Sciences (SPSS). Quantitative analysis was used through descriptive statistics such as measure of central tendency to generate relevant percentages, frequency counts, mode, and median and mean where possible. In order to make the data more user friendly and attractive to the readers, graphic interactive tables were generated using the computer spread sheet to present the data. Regression analysis was used to determine the relationship between between investment and solvency margins of insurance companies

3.6.1 Analytical Model

The following regression model was used to establish the relationship between the variables; $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_5X_7 + \varepsilon$

Whereby Y = solvency margins of insurance companies (Gearing ratio [total debt/Total capital employed]).

α = Constant

X_1 = Natural logarithm of Real estate investments (Land & Buildings, Investment property)

X_2 = Natural logarithm of Investments in Government securities such as treasury bills and bonds

X_3= Natural logarithm of Investments in stocks (Preference Shares, Debentures, Ordinary shares, Preference shares)

X_4 = Natural logarithm of Investment in corporate bonds (Investment in Related Companies)

X_5= Natural logarithm of Investments in certificate of deposits

X_6= Liquidity (Current ratio = Current assets/ Current liability)

X_7= Firm Size; this will be Natural logarithm of Total Assets

βi (i= 1, 2, 3, 4, 5, 6, 7) = Regression Coefficients.

e = Error Term

3.6.2 Test of Significance

The coefficient of determination (R^2) was used to measure the extent to which the variation in solvency margins is explained by the investments variables. F-statistic and t-statistics were also computed at 95% confidence level to test whether there is any significant relationship between the investments and solvency margins of insurance companies.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter presents the information processed from the data collected during the study on the relationship between investment and solvency margins of insurance companies in Kenya. This chapter comprise of the following sub-section; descriptive statistic, inferential statistics and interpretation of the findings and diagnostic tests.

4.2 Descriptive Statistics

This section focus on the general description of the study variables characteristics including the, Mean, standard deviation (Std. Dev), Skewness and Kurtosis.

Table 4. 1: Descriptive Statistics

	Mean		**Std. Dev.**	**Skewness**		**Kurtosis**	
	Statistic	Std. Error	Statistic	Statistic	Std. Error	Statistic	Std. Error
Solvency margins	.0002	.00004	.00027	2.750	.361	7.753	.709
Real estate investments	9.3612	.07353	.48215	-.958	.361	.874	.709
Investments in Government securities	9.3992	.07515	.49277	-.224	.361	-.932	.709
Investments in stocks	9.0412	.08429	.55272	-1.138	.361	1.082	.709

Investment in corporate bonds	8.0392	.21101	1.38371	-4.879	.361	28.167	.709
Investments in certificate deposits	8.5176	.09727	.63038	-1.121	.365	1.381	.717
Liquidity	.2008	.03341	.21653	2.517	.365	8.460	.717
Firm Size	10.0486	.05612	.36801	-.264	.361	-.278	.709

The results in Table 4.1 showed that solvency margins of insurance companies had a mean score of 0.0002, real estate investments had a mean score of 9.3612, investments in Government securities had a mean score of 9.3992, investments in stocks had a mean of 9.0412, investment in corporate bonds had a mean score of 8.0392 and investments in certificate of deposits had a mean score of 8.5176, liquidity had a mean score of .2008 and firm size had a mean score of 10.0486. Analysis of skewness shows that real estate investments, investments in government securities, investments in stocks, investment in corporate bonds, investments in certificate deposits and firm size are asymmetrical to the left around their mean.

4.3 Inferential Statistics

The study did Pearson correlation analysis and multiple regression analysis to establish the relationship between the study variables.

4.3.1 Correlation Analysis

Pearson’s correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed.

Table 4. 2: Correlation Matrix

		Solvency margins	Real estate investments	Government securities	Investments in stocks	Investment in corporate	Investments in certificate	Liquidity	Firm Size
Solvency margins	Pearson Correlation	1							
	Sig. (2-tailed)								
Real estate investments	Pearson Correlation	.847*	1						
	Sig. (2-tailed)	.047							
Government securities	Pearson Correlation	.858*	.450*	1					
	Sig. (2-tailed)	.000	.002						
Investments in stocks	Pearson Correlation	.764*	.510*	.666*	1				
	Sig. (2-tailed)	.002	.000	.000					
Investment in corporate	Pearson Correlation	.740*	.200*	.252*	.272*	1			
	Sig. (2-tailed)	.009	.000	.003	.038				
Investments in certificate	Pearson Correlation	.669*	.340*	.398*	.516*	.670*	1		
	Sig. (2-tailed)	.0.036	.027	.009	.000	.000			
Liquidity	Pearson Correlation	.654*	.228*	.122*	.334*	.297*	.582*	1	
	Sig. (2-tailed)	.005	.046	.043	.031	.000	.000		
Firm Size	Pearson Correlation	.879*	.639*	.772*	.679*	.227*	.508*	.205*	1
	Sig. (2-tailed)	.000	.000	.000	.000	.042	.001	.031	
*. Correlation is significant at the 0.05 level (2-tailed).									

The table above indicates the correlation matrix between the real estate investments, government securities, investments in stocks, investment in corporate, investments in certificate, liquidity, firm size and solvency margins of insurance companies. According to the table, there is a positive relationship between solvency margins of insurance companies and real estate investments, government securities, investments in stocks, investment in corporate, investments in certificate, liquidity and firm size of magnitude 0.847, .858, 0.764, 0.740, 0.669, 0.654 and 0.879 respectively. The positive relationship indicates that there is a correlation between the investment and solvency margins of insurance companies in Kenya.

4.3.2 Regression Analysis

Coefficient of determination shows the degree of change in the dependent variable can be elucidated by the alteration in the independent variables or the percentage of variation in the dependent variable solvency margins of insurance companies that is explained by all the seven independent variables (real estate investments, government securities, investments in stocks, investment in corporate, investments in certificate, liquidity and firm size).

Table 4. 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.874	0.764	0.716	0.018

a. Predictors: (Constant), Real estate investments, Government securities, Investments in stocks, Investment in corporate, Investments in certificate, Liquidity and Firm size

b. Dependent Variable: Solvency margins of insurance companies

The seven independent variables that were studied explain 71.6% of the solvency margins of insurance companies as represented by the adjusted R^2. This shows that the seven variables contribute 71.6% to the relationship between investment and solvency margins of insurance companies. Thus, additional research should be done to investigate the other (28.4%) factors related to the solvency margins of insurance companies.

4.3.3 ANOVA

ANOVA statistics were also computed to find the fitness of the model in predicting the relationship between the study variables.

Table 4. 4: ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.042	7	0.006	16.154	.000[b]
	Residual	0.013	35	4E-4		
	Total	**0.055**	**42**			

a. Predictors: (Constant), Real estate investments, Government securities, Investments in stocks, Investment in corporate, Investments in certificate, Liquidity and Firm size

b. Dependent Variable: Solvency margins of insurance companies

From the ANOVA statistics in table 4.4, the processed data, which are the investment parameters, had a significance level of 0.000 which shows that the data is ideal for making a conclusion on the investment's parameter. The F calculated at 5% Level of significance was 16.154. Since F calculated is greater than the F critical (value = 2.2490), this shows that the overall model was significant that is, there is a significant relationship between investment and solvency margins of insurance companies.

4.3.4 Regression Coefficient

Table 4. 5: Regression Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.564	0.855		2.999	4.96E-03
Real estate investments	0.827	0.293	0.712	2.823	7.81E-03
Government securities	0.838	0.144	0.397	5.819	1.34E-06
Investments in stocks	0.746	0.239	0.802	3.121	3.60E-03
Investment in corporate bonds	0.724	0.278	0.581	2.604	1.34E-02
Investments in certificate of deposits	0.655	0.104	0.459	6.298	3.13E-07
Liquidity	0.614	0.156	0.061	3.936	3.76E-04
Firm Size	0.869	0.154	0.201	5.643	2.28E-06

a. Dependent Variable: Solvency margins of insurance companies

The coefficient of regression in table 4.4 above was used in coming up with the model below:

$$Y = 2.564 + 0.827X_1 + 0.838X_2 + 0.746X_3 + 0.724X_4 + 0.655X_5 + 0.614X_6 + 0.869X_7$$

Whereby

Y= solvency margins of insurance companies, $\mathbf{X_1}$ = Real estate investments, $\mathbf{X_2}$ = Investments in Government securities, $\mathbf{X_3}$= Investments in stocks, $\mathbf{X_4}$ = Investment in corporate, $\mathbf{X_5}$=Investments in certificate of deposits, $\mathbf{X_6}$= Liquidity and $\mathbf{X_7}$= Firm Size;

From the model, taking all factors (real estate investments, government securities, investments in stocks, investment in corporate, investments in certificate, liquidity and firm size) constant at zero, solvency margins of insurance companies was 2.564. The data findings also indicates that taking all other independent variables at zero, a unit increase in real estate investments will lead to a 0.827 increase in solvency margins of insurance companies and a unit increase in government securities lead to a 0.838 increase in solvency margins of insurance companies. The study also found that a unit increase in investments in stocks will translate to a 0.746 increase in solvency margins of insurance companies, a unit increase in investment in corporate bonds will lead to 0.724 increase solvency margins of insurance companies and a unit increase in Investments in certificate of deposits will lead to 0.655 increase in solvency margins of insurance companies. The model further indicated that increase in liquidity resulted to 0.614 increase in the solvency margins of insurance companies and that a unit increase in the scores of firm size would lead to 0.869 increases in the scores of solvency margins of insurance companies. As per the model, all the variables were vital as their P- value was less than 0.05.

4.4 Diagnostic Tests for Regression Assumptions

Under this section diagnostic tests for testing the regression assumptions will be presented. These tests include normality, heteroscedasticity, Multicollinearity, sampling adequacy and tests of independence (autocorrelation).

4.4.1 Normality Test

The testing for normality in this study was conducted using Kolmogorov Smirnov test and Shapiro Wilk test.

Table 4. 6: Checking for Normality of the Data

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig.**
Real estate investments	0.211	42	0.00	0.931	42	0.00
Government securities	0.211	42	0.00	0.931	42	0.00
Investments in stocks	0.211	42	0.00	0.931	42	0.00
Investment in corporate bonds	0.211	42	0.00	0.931	42	0.00
Investments in certificate of deposits	0.211	42	0.00	0.931	42	0.00
Liquidity	0.211	42	0.00	0.931	42	0.00
Firm Size	0.211	42	0.00	0.931	42	0.00

Thus, Table 4.32 indicates that using both tests of normality, which is Kolmogorov Smirnov test and Shapiro-Wilk tests, the p-value for both tests, is less than 0.05, thus the study rejected H_0 and a conclusion was made that data on both the dependent and the independent factors were normally distributed and as a result it helps to predict dependent variables.

4.4.2 Heteroskedasticity Test

In the classical linear regression model, one of the basic assumptions is Homoskedasticity assumption that states as the probability distribution of the disturbance term remains same for all observations. That is the variance of each u_i is the same for all values of the explanatory variable. However, if the disturbance terms do not have the same variance, this condition of non-constant variance or non-homogeneity of variance is known as heteroscedasticity.

Table 4. 7: Heteroskedasticity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.4	1.086		.00	1.000
	Real estate investments	.000	.115	.000	.00	1.000
	Government securities	.000	.106	.000	.00	1.000
	Investments in stocks	.000	.154	.000	.00	1.000
	Investment in corporate bonds	.000	.105	.000	.00	1.000
	Investments in certificate of deposits	.000	.108	.000	.00	1.000
	Liquidity	.000	.143	.000	.00	1.000
	Firm Size	.000	.109	.000	.00	1.000

Accordingly, in order to detect the heteroscedasticity problems, Breusch-Pagan or Cook- Weisberg test was utilized in this study. This test states that if the p-value is significant at 95 confidence interval, the data has heteroscedasticity problem, whereas if the value is insignificant (greater than 0.05), the data has no heteroscedasticity problem. Thus, as shown in table above all the four variables (real estate investments, government securities, investments in stocks, investment in corporate, investments in certificate, liquidity and firm size) p-value of 1 which is greater than 0.05 hence implying that they had no heteroscedasticity problem.

4.4.3 Test for Multicollinearity

The study utilized Collinearity Statistics to find out whether the independent variables are adequately correlated to show a substantial causal correlation.

Table 4. 8: Collinearity Statistics

Model		Collinearity Statistics	
		Tolerance	**VIF**
	Real estate investments	.529	1.892
	Government securities	.332	3.009
	Investments in stocks	.435	2.299
	Investment in corporate bonds	.865	1.156
	Investments in certificate of deposits	.643	1.554
	Liquidity	.725	1.380
	Firm Size	.269	3.718

Based on the coefficients output, the VIF values for all the seven variables were less than 10 implying that there was no Multicollinearity symptoms.

4.4.4 Sampling Adequacy

The validity of study's variables was tested by checking the sampling adequacy. This enabled the study in identification of the items which were appropriate for factorial analysis. The test findings show that the scales had values above the threshold of 0.7.

Table 4. 9: Kaiser-Meyer-Olkin (KMO) and Bartlett's Test

Factors	KMO Test	Bartlett's Test of Sphericity			Determinant
		Approx. Chi-Square	df	Sig.	
Real estate investments	.802	510.767	43	.000	0.034
Government securities	.759	382.052	43	.000	0.018
Investments in stocks	.825	622.734	43	.000	0.006
Investment in corporate bonds	.853	848.872	43	.000	0.024
Investments in certificate of deposits	.838	312.761	43	.000	0.031
Liquidity	.959	432.053	43	.000	0.018
Firm Size	.725	522.738	43	.000	0.046

The sampling adequacy was assessed using the Bartlett's Test of sphericity which analyzes if the samples are from populations with equal variances produced p-values less than .05 ($p < .005$). Since the Bartlett's test significances were less than 0.05 further indicates an acceptable degree of sampling adequacy (sample is factorable).

4.4.5 Autocorrelation Test

If the errors are correlated with one another, it would be stated that they are 'serially correlated'. A test of this assumption is therefore conducted. The first test was Durbin-Watson which is shown in the regression output of the model.

Table 4. 10: **Durbin-Watson test**

Model	Durbin-Watson
1	1.238

As per this test expressed in table 4.35, the value of Durbin-Watson for the model is 1.238 which is far from 2. Thus, the null hypotheses were rejected for the model so there is a problem of autocorrelation.

4.5 Interpretation of the Findings

From the regression model, the study found out that, real estate investments, government securities, investments in stocks, investment in corporate, investments in certificate, liquidity and firm size were significantly and positively relationship to solvency margins of insurance companies. The study concluded that the intercept was 2.564 for all years.

The seven independent variables that were studied (real estate investments, government securities, investments in stocks, investment in corporate, investments in certificate, liquidity and firm size) explain a substantial 71.6% of the solvency margins of insurance companies as represented by adjusted R^2 (0.716). This consequently means the seven variables add to 71.6% of the relationship between investment and solvency margins of insurance companies, while other factors not studied in this research contributes 24.4% of the relationship between investment and solvency margins of insurance companies. This is in agreement with Barsuto, Romero and Idris (2012) who did a study on the relationship between investment and solvency margins of insurance companies in Kenya. The results showed that there was a

positive relationship between investment and solvency margins of insurance companies in Kenya.

The data findings indicated that real estate investments had coefficient of 0.827 meaning that real estate investments was positively and significantly related to the solvency margins of insurance companies in Kenya. This is contrary to Megbenu (1976) who argue that the biggest drawback of investment in real estate is the large amount of funds required and the low liquidity of the investment.

The study findings also showed that government securities had a coefficient of 0.838 which meant that it was positively related to the solvency margins of insurance companies in Kenya. This conforms to arguments by Reid (2014) that treasury bills and bonds are considered to be significantly safer investments compared to the other asset classes given that the likelihood of a government running out of money and defaulting on its interest payments are very low since it can print more money or borrow more.

The study also found the coefficient of investments in stocks was 0.746 implying that relationship between solvency margins of insurance companies and investments in stocks was positive and significant. This is in line with Kamanda (2001) who evaluated the equity portfolios held by insurance companies in Kenya and concluded that the equity portfolio of insurance companies in Kenya was poorer than the market portfolio in terms of risk-return trade off.

The study also established that investment in corporate bonds had a coefficient of 0.724 meaning that investment in corporate bonds was positively and significantly related to solvency margins of insurance companies in Kenya. This concurs with

Vuong (1997) that financial specialist base for corporate securities have a tendency to be commanded by government-controlled provident assets, insurance agencies and banks. Once a bond is issued, it ordinarily vanishes into the arrangement of purchase and-hold speculators.

The study established that investments in certificate of deposits had a coefficient of 0.655 meaning that there was a positive and significant relationship between investments in certificate of deposits and solvency margins of insurance companies in Kenya. This is similar to Megbenu (1976) that fixed deposits accounts, savings accounts bank deposits are attractive to insurance companies due to their high liquidity and ease of recalling the investment.

The study established that liquidity had a coefficient if 0.614 meaning that there was a positive and significant relationship between liquidity and solvency margins of insurance companies in Kenya. This is in agreement with Ding (2014) that the relationship between liquidity and profitability could become positive over the medium and long run, in the sense that a low liquidity would result in a lower profitability due to greater need for loans, and low profitability would not generate sufficient cash flows, thus forming a viscous cycle.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary, conclusion and recommendations of the main findings on the relationship between investment and solvency margins of insurance companies in Kenya. This chapter puts forward the summary of the findings, conclusions of the study, recommendations of the study, limitation of the study and suggestions for further studies.

5.2 Summary

Solvency margins can be determined by investments, liquidity as well as the size of the firm. The study sought to establish the relationship between investment and solvency margins of insurance companies in Kenya. The study employed a descriptive research design. The population of interest for this study was 51 insurance companies licensed by Insurance Regulatory Authority (IRA) and that have been in operation during the period 2012 to 2016, thus it was a census survey. The study applied secondary data which is extracted from published financial reports of the insurances, articles and papers relating to relationship between between investment and solvency margins of insurance companies five-year period commencing 2012 up to 2016. The data collected were thus cleaned, coded and analytically organized in a method that facilitates analysis using the Statistical Package for Social Sciences (SPSS). So as to test the relationship between the variables the inferential tests including the regression analysis was used. The study found that the seven variables contribute to 71.6% the relationship between investment and solvency margins of insurance companies. From

the study results and discussion, the study concludes that there was a positive and significant relationship between investment and solvency margins of insurance companies in Kenya. The conclusion is that investments had a positive and vital impact on solvency margins of insurance companies in Kenya. The study recommended that there is need for insurance companies to exercise caution in real estate investments since this may lead to huge losses in case of a global financial crisis that may lead to devaluation of property. The study also recommended that there is need to increase investments into these sectors since they seem to contribute more to the financial performance of the insurance firms.

5.3 Conclusions

The study concluded that real estate investments had coefficient of 0.827, meaning that real estate investments was positively and significantly related to the solvency margins of insurance companies in Kenya. This is contrary to Megbenu (1976) who argue that the biggest drawback of investment in real estate is the large amount of funds required and the low liquidity of the investment.

The study concludes that government securities were positively related to the solvency margins of insurance companies in Kenya. This conforms to arguments by Reid (2014) that treasury bills and bonds are considered to be significantly safer investments compared to the other asset classes given that the likelihood of a government running out of money and defaulting on its interest payments are very low since it can print more money or borrow more.

The study also concluded that the coefficient of investments in stocks was 0.746 implying that relationship between solvency margins of insurance companies and

investments in stocks was positive and significant. This is in line with Kamanda (2001) who evaluated the equity portfolios held by insurance companies in Kenya and concluded that the equity portfolio of insurance companies in Kenya was poorer than the market portfolio in terms of risk-return trade off.

The study also concluded that investment in corporate bonds had a coefficient of 0.724 meaning that investment in corporate bonds was positively and significantly related to solvency margins of insurance companies in Kenya. This concurs with Vuong (1997) that financial specialist base for corporate securities have a tendency to be commanded by government-controlled provident assets, insurance agencies and banks. Once a bond is issued, it ordinarily vanishes into the arrangement of purchase and-hold speculators.

The study concluded that investments in certificate of deposits had a coefficient of 0.655 meaning that there was a positive and significant relationship between investments in certificate of deposits and solvency margins of insurance companies in Kenya. This is similar to Megbenu (1976) that fixed deposits accounts, savings accounts bank deposits are attractive to insurance companies due to their high liquidity and ease of recalling the investment.

The study concluded that liquidity had a coefficient if 0.614 meaning that there was a positive and significant relationship between liquidity and solvency margins of insurance companies in Kenya. This is in agreement with Ding (2014) that the relationship between liquidity and profitability could become positive over the medium and long run, in the sense that a low liquidity would result in a lower

profitability due to greater need for loans, and low profitability would not generate sufficient cash flows, thus forming a viscous cycle.

5.4 Recommendations for Policy and Practice

The study established that real estate has the highest level of investment among the insurance companies in Kenya. There is need for insurance companies to exercise caution in real estate investments since this may lead to huge losses in case of a global financial crisis that may lead to devaluation of property.

There is need for insurance companies in Kenya to maintain an adequate level of liquidity depends on the institution's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the solvency condition of the institution. There is need for insurance companies in Kenya to increase their short term assets it was revealed that increase in banks liquidity positively influence the solvency of the insurance companies.

It was also established that investments are real estate, deposits with financial institutions and Government securities are positively related to solvency margins of insurance companies. There is need to increase investments into these sectors since they seem to contribute more to the financial performance of the insurance firms.

It is also important to have different regulations for life and general insurance companies as each operates under different constraints and requires more specific management and regulatory structures. Thus, insurance regulation is an evolving process and there is need to be flexible, as there will be continuing changes in the environment and insurance market. Therefore, recent changes of risk-based regulation approach as opposed to compliance of insurance companies in Kenya is welcome.

5.5 Limitations of the Study

The major limitations of this study with relative to data availability, the data was tedious to collect and compute as it was in its very raw form. Due to lack of standardization of financial statements from various insurance companies in Kenya, data computation was made even harder. In addition, time and resources allocated to this study could not allow the study to be conducted as deeply as possible in terms of other predictor variables for solvency margins in insurance companies.

Most insurance companies operated as composite despite being categorized as Long term or General. The unavailability of data for pure Life and General Companies affected the analysis of solvency due to the varying nature of the insurance companies in terms of operations, investment activities, vulnerabilities, and duration of liabilities.

Lastly, the study focused on financial statements data at the firm level and did not take into consideration the qualitative information from each insurance company. Qualitative assessment can be an important addition to the process of better assessing an insurer's financial conditions. Window dressing of the financial statements could be a potential problem in this study.

5.6 Suggestions for Further Research

There is need to carry out a research to establish the factors that explain 28.4% of the variance on the solvency margins of insurance companies in Kenya since the studies so far conducted are not comprehensive enough.

It will also be important to carry out a study to establish the reason behind the popularity of investment in real estate, certificates of deposits and investment in Government securities among the insurance companies.

Also, further research should be carried on market/ economic factors. This is because a good understanding economic condition under which an insurance company operates is valuable.

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APPENDICES

Appendix I: Secondary data Collection sheet

	2012	2013	2014	2015	2016
Real estate investments					
Investments in government securities,					
Investment in stocks, investment in					
Corporate bonds					
Investments in certificate of deposits					
Current assets					
Current liability					
Total assets					
Total debt					
Total capital					

Appendix II: List of insurance companies registered with IRA as at 31st December 2016

1. A P A Insurance Limited
2. AAR Insurance Kenya Limited
3. Africa Merchant Assurance Company Limited
4. AIG Kenya Insurance Company Limited
5. Amaco Insurance Limited
6. Apollo Life Assurance Limited
7. British-American Insurance Company (Kenya) Limited
8. Cannon Assurance Limited
9. Capex Life Assurance Company Limited
10. CFC Life Assurance Limited
11. CIC General Insurance Limited
12. Continental Reinsurance Limited
13. Corporate Insurance Company Limited
14. Direct line Assurance Company Limited
15. East Africa Reinsurance Company Limited
16. Fidelity Shield Insurance Company Limited
17. First Assurance Company Limited
18. G A Life Assurance Limited
19. Gateway Insurance Company Limited
20. Geminia Insurance Company Limited
21. ICEA LION General Insurance Company Limited
22. Intra Africa Assurance Company Limited

23. Invesco Assurance Company Limited

24. Kenindia Assurance Company Limited

25. Kenya Orient Insurance Limited

26. Kenya Reinsurance Corporation Limited

27. Liberty Life Insurance Limited

28. Madison Insurance Company Kenya Limited

29. Mayfair Insurance Company Limited

30. Mercantile Insurance Company Limited

31. Metropolitan Life Insurance Kenya Limited

32. Occidental Insurance Company Limited

33. Old Mutual Life Assurance Company Limited

34. Pacis Insurance Company Limited

35. Pan Africa Life Assurance Limited

36. Phoenix of East Africa Assurance Company Limited

37. Pioneer Assurance Company Limited

38. Prudential Life Insurance Limited

39. Real Insurance Company Limited

40. Resolution Insurance Company Limited

41. Saham (formerly Mercantile)

42. Shield Assurance Company Limited

43. Takaful Insurance of Africa Limited

44. Tausi Assurance Company Limited

45. The Heritage Insurance Company Limited

46. The Jubilee Insurance Company of Kenya Limited

47. The Kenyan Alliance Insurance Company Limited

48. The Monarch Insurance Company Limited

49. Trident Insurance Company Limited

50. UAP Insurance Company Limited

51. Xplico Insurance Company Limited

Appendix III: Secondary Data used in the Study

Real estate investments

Real estate investments	2012	2013	2014	2015	2016
AAR INSURANCE KENYA	0	442500	0	0	0
AFRICAN MERCHANT ASSURANCE		175000	497500		0
AIG INSURANCE COMPANY		850000	600000	510000	510000
ALLIANZ INSURANCE COMPANY	335750	5202	943000	600000	0
APA INSURANCE COMPANY	785000	997980			1225000
BRITAM INSURANCE COMPANY	0	1418326	260000	1160000	42271
CANNON ASSURANCE COMPANY	923191	0	132000		0
CIC GENERAL INSURANCE COMPANY	163500	565000		266000	266000
CONTINENTAL REINSURANCE	1032452	423000	675000	1440000	0
CORPORATE INSURANCE COMPANY	492500		294000		800000
DIRECT LINE ASSURANCE COMPANY	303000		113580 9	780000	2066550
EAST AFRICARE INSURANCE COMPANY	216000	206609	104100 0	1185400	780000
FIDELITY SHIELD INSURANCE COMPANY	912500	967300	161500 0	765000	1121766
FIRST ASSURANCE COMPANY	913446	859704	2443290	1275795	1385000
GA GENERAL INSURANCE COMPANY	1036900	167986	138400 0	1325000	1396070
GATEWAY INSURANCE COMPANY	741317	118040 0	740762	1380843	973000
GEMINIA INSURANCE COMPANY LIMITED	932908	741039	120000	1116700	14563
HERITAGE INSURANCE COMPANY	180000	147000	235500 0	973000	2640000
ICEA LION GENERAL INSURANCE COMPANY	3237142	216750 0	390800	145000	294260
INTRA-AFRICA ASSURANCE COMPANY	219500	362700	1256836	2590000	1178480
INVESCO ASSURANCE COMPANY	267067	1154828		288660	
JUBILEE INSURANCE COMPANY	0	1745445		1178480	
KENINDIA ASSURANCE COMPANY	1374821	498478	1903592		1094468

KENYA ORIENT INSURANCE COMPANY	337282	5370892	495793	1022868	
KENYA REINSURANCE CORPORATION	4885000	175000	6051892	429152	429152
MADISON INSURANCE COMPANY	1025734	540883	192000	6725000	7438000
MAYFAIR INSURANCE COMPANY	119000	0	567928	567000	712000
MERCANTILE INSURANCE COMPANY	300126	400000	440000	404913	434974
OCCIDENTAL INSURANCE COMPANY	190000	688559	760060	441683	491000
PACIS INSURANCE COMPANY	370000	0	0	709000	730000
PHOENIX OF EAST AFRICA ASSURANCE COMPANY	188000		0		
PIONEER GENERAL INSURANCE	163307				
REAL INSURANCE COMPANY	0	362700			
SAHAM INSURANCE COMPANY	120972				
SANLAM INSURANCE COMPANY	200645				270031
RESOLUTION HEALTH INSURANCE COMPANY	0			21,100	1375849
TAKAFUL INSURANCE OF AFRICA	2062271		220945		
TAUSI ASSURANCE COMPANY	59000		1482862	1,255,849	
THE KENYAN ALLIANCE INSURANCE COMPANY			275775	1,255,849	
THE MONARCH INSURANCE COMPANY			1576433	409,025	376518
TRIDENT INSURANCE COMPANY				1,716,399	1716399
UAP INSURANCE COMPANY			3452700	3,582,700	3636700
XPLICOINSURANCECOMPANY	2562700		77300	19,200	586500

Investments in Government securities

Government securities	**2012**	**2013**	**2014**	**2015**	**2016**
AAR INSURANCE KENYA	217000	277,076	332491	605408	1,223,000
AFRICAN MERCHANT ASSURANCE	2425683	217,000	212000	368711	490,086
AIG INSURANCE COMPANY	1596342	1,952,161	2163262	2424458	2,619,527
ALLIANZ INSURANCE COMPANY	381190	3,399,995	3332467	50345	97,520

APA INSURANCE COMPANY	1694689	1,720,292	2029875	4449241	6,548,144
BRITAM INSURANCE COMPANY	1027172	384,847	379657	4511434	3,914,543
CANNON ASSURANCE COMPANY	107972	1,209,845	1196066	360480	553,288
CIC GENERAL INSURANCE COMPANY	970787	75,085	170196	1272494	2,110,120
CONTINENTAL REINSURANCE	333690	106,900	104400	295466	470,641
CORPORATE INSURANCE COMPANY	178892	1,080,541	915977	169900	169,550
DIRECT LINE ASSURANCE COMPANY	441632	575,313	461170	1010633	972,055
EAST AFRICARE INSURANCE COMPANY	182200	176,433	195992	928007	1,473,667
FIDELITY SHIELD INSURANCE COMPANY	372500	419,854	417878	233628	234,751
FIRST ASSURANCE COMPANY	738305	901,147	777845	794294	826,806
GA GENERAL INSURANCE COMPANY	1579522	169,950	234500	1373278	2,050,772
GATEWAY INSURANCE COMPANY	1553159	417,500	459000	207959	
GEMINIA INSURANCE COMPANY LIMITED	253200	1,396,845	1263920	495200	817,200
HERITAGE INSURANCE COMPANY	75000	2,537,322	2955330	1432563	2,662,602
ICEA LION GENERAL INSURANCE COMPANY		221,200	230200	3013764	4,100,655
INTRA-AFRICA ASSURANCE COMPANY	1905933	190,000	182000	222450	227,146
INVESCO ASSURANCE COMPANY	843654	2,436,189	2513031	189000	176,000
JUBILEE INSURANCE COMPANY	212941	819,921	851492	3526746	2,961,418
KENINDIA ASSURANCE COMPANY	394765 1	162,667	174580	1079982	2,208,864
KENYA ORIENT INSURANCE COMPANY	108104	6,726,374		171288	170,453
KENYA REINSURANCE CORPORATION	143916	82,762		7633477	9,463,737
MADISON INSURANCE COMPANY	200368	289,292		227263	576,247
MAYFAIR INSURANCE COMPANY	151249	230,637		429352	430,268
MERCANTILE INSURANCE COMPANY	634473	642,257	6153160	650593	1,056,675
OCCIDENTAL INSURANCE COMPANY	191549	151,570	110403	145570	156,955
PACIS INSURANCE COMPANY	132000	141,000	334893	258000	517,500

PHOENIX OF EAST AFRICA ASSURANCE COMPANY	218391		640758		30,000
PIONEER GENERAL INSURANCE	532942		151570		372,559
REAL INSURANCE COMPANY	95006		138500		419,144
RESOLUTION HEALTH INSURANCE COMPANY	39321		254561	130,366	
SAHAM INSURANCE COMPANY	289853		145859	330,310	
SANLAM INSURANCE COMPANY	37000		246356		
TAKAFUL INSURANCE OF AFRICA	615240		31969	85,026	224,800
TAUSI ASSURANCE COMPANY			583346	800,034	32,547
THE KENYAN ALLIANCE INSURANCE COMPANY			150000	174,784	374,564
THE MONARCH INSURANCE COMPANY			101343	137,551	171,175
TRIDENT INSURANCE COMPANY			289450	253,549	249,061
UAP INSURANCE COMPANY			1926009	2,715,040	3,399,986
XPLICOINSURANCECOMPANY			90000	80,000	80,000

Investment in stocks

	2012	2013	2014	2015	2016
AAR INSURANCE KENYA	0	894,526	2013412	0	0
AFRICAN MERCHANT ASSURANCE		726,356	541378		20,370
AIG INSURANCE COMPANY		418,539	204762		
ALLIANZ INSURANCE COMPANY	591572	1,271,632	726264		
APA INSURANCE COMPANY	1429034	349,760	990747	52027	1,488,887
BRITAM INSURANCE COMPANY	174880	99,943	832369	20594	414,284
CANNON ASSURANCE COMPANY	135359	1,821,599	76205	303423	251,758
CIC GENERAL INSURANCE COMPANY	377906	361,644	1326440	19125	356,222
CONTINENTAL REINSURANCE	2194693	183,138	131612		35,344
CORPORATE INSURANCE COMPANY	191603	1,022,407	17745	1524	1,259
DIRECT LINE ASSURANCE COMPANY	1337229		312350	226532	118,372
EAST AFRICARE INSURANCE COMPANY	2157019	2,294,741	1468657	111599	75,508
FIDELITY SHIELD INSURANCE COMPANY	347288	233,468	150465	110110	90,590
FIRST ASSURANCE COMPANY	1365276	1,815,927	1312494	49288	33,626
GA GENERAL INSURANCE COMPANY	264590	724,967	756893	383094	343,998
GATEWAY INSURANCE COMPANY	552704	268,753	819635	885	132,563
GEMINIA INSURANCE COMPANY LIMITED	1070480	781,408	820653	159713	97,826
HERITAGE INSURANCE COMPANY	571178	620,373	270223	161577	755,877
ICEA LION GENERAL INSURANCE COMPANY	154405	441,276	263904	815582	58,786
INTRA-AFRICA ASSURANCE COMPANY	159528	185,307	165860	64112	2,580
INVESCO ASSURANCE COMPANY	279339	290,930	113942	2501	1,339,466
JUBILEE INSURANCE COMPANY	864102	904,929	505889	1858547	46,148
KENINDIA ASSURANCE COMPANY	226386	606,927	68293	72003	5,922
KENYA ORIENT INSURANCE COMPANY	118947	75,646	1067006	5081	1,830,479
KENYA REINSURANCE CORPORATION	23971	1,162,5	14065	25534	9,992

	71	21	7	87	
MADISON INSURANCE COMPANY	494478	111,159	1039416	8837	164,948
MAYFAIR INSURANCE COMPANY	107420	695,250	171000	226352	95,961
MERCANTILE INSURANCE COMPANY	474860	219,885	28101	111234	1,182
OCCIDENTAL INSURANCE COMPANY	237338	147,668	51021	1603	159,125
PACIS INSURANCE COMPANY	41119	35,881	600000	26549 4	
PHOENIX OF EAST AFRICA ASSURANCE COMPANY	82045	66,159	569340		
PIONEER GENERAL INSURANCE	15366				30,543
REAL INSURANCE COMPANY				35749	558
SAHAM INSURANCE COMPANY			302282		
SANLAM INSURANCE COMPANY			154759	169148	
RESOLUTION HEALTH INSURANCE COMPANY	233902		557995	25583	
TAKAFUL INSURANCE OF AFRICA	365774				
TAUSI ASSURANCE COMPANY	23819		214605	169148	184,925
THE KENYAN ALLIANCE INSURANCE COMPANY	264521		611221	25583	21,122
THE MONARCH INSURANCE COMPANY	2020		58334		
TRIDENT INSURANCE COMPANY			61427	6034	5,113
UAP INSURANCE COMPANY	44922		1285487	2273805	1,386,329
XPLICOINSURANCECOMPANY	201494		214108		

Investments in Corporate bonds

Corporate bonds	2012	2013	2014	2015	2016
AAR INSURANCE KENYA	44,696	34,775		108977	107,595
AFRICAN MERCHANT ASSURANCE			27309		16,362
AIG INSURANCE COMPANY	20,717	22,969		21843	
ALLIANZ INSURANCE COMPANY	97,792	136,074	19141		
APA INSURANCE COMPANY	45,439	33,673	486592		280,278
BRITAM INSURANCE COMPANY	56,593	41,639	35289	15313	519,756
CANNON ASSURANCE COMPANY	14,262	8,706		517886	29,672
CIC GENERAL INSURANCE COMPANY			48166	32474	235,828
CONTINENTAL REINSURANCE	19,532	20,998			65,265
CORPORATE INSURANCE COMPANY				65296	
DIRECT LINE ASSURANCE COMPANY			376,482		358,846
EAST AFRICARE INSURANCE COMPANY	66,935	68,309		367622	
FIDELITY SHIELD INSURANCE COMPANY			76792		56,229
FIRST ASSURANCE COMPANY	71,371	62,769	309350	66481	269,515
GA GENERAL INSURANCE COMPANY	40,216	259,670	15000	291502	24,300
GATEWAY INSURANCE COMPANY			24300	15000	190,770
GEMINIA INSURANCE COMPANY LIMITED	72,848	8,500	263375	24300	264,948
HERITAGE INSURANCE COMPANY	22,739	147,085	282990	192349	
ICEA LION GENERAL INSURANCE COMPANY	316,028	291,576		303802	
INTRA-AFRICA ASSURANCE COMPANY					21,477
INVESCO ASSURANCE COMPANY			137570	225992	52,780
JUBILEE INSURANCE COMPANY	260,400	270,904			5,252
KENINDIA ASSURANCE COMPANY			5247	5248	487,923
KENYA ORIENT INSURANCE COMPANY	26,035	5,245	419134	494146	16,584
KENYA REINSURANCE CORPORATION	52,15	141,8		2338	111,3

	1	46		8	80
MADISON INSURANCE COMPANY			112164	129477	11,183
MAYFAIR INSURANCE COMPANY	34,830	26,770	18574	34864	
MERCANTILE INSURANCE COMPANY	111,163	102,476			
OCCIDENTAL INSURANCE COMPANY	12,167	22,288			
PACIS INSURANCE COMPANY			35000		
PHOENIX OF EAST AFRICA ASSURANCE COMPANY					5247
PIONEER GENERAL INSURANCE			5247		
REAL INSURANCE COMPANY	116,206	270,904			
SAHAM INSURANCE COMPANY					55,796
SANLAM INSURANCE COMPANY	48,442	5,245	88402	72129	15,000
RESOLUTION HEALTH INSURANCE COMPANY	26,281	141,846		80869	56,769
TAKAFUL INSURANCE OF AFRICA					
TAUSI ASSURANCE COMPANY	28,785	26,770	25650	27496	28,422
THE KENYAN ALLIANCE INSURANCE COMPANY	26,784	102,476			
THE MONARCH INSURANCE COMPANY	25,106	22,288		25000	23,750
TRIDENT INSURANCE COMPANY				579190	807,724
UAP INSURANCE COMPANY			27500		
XPLICOINSURANCECOMPANY			468141		

Investments in Certificate of Deposits

	2012	**2013**	**2014**	**2015**	**2016**
AAR INSURANCE KENYA		211,790	22875	49054	294,755
AFRICAN MERCHANT ASSURANCE		28,168	4786		13,398
AIG INSURANCE COMPANY				18996	49,074
ALLIANZ INSURANCE COMPANY	1754	118,738	71555		21,125
APA INSURANCE COMPANY	278148	494,240	345898		233,921
BRITAM INSURANCE COMPANY	17190	148,187	74390	311258	763,549
CANNON ASSURANCE COMPANY	7129	868,670	441542	572077	68,390

CIC GENERAL INSURANCE COMPANY	6884		158934	63348	481,798
CONTINENTAL REINSURANCE			13456	448981	-
CORPORATE INSURANCE COMPANY	161	78,186	122755		14,739
DIRECT LINE ASSURANCE COMPANY	24306		758745	7279	90,442
EAST AFRICARE INSURANCE COMPANY		285,909	230679	102142	298,570
FIDELITY SHIELD INSURANCE COMPANY		34,709	550177		66,922
FIRST ASSURANCE COMPANY	5815	207,700	1081006	45101	47,111
GA GENERAL INSURANCE COMPANY		187,760	164972	61084	342,141
GATEWAY INSURANCE COMPANY	143855	7,251	258202	286907	1,179
GEMINIA INSURANCE COMPANY LIMITED	4043		863134	10763	35,669
HERITAGE INSURANCE COMPANY		3,722	799503	1156	267,907
ICEA LION GENERAL INSURANCE COMPANY	3946	256,563	30085	57122	38,171
INTRA-AFRICA ASSURANCE COMPANY	58456	3,975	87567	266679	454,276
INVESCO ASSURANCE COMPANY	68829	485,269		34531	364,901
JUBILEE INSURANCE COMPANY			267538	477289	47,605
KENINDIA ASSURANCE COMPANY		218,148	1515	381115	158,201
KENYA ORIENT INSURANCE COMPANY	2604	2,165	149660	1061	1,569,330
KENYA REINSURANCE CORPORATION		67,444	1241858	140619	145,459
MADISON INSURANCE COMPANY		1,025,403	71323	1307188	17,859
MAYFAIR INSURANCE COMPANY	3524	38,993	1891	115244	101,848
MERCANTILE INSURANCE COMPANY		2,970		9335	71,723
OCCIDENTAL INSURANCE COMPANY			65861	29320	39,264
PACIS INSURANCE COMPANY	19350		20709	53503	
PHOENIX OF EAST AFRICA ASSURANCE COMPANY		56,886	60667	50152	279,544
PIONEER GENERAL INSURANCE	104353	21,866			33,017
REAL INSURANCE COMPANY	9773				11,739
SAHAM INSURANCE COMPANY	11358		149567	197775	50,601

SANLAM INSURANCE COMPANY	78497				52,187
RESOLUTION HEALTH INSURANCE COMPANY	8400		56093	38842	
TAKAFUL INSURANCE OF AFRICA			1756	1064	
TAUSI ASSURANCE COMPANY			65373	56164	61,022
THE KENYAN ALLIANCE INSURANCE COMPANY			39380	33885	45,097
THE MONARCH INSURANCE COMPANY			9520	23662	5,345
TRIDENT INSURANCE COMPANY			211943	270730	338,467
UAP INSURANCE COMPANY			9397	11074	5,556
XPLICOINSURANCECOMPANY					

Current liabilities

	2012	**2013**	**2014**	**2015**	**2016**
AAR INSURANCE KENYA		543,103	377578	252190	483,023
AFRICAN MERCHANT ASSURANCE		183,866	220865		269,502
AIG INSURANCE COMPANY		736,317	637678	25146 2	640,821
ALLIANZ INSURANCE COMPANY	117261	513,057	726263	584398	70,168
APA INSURANCE COMPANY	366708	162,564	262611	23161	804,057
BRITAM INSURANCE COMPANY	264236	211,532	243145	704315	950,252
CANNON ASSURANCE COMPANY	156495	826,313	156512	634214	378,159
CIC GENERAL INSURANCE COMPANY	679029	107,676	193181	266019	634,539
CONTINENTAL REINSURANCE	304598	96,210	132096	528874	150,125
CORPORATE INSURANCE COMPANY	62418	78,929	55476	236009	101,797
DIRECT LINE ASSURANCE COMPANY	59939			190070	88,060
EAST AFRICARE INSURANCE COMPANY	596812	725,377	758745	94176	1,074,053
FIDELITY SHIELD INSURANCE COMPANY	179185	199,644	230679	1126738	103,245
FIRST ASSURANCE COMPANY	336010	658,323	550177	142864	687,748
GA GENERAL INSURANCE COMPANY	49220	828,546	108106	552382	1,458,770
GATEWAY INSURANCE COMPANY	215406	100,677	164972	1265652	265,259
GEMINIA INSURANCE COMPANY	40398	216,75	25820	21825	619,08

LIMITED	6	0	2	8	3
HERITAGE INSURANCE COMPANY	324289	257,673	863134	289718	1,264,625
ICEA LION GENERAL INSURANCE COMPANY	859651	641,868	799503	722716	66,415
INTRA-AFRICA ASSURANCE COMPANY	34111	36,997	30085	696310	176,638
INVESCO ASSURANCE COMPANY	48062	100,147	87567	62695	1,490,783
JUBILEE INSURANCE COMPANY	381737	1,888,596	1478214	83415	2,434,352
KENINDIA ASSURANCE COMPANY	220972	1,824,557	1969287	1707749	264,683
KENYA ORIENT INSURANCE COMPANY	199006	163,315	328706	3788152	576,774
KENYA REINSURANCE CORPORATION	680090	1,098,729	299333	176214	184,506
MADISON INSURANCE COMPANY	125758	77,913	97750	735839	472,553
MAYFAIR INSURANCE COMPANY	125098	328,123	468784	122441	248,586
MERCANTILE INSURANCE COMPANY	110380	19,594	289074	431097	186,250
OCCIDENTAL INSURANCE COMPANY	76655	259,107	85603	250117	78,979
PACIS INSURANCE COMPANY	95366	98,795	168893	128674	22,538
PHOENIX OF EAST AFRICA ASSURANCE COMPANY	56885	80,257	647965	170160	2,964,993
PIONEER GENERAL INSURANCE	79378			366848	
REAL INSURANCE COMPANY	122349			202029	251,665
SAHAM INSURANCE COMPANY	61792		156795	200792	207,993
SANLAM INSURANCE COMPANY	21638		120726	129761	274,289
RESOLUTION HEALTH INSURANCE COMPANY			141322	240139	101,574
TAKAFUL INSURANCE OF AFRICA	84117		62410	129761	
TAUSI ASSURANCE COMPANY	59198		183410	240139	700,609
THE KENYAN ALLIANCE INSURANCE COMPANY	1648377		55882	64681	81,744
THE MONARCH INSURANCE COMPANY			184633	266064	425,224
TRIDENT INSURANCE COMPANY			1183369	929537	1,790,448
UAP INSURANCE COMPANY			163947	303365	341,374

XPLICOINSURANCECOMPANY					

Current Assets

	2012	2013	2014	2015	2016
AAR INSURANCE KENYA		211,790	22875	49054	294,755
AFRICAN MERCHANT ASSURANCE		28,168	4786		13,398
AIG INSURANCE COMPANY				18996	49,074
ALLIANZ INSURANCE COMPANY	1754	118,738	71555		21,125
APA INSURANCE COMPANY	278148	494,240	345898		233,921
BRITAM INSURANCE COMPANY	17190	148,187	74390	311258	763,549
CANNON ASSURANCE COMPANY	7129	868,670	441542	572077	68,390
CIC GENERAL INSURANCE COMPANY	6884		158934	63348	481,798
CONTINENTAL REINSURANCE			13456	448981	-
CORPORATE INSURANCE COMPANY	161	78,186	122755		14,739
DIRECT LINE ASSURANCE COMPANY	24306		758745	7279	90,442
EAST AFRICARE INSURANCE COMPANY		285,909	230679	102142	298,570
FIDELITY SHIELD INSURANCE COMPANY		34,709	550177		66,922
FIRST ASSURANCE COMPANY	5815	207,700	1081006	45101	47,111
GA GENERAL INSURANCE COMPANY		187,760	164972	61084	342,141
GATEWAY INSURANCE COMPANY	143855	7,251	258202	286907	1,179
GEMINIA INSURANCE COMPANY LIMITED	4043		863134	10763	35,669
HERITAGE INSURANCE COMPANY		3,722	799503	1156	267,907
ICEA LION GENERAL INSURANCE COMPANY	3946	256,563	30085	57122	38,171
INTRA-AFRICA ASSURANCE COMPANY	58456	3,975	87567	266679	454,276
INVESCO ASSURANCE COMPANY	68829	485,269		34531	364,901
JUBILEE INSURANCE COMPANY			267538	477289	47,605
KENINDIA ASSURANCE COMPANY		218,148	1515	381115	158,201
KENYA ORIENT INSURANCE COMPANY	2604	2,165	149660	1061	1,569,330

KENYA REINSURANCE CORPORATION		67,444	1241858	140619	145,459
MADISON INSURANCE COMPANY		1,025,403	71323	1307188	17,859
MAYFAIR INSURANCE COMPANY	3524	38,993	1891	115244	101,848
MERCANTILE INSURANCE COMPANY		2,970		9335	71,723
OCCIDENTAL INSURANCE COMPANY			65861	29320	39,264
PACIS INSURANCE COMPANY	19350		20709	53503	
PHOENIX OF EAST AFRICA ASSURANCE COMPANY		56,886	60667	50152	279,544
PIONEER GENERAL INSURANCE	104353	21,866			33,017
REAL INSURANCE COMPANY	9773				11,739
SAHAM INSURANCE COMPANY	11358		149567	197775	50,601
SANLAM INSURANCE COMPANY	78497				52,187
RESOLUTION HEALTH INSURANCE COMPANY	8400		56093	38842	
TAKAFUL INSURANCE OF AFRICA			1756	1064	
TAUSI ASSURANCE COMPANY			65373	56164	61,022
THE KENYAN ALLIANCE INSURANCE COMPANY			39380	33885	45,097
THE MONARCH INSURANCE COMPANY			9520	23662	5,345
TRIDENT INSURANCE COMPANY			211943	270730	338,467
UAP INSURANCE COMPANY			9397	11074	5,556

Total equity

	2012	2013	2014	2015	2016
AAR INSURANCE KENYA		345,501	494730	779923	998,168
AFRICAN MERCHANT ASSURANCE		859,734	981500		1,526,192
AIG INSURANCE COMPANY		1,357,702	1848004	1431096	1,903,585
ALLIANZ INSURANCE COMPANY		3,806,911	4740685	1841941	972,394
APA INSURANCE COMPANY	686051	2,282,596	2038297	1036369	5,263,018
BRITAM INSURANCE COMPANY	2524027	1,384,652	723150	4883888	2,914,958
CANNON ASSURANCE COMPANY	1542036	2,775,311	3787692	2492876	332,810
CIC GENERAL INSURANCE COMPANY	1147302	445,718	592877	770772	3,988,408
CONTINENTAL REINSURANCE	1068828	685,905	805560	4183690	805,512
CORPORATE INSURANCE COMPANY	2360412	672,018	725528	650668	926,734
DIRECT LINE ASSURANCE COMPANY	631652		2085155	944342	
EAST AFRICARE INSURANCE COMPANY	654581	1,684,232	1068156	849530	924568
FIDELITY SHIELD INSURANCE COMPANY	1526187	934,093	1738409	2350402	2493753
FIRST ASSURANCE COMPANY	902208	1,390,810	2344823	1098883	1167266
GA GENERAL INSURANCE COMPANY	1109049	1,625,605	1010527	2339363	2228489
GATEWAY INSURANCE COMPANY	681977	867,552		2529829	2843312
GEMINIA INSURANCE COMPANY LIMITED	963378	1,168,468	1357099	269905	1668084
HERITAGE INSURANCE COMPANY	1402279	1,785,450	2069588	1582824	2524681
ICEA LION GENERAL INSURANCE COMPANY	1865384	2,992,396	3485087	2086487	3470793
INTRA-AFRICA ASSURANCE COMPANY	2535031	708,897	736980	3502924	823060
INVESCO ASSURANCE COMPANY	632380	343,348	374662	794976	344144
JUBILEE INSURANCE COMPANY	401297	15,019,043	5456532	425520	5552485
KENINDIA ASSURANCE COMPANY	3109779	5,585,662	1580353	6376929	2578215
KENYA ORIENT INSURANCE COMPANY	1296210	1,497,132	1323002	2312216	892403
KENYA REINSURANCE	43767	22,910,	17414	13463	20641

CORPORATION	6	663	661	43	444
MADISON INSURANCE COMPANY	12210525	1,266,511	715557	18817713	1061937
MAYFAIR INSURANCE COMPANY	1086029	2,547,556	1189588	1026011	1823095
MERCANTILE INSURANCE COMPANY	610030	736,363			1054734
OCCIDENTAL INSURANCE COMPANY	439327	2,063,591	897483	1653323	910173
PACIS INSURANCE COMPANY	424602	1,625,521	776982	1013294	1062804
PHOENIX OF EAST AFRICA ASSURANCE COMPANY	558692	2,077,436	1641250	688888	630029
PIONEER GENERAL INSURANCE	445263		584916	1565250	487913
REAL INSURANCE COMPANY	1387013				474834
SAHAM INSURANCE COMPANY	685738		549588	199035	
SANLAM INSURANCE COMPANY	635339		451935	462866	506366
RESOLUTION HEALTH INSURANCE COMPANY	309945		484177	542397	497049
TAKAFUL INSURANCE OF AFRICA	291139		880401	993039	1097241
TAUSI ASSURANCE COMPANY	1859088		1439836	1552308	1326286
THE KENYAN ALLIANCE INSURANCE COMPANY	443192		419550	440211	396789
THE MONARCH INSURANCE COMPANY	4859552		2122881	2213765	2193108
TRIDENT INSURANCE COMPANY			8814706	7786184	7647871
UAP INSURANCE COMPANY			482785	973226	1064506
XPLICOINSURANCECOMPANY			80234692		90019211

Total Debts

	2012	2013	2014	2015	2016
AAR INSURANCE KENYA	117261	543,103	377578	252190	483023
AFRICAN MERCHANT ASSURANCE	366708	183,866	220865		269502
AIG INSURANCE COMPANY	264236	736,317	637678	251462	640821
ALLIANZ INSURANCE COMPANY	156495	513,057	726263	584398	70168
APA INSURANCE COMPANY	679029	162,564	262611	23161	804057
BRITAM INSURANCE COMPANY	304598	211,532	243145	704315	950252
CANNON ASSURANCE COMPANY	62418	826,313	156512	634214	378159
CIC GENERAL INSURANCE COMPANY	59939	107,676	193181	266019	634539
CONTINENTAL REINSURANCE	596812	96,210	132096	528874	150125
CORPORATE INSURANCE COMPANY	179185	78,929	55476	236009	101797
DIRECT LINE ASSURANCE COMPANY	336010			190070	88060
EAST AFRICARE INSURANCE COMPANY	49220	1,603,652		450000	1153652
FIDELITY SHIELD INSURANCE COMPANY	215406	1,229,983	849221	1126738	103245
FIRST ASSURANCE COMPANY	403986	830,612	247295	142864	687748
GA GENERAL INSURANCE COMPANY	324289	2,011,152	550177	552382	1458770
GATEWAY INSURANCE COMPANY	859651	1,265,652	108106	1265652	
GEMINIA INSURANCE COMPANY LIMITED	34111	485,421	167596	218258	267163
HERITAGE INSURANCE COMPANY	48062	908,801	259171	289718	619083
ICEA LION GENERAL INSURANCE COMPANY	913945	2,458,457	863134	722716	1735741
INTRA-AFRICA ASSURANCE COMPANY	448097	762,725	1278545	696310	66415
INVESCO ASSURANCE COMPANY	215050	379,053	30085	62695	316358
JUBILEE INSURANCE COMPANY	1386724	1,888,596	87567	153841	1490783
KENINDIA ASSURANCE COMPANY	155430	1,824,557	1478214	1707749	2535391
KENYA ORIENT INSURANCE COMPANY	125098	163,315	1969287	3869403	371990
KENYA REINSURANCE CORPORATION	19170	1,098,7	32870	28930	57677

	3	29	6	7	4
MADISON INSURANCE COMPANY	106283	77,913	299333	735839	184506
MAYFAIR INSURANCE COMPANY	240593	328,123	97750	131036	472553
MERCANTILE INSURANCE COMPANY	56885	19,594	468784	463425	
OCCIDENTAL INSURANCE COMPANY	152476	259,107	289074	251161	248586
PACIS INSURANCE COMPANY	603189	98,795	85603	128674	186250
PHOENIX OF EAST AFRICA ASSURANCE COMPANY	145151	80,257	168893	170160	78979
PIONEER GENERAL INSURANCE	27700		647965		22538
REAL INSURANCE COMPANY	36904				296493
SAHAM INSURANCE COMPANY	451839				251665
SANLAM INSURANCE COMPANY	59198		156795	366848	207993
RESOLUTION HEALTH INSURANCE COMPANY	1648377		120726	202029	314289
TAKAFUL INSURANCE OF AFRICA			141322	200792	152256
TAUSI ASSURANCE COMPANY		353,048	62410	184123	757403
THE KENYAN ALLIANCE INSURANCE COMPANY		941,526	183410	295147	81744
THE MONARCH INSURANCE COMPANY		376,891	55882	64681	481939
TRIDENT INSURANCE COMPANY		546,620	184633	317281	1790448
UAP INSURANCE COMPANY		2,107,729	1183369	929537	341374
XPLICOINSURANCECOMPANY		1,270,911	163947	303365	2491132