THE EFFECT OF CORPORATE GOVERNANCE PRACTICES ON THE FINANCIAL PERFORMANCE OF THE INSURANCE COMPANIES IN KENYA

BY

MARIA MGHOI MWAMBURI

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DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi for academic credit.

Signed: ___________________________ Date: _____________________

Maria Mghoi Mwamburi (Registration No. D63/77644/2015)

This research proposal has been submitted for examination with my approval as the University Supervisor: -

Signed: ___________________________ Date: _____________________

Dr. CYRUS IRAYA

Supervisor

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DEDICATION

I dedicate this research project to my family members. To my son, Nigel Mwamburi, for the patience and love that you have given. To my parents Mr. and Mrs. Mwamburi for the continuous support, encouragement as you walked with me during the numerous challenges that I faced. Thank you, a lot and God bless, you abundantly.

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LIST OF ABBREVIATIONS

AGM – Annual General Meeting

AKI – Association of Kenya Insurers

ANOVA – Analysis of Variance

BOD – Board of Directors

CEO Chief Executive Officer

IRA – Insurance Regulatory Authority

NSE – Nairobi Stock Exchange

OLS – Ordinary Least Square

ROA – Return on Assets

ROE – Return on Equity

SPSS – Statistical package for Social Studies

ABSTRACT

The study examined the effects of corporate governance on the financial performance of insurance companies in Kenya. The study aimed at establishing the effects of corporate governance practices and policies on financial Performance of the insurance companies in Kenya. A cross sectional and analytical research design was used in this study. The population was 49 insurance companies operating in Kenya. The entire population was evaluated. Secondary data was used in the study which was gathered from the company's annual reports, financial statements and from the IRA periodical reports. The period under study was from 2011 to 2015. Statistical Package for Social Scientists (SPSS) and excel were used. Spearman Correlation Coefficient and Multiple Regression Analysis to determine the magnitude of the relationship and prediction of financial performance respectively were applied. This study independent variable was corporate governance which examined the board size, board composition, board sub-committees and CEO duality and how they affect the financial performance of insurance companies in Kenya. The firm performance was measured using the Return on Assets. This study adopted a descriptive research design to investigate the relationship between corporate governance and financial performance of insurance companies in Kenya. The study found that all measures of corporate governance are not significant predictors of financial performance of insurance companies in Kenya. There was a positive relationship between board composition and firm financial performance. The study recommends that the regulator should draw minimal requirements for corporate governance in the insurance industry to serve as guideline for the insurance firms; this will improve the financial performance of these firms. Insurance companies need to review their corporate governance structure with the view of improving their financial performance in future. The board size, leverage and non-executive directorship should be monitored so as to ensure effectiveness in operations leading to improved financial performance, in order to implement good corporate governance. Managers need to know that they should be concerned about the interrelationships between corporate governance and firm performance. The study findings strongly confirm this correlation and therefore; insurance companies that adopt and implement good corporate governance have higher advantage of increasing their performance. More so, this will ensure that interests of the firm and shareholders are served.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Corporate governance comprises of corporate order, freedom, straight forwardness, responsibility, justice, responsibility, honor and social obligation. Corporate governance embodies the consistence with the supervisory and legitimate prerequisites. In 2003, one of the biggest and a world pioneer insurance agency in Sweden known for in giving variable annuities and different investment funds came into confusion after the three of its top officials were put under scrutiny for misusing the corporate resources. In Nigeria, Lion of Africa Protection was sold out because of the board's emergency its commitments dominated the advantages and couldn't recapitalize again. Corporate governance is one way a company can protect itself from the vulnerability of financial distress and failure in the future (Bhagat & Black, 2002). The developing rate of corporate extortion, including swelled and misrepresented books have educated recharged worldwide accentuation on the requirement for corporate governance. Crane and Matten (2008) notes that, there is a constantly expanding assent that great corporate governance has a productive relationship to national financial development and improvement. It is through corporate governance that governing rules in an organization are fortified.

The agency theory, which is one of the common and elaborate theory in corporate governance advocates that agents (management) should behave in a way that puts best interests of the shareholders first. Stakeholders theory emphasizes on looking at the interests of all the parties affected in a very direct way or in an indirect manner by running of a firm. Stakeholders may include customers, suppliers, government and the society at large. Stewardship theory is also very vital when putting corporate governance into perspective. The theory considers managers as the stewards of the company's resources who must safeguard them for the shareholders interest. Various countries have set up different mechanisms to fortify great corporate governance mechanisms to go up against the test connected to awful corporate governance practices like poor responsibility and restraining infrastructure of force (Erkens, Hung & Matos, 2009).

The insurance business has encountered reasonably development with most organizations through the years. Corporate governance issues connected in the insurance industry in Kenya have been compelling to some degree in accomplishing the objectives, however there are governance issues that still need to be addressed. However a percentage of the leadership developments in the insurance industry can be ascribed to the intentional endeavors in enhancing corporate governance in Kenya. What does corporate governance involve? As per Arum and Turner (2009), Great corporate governance involves performing successfully and having a well laid procedure on how the strategic affairs of a firm are going to be run. It additionally means advancing qualities for the entire organization and showing the estimation of good governance through conduct. Great governance additionally means taking informed, sound decisions and ensuring good financial health in the organization. Great governance additionally means involving all stakeholders and making responsibility and accountability genuine.

1.1.1 Corporate Governance Practices

Corporate governance is the structure that outlines how various participants in the organization rights and responsibilities are distributed. The participants in the organization include board of directors, shareholders and various stakeholders who clearly states out the rules to be followed and the procedures needed to make decisions of corporate affairs (Kolk, 2008). Good corporate governance leads to high returns to firms while also boosting investor confidence. Good corporate governance increases company valuation and boosts its performance (Gompers et al, 2003). In essence, markets can only operate efficiently and profitably in the presence of investor confidence which is boosted by corporate governance (Bhavik, 2012).

Claessens, Djankov and Fan (2003) notes that better corporate governance frameworks increase access to financing and ensure favorable treatment of the company by shareholders. On the contrary, companies having weaker corporate governance frameworks have reduced access to financing sources and are more vulnerable to collapse in cases of macroeconomic crises. Companies with strong shareholder rights produce higher returns compared to those with weaker rights, while also they achieve greater

valuations, sales growth, low capital expenditures and high profitability. On the contrary, those with weaker shareholder rights are poorly governed, report lower profits, lower valuations, pay less dividend to shareholders and have a higher risk of bankruptcy (Gompers et al, 2003). Kyereboah and Biekpe (2005) adds that good corporate governance increases investor confidence and market liquidity. Corporate governance influences the price that investors pay to acquire other firms. According to a McKinsey Global Investor Opinion Survey (2002), global Institutional investors are prepared to add a premium to be paid on shares by upto forty percent in firms with superior corporate governance practices. Countries lacking strong corporate governance mechanisms do not attract capital since investors are not confident about the protection of their investments (Bhavik, 2012).

Corporate governance further ensures market integrity, increases investor confidence and brings about positive economic growth, protect investor funds and ensure that the shareholder value is maximized. Corporate governance goes further to commitment of values and ensures that ethical business is conducted in the right way. Corporate governance entails how an organization is managed, the production of accurate disclosures which reveals the ownership, the financial performance, the governance practices and the financial position of the company (Panchasara, 2012). Corporate governance assists the public to comprehend the activities carried by the company, the organization chart and the policies adopted by the company which ensures that the firm attracts the right investors and enhance the level of trustworthy and confidence levels of the stakeholders. When running a company business ethics forms plays a key role while developing corporate governance structures that can address scams that may occur in an organization, earning managements and corporate failures due to financial distress. It has been argued that various global financial scandals can be linked to poor corporate practices making transparency, business ethics and accountability to be key principles in corporate governance reporting. The effectiveness of corporate governance practices is measured by the board size, duality, board composition, and board committees.

1.1.2 Financial Performance

Performance can be described as a means by which organization deploys its resources in order to achieve its goals, mission and objectives. According to Heremans, (2007) financial performance is the use of financial measurement tools to evaluate the level the objectives of a company are achieved and the contribution in availing resources needed to run the organization and support of the bank to exploit the existing business and investment opportunities. Rutagi, (1997) defines financial performance the effectiveness of an organization in achieving its success as reflected by the numbers in the financial statements. Another definition of the term financial performance of a firm is by looking at the extent as to which the desired outcome of an organization are achieved (Namisi, 2002). Researchers and many practitioners have confirmed that effective boards lead to success and great achievement in the organization. From the assessment of the internal long-term profitability of the firm and the external shareholder perspective it can be deduced that effective board of directors' composition and practices eventually leads to value addition in the organization, Epstein et al., (2003).

Yacuzzi (2005) argues that traditionally financial measures have focused on the financial aspects. With modernization and revolution in the organizations are now considering the financial measures insufficient. One of the major shortcomings is that financial reporting often does not consider investment in new technologies and markets which is very important in enterprise advancement. The corporate financial reporting only looks at the events that occurred in the past but ignores the future benefits that the organization gets from the future opportunities. There has been various new developments in the financial performance measures which came up with development of new financial reporting standards. Financial measures normally concentrate on the short-term goals which gives the top management a leeway to manipulate financial reports to record high performance during their tenure.

The financial performance of a firm focuses on how a firm utilizes its assets to generate future revenues from the operations. Firm in the same industry are in a position to compare themselves in terms of financial performance since the measures are standard. Brealey, Myers and Marcus (2009) noted that financial performance can be measured in

terms of level of profits made, liquidity levels, how solvent a firm is, financial efficiency and repayment capacity of the organization. Profitability is measured by how well the firm uses its assets to generate revenue, liquidity is evaluated by how well a firm meets its financial obligation by paying debts in good time; solvency measures a firm ability to pay back all obligations when its assets are liquidated, financial efficiency looks at how money invested produces revenue while repayment capacity checks on how loans are paid in time. There are various ways in which the financial performance of a firm is measured. This could be either using net income, operating income, firm's assets or the cash flows generated by the company.

1.1.3 Corporate Governance and Financial Performance

To make sure that managers work in the best interest of the shareholders, agency costs must be incurred (Spong & Sulivan, 2011). Organizations have been very keen on ways to minimize these agency costs. When management are left unsupervised they are likely to concentrate more on their interests, this can have serious negative consequences on corporate values, performance of the firm and may interfere with proper functioning of capital markets. Kaplan (2001) asserts that accountability forms an integral part to make sure that organizations hit their desired level of performance that is in line with the strategic objectives of the organization. The researcher further indicates that the most used method to measure performance of an organization is by evaluating the financial performance.

However recent developments have proved that financial measurements alone are not adequate to measure and manage a company's performance. Financial reporting in itself looks at a company's past performance but has little to do with the future and long-term value creation of a firm. Kaplan and Norton (1996) came up with the Balanced Scorecard to assist in measuring performance for profit making organizations. The balanced score card focuses on the financial as well as other non- financial measures such as the internal processes, Customer and learning and growth perspective. Corporate governance mechanisms can improve the firm's performance with better oversight, managers are likely to be more vigilant and will invest the company's funds in value maximizing projects leading to the maximization of the shareholders wealth.

On the other hand the company's management will not expand fewer available resources in non-productive investment ventures such as consumption of perquisites, empire building and shirking. Better governance will cut down incidences of asset tunneling, asset stripping, levels of related` party transactions and other forms of asset diversions that negatively impact on performance. This implies that with good corporate governance investors are well protected and are less subjected to risk of misuse of assets. (Uwuigbe and Fakile, 2012).

1.1.4 Insurance Companies in Kenya

Currently we have 47 licensed insurance companies operating in Kenya carrying out both General and life insurance business. In Kenyan insurance sector six out of 47 insurance companies are listed at the NSE. The insurance industry is regulated by the Insurance Regulatory Authority (IRA) under an Act of Parliament Cap 487. IRA is a state corporation mandated to regulate, supervise and facilitate the management oversight of the insurance industry in Kenya. The major stakeholders in the IRA framework are mainly the insurance firms, Re-insurance business, brokers, agents and the policyholders at large. This body is expected to ensure the efficient management, supervision, regulation and control of insurance business in Kenya (IRA Report, 2012). The Financial stability report (2013) cited sustained growth in insurance as a result of good corporate governance, favorable demographics, conducive business environments, civilization and the emergence of growing economies In addition, innovation has played a huge role in the massive growth of the insurance industry in Kenya. This has led underwriters to develop products that perfectly meet the need of the consumers leading to sustainable growth and great financial performance.

Growth in the insurance industry in Kenya has been tremendous in today's dynamic business environment. Unfortunately, there has been some insurance companies that have collapsed while other are placed under statutory management. Causes for the closure range from governance issues to poor financial performance. The Insurance Act was enacted in 1984 to stimulate and govern the sector. The insurance practioners in Kenya has formed an association as the Association of Kenya Insurers (AKI) which was

established in 1987. Its main objectives are to promote sound insurance practices, sensitize the public and ensure growth in the industry.

The insurance companies play on of the key role in the financial system by indemnifying financial risk in the economy. They serve as institutional investors in the capital and money market markets where they invest the surplus amount. An insurance policy is an official document that legally outlines when the insurance claim is payable provided the insured put on the necessary measures to avoid the loss from occurring. Many insured people and corporations often lose some trust with the insurer due to the large number of unpaid claims and the long period that is taken before the claims are paid. Lack of adequate corporate governance structures in the companies has been the major cause for such delays. Most of the claims remain unpaid due to the long period to undertake the investigations causing insurance clients to lose trust with the industry. However, the insurance sector in Kenya have to deal with issues of fraud and have to pay huge claims as a result of dishonesty either by the intermediaries to the customers or vice versa. Hence the need for strong corporate governance structures to reduce the frauds and financial crimes. To ensure that the insurance contract remains binding the insured should always ensure the premiums are paid in good time. To ensure the insurance business is profitable most companies tend to charge higher premiums and ensure fewer claims are paid. Therefore, this study will establish the role of corporate governance in the financial performance of companies in the insurance industry in Kenya.

1.2 Research Problem

The major cause of conflict between the shareholders of a company and the management is mainly due to the separation of ownership and control in most companies (Berle and Means, 1932). Shareholders are usually keen on maximizing the firm’s value, while managers' objectives are to increase their compensation and ensure a secured job tenure. There are various governance methods that can assist to align the shareholders and management interest hence reducing the existing conflicts. The board of directors plays a very major role in overseeing the manager’s actions (Fama, 1980). The board size, board

diversity and board structure are the key characteristics that determine how effective the board is to monitor the managerial activities.

There has been rapid growth in the insurance industry in Kenya due to the increased awareness of the importance of insurance among the people and the emergence of the middle class. Sadly, many insurance companies have either gone into receivership, collapsed or are under statutory management. These companies include Kenya National Assurance Company, United Insurance Company, Standard Assurance, Stallion Insurance and Blue Shield Insurance Company. The major attribute to the collapse can be traced to the corporate governance practices in those companies. More so challenges of fraud and claims that taking long to be cleared leading to collapse can be attributed to the poor management structures. Corporate governance provides a framework that directs and controls the organizations activities which directly affects the performance of the organization (Jensen, 1993). Therefore, a lot need to be addressed to ensure there are proper corporate governance structures to avoid the occurrence of more corporate failures and malfunctions. The most common forms of insurance in Kenya include medical cover, motor vehicle insurance, professional indemnity, accident, fire and burglary. (Mbogo, 2010). The major causes for low insurance penetration can be attributed to the shared market, lack of creativity in product development and the risk averseness of many individuals.

The Insurance Regulatory Authority has emphasized that Corporate Governance in insurance companies as one of the big challenges that the insurance industry need to overcome. Wanyama and Olyweny (2013) argues that poor corporate governance is a major cause of the collapsed insurance companies in Kenya. Because Insurance industry being very crucial in the financial system of the country, there is need to put strong corporate governance measures in order to improve on performance of the insurance companies. More of research o corporate governance at a global level has confirmed the strong relation of good corporate governance and superior financial performance.

Previous studies have been done in various countries have showed that governance issues is a factor that majorly that determines the success and failure of the insurance business.

(Najjar, 2012). Wet (2012) investigated how executive remuneration affects the value addition and financial performance where he found that corporate governance structures determine the success or failure of a business among the South African listed companies. Kimosop (2011) on his study on the impact of corporate governance and financial performance of insurance companies in Kenya concluded that there is a significant relationship between board size, non-executive directorships, insider shareholding and board meeting frequency using both ROA and ROE. The guiding principles are how corporate governance enhances firm financial performance. The major contribution towards the existing gap of knowledge is to analyze whether there is a predefined way in which corporate governance affect financial performance of the firm in terms of increased premiums in the insurance industry.

The conclusion was that with good corporate governance, improved financial performance can be achieved. In Kenya several studies have been done on the various industries however more study need to be carried out in the insurance industry Nyamongo and Temesgen (2013), argues that companies with board size which are large performance is likely to be negative while the presence of an independent board of directors always leads to good financial performance. Kiragu (2014) in assessing the challenges encountered by the insurance business in building competitive advantage in Kenya found that governance regulation is most significant factor in ensuring good financial performance. Little research investigating the impact of corporate governance practices to the performance among the insurance companies in Kenya. The research therefore seeks to find what effect does corporate governance has on the financial performance of Insurance companies in Kenya?

1.3 Research Objective

The objective of the study is to determine the effect of corporate governance practices on the financial performance on the insurance companies in Kenya.

1.4 Value of the Study

The study will help the policy makers in selecting the best governance practices that are adequate for the insurance companies in Kenya so as to improve the financial

performance. The policymakers who include the managers and the board of directors in the insurance companies will find the study very important in improving their operations and enable them benchmark among their peers in order to improve on corporate governance practices in order to sustain the performance in the insurance industry.

The regulator in the insurance industry will use the research results in formulating policies, which can be implemented in the regulation of the insurance industry. The government will be able to assess the current situation and gaps existing with reference to the governance issues and hence help in the coming up of more effective policies.

The shareholders and stakeholders will also benefit from the results in knowing the effectiveness of the board of the companies they invest in. This will enlighten the shareholders on the governance issues and how they affect the performance of the companies. Other researchers will benefit from the study in identifying further areas for the study. The study will help academicians and researchers interested in corporate governance to identify the gaps existing and also the study will act as a supplement for their empirical review.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter discusses the theoretical review and the empirical evidence of the corporate governance systems on the insurance firms that are domiciled in Kenya. This section further focuses on the corporate governance theories, determinants of corporate governance practices and later the empirical literature review. The empirical literature framework includes scholarly done studies and theories with the aim to ascertain the impact of the corporate governance practices on the financial performance among the insurance firms operating in Kenya. The conceptual framework depicts how the independent variable affects the dependent variable.

2.2 Theoretical Review

This theoretical review deals with three major capital markets theories. The main purpose of this literature review is to identify and examine what has been done by other scholars and researchers in relation to the effect of Corporate Governance on the financial performance of insurance companies in Kenya. The section will look at three major theories which include stewardship theory, agency theory and Stakeholder Theory.

2.2.1 Stewardship Theory

Arthurs (2003) found out that the theory was developed to addresses the underlying agency theory assumption the risk appetite of the shareholders and the managers is different. Agents tend to concentrate their deeds on themselves to mitigate their own risk without taking into consideration the risk appetite of the principals. The stewardship theory indicates that there is an alignment between the interests of shareholders and the managers who run the company. This is because managers who act as stewards believe in ensuring that whatever they undertake is for the best interest of everyone involved. Actions that benefit the company and the shareholders are put in the forefront before individual interests are considered.

Stewards of the company's resources and assets should ensure that they are well protected. The managers should safeguard all the shareholders resources by ensuring that they engage in the most profitable business that maximizes the shareholders wealth. The company's employees should work with the goal of benefiting the company at large. A steward's behavior is not supposed to deviate from the organization goals but should be in alignment to what the organization believes in. Stewards are expected to iron out the difference between the different stakeholders within the organization and other interest groups. The theory aims to reinforce a strong and good relationship between the managers and owners by ensuring the success of the firm is guaranteed (Clarke, 2004).

This underlying assumption of the interest of everyone comes against the individualistic, opportunistic and selfish that ensures an all-inclusive kind of leadership. Stewardship theory also emphasizes on the need of individuals to not act based on self-interest but for the common interest of the organization performance. Using this theory prepositions in the study, managers should not be motivated by personal goals and aspirations but by the general interests of the organization performance (Wesley, 2010). This theory will be useful in the study in assessing how the board decisions helps the in safeguarding the interest of the company. The board makes decisions on who is hired as the executive employees based on whom they feel will be a good steward and will drive the company's performance. The bottom line is that stewards should maximize shareholders value as reflected by the firm's performance.

2.2.2 Agency Theory

Jensen and Meckling (1976) came up with the theory proposing that the interest of management and shareholders interest will always conflict since managers put priority to their interest at the expense of firm owners. As a result agency costs are incurred to reduce the conflicts between management and shareholders. Agency theory depicts that the shareholders and the company executives who run the company have a special relationship. Shareholders delegate the managing of the company to the executive and non- executive directors and senior managers who act as the agents to the shareholder (Clarke, 2004). The investors have appointed the management as principal to act at best of their interest and provide them with all information required about the company.

Daily, Dalton and Cannella (2003) concluded that there are majorly two factors that influence the predominance of agency theory. One, is the theory being a simplified theory that deals with two participants in the organization who are the owners and the executives. Two, agency theory says that executive management in organizations can be seen to have interests in the organization. In the application of the agency theory, shareholders who are the owners expect the management to make decisions and act to the investors interest to improve performance. However, the management are likely to make decisions that favor them at the expense of the interests of the principals (Padilla, 2000).

Agency problem normally arises from the conflicting interest among the principal and the agents. The agency problems that occur when the ownership and control is separated in a principal-agent relationship as concluded by (Davis, Schoorman & Donaldson, 1997). In agency theory, the agent can be led by to self-interest, look for opportune scenarios and not putting the interest of the principal in the forefront. Agency theory was developed to minimize the agent- principal conflicts to ensure wealth maximization (Bhimani, 2008). As a way to compensate management they are given incentives in order to minimize the conflicts of interest. Bebchuk (1999) suggests that where ownership concentration is high wrong use of the company's resources by the majority owners be evidenced with little consideration to the minority shareholders and hence ownership and control should be separated. Holmstrom and Milgrom (1994) argued that while providing managers with a fluctuating incentive payment based on performance, the agents tend to focus on the low risk projects with high returns. This may provide an assessment that is fair, but it may not prevent management misconduct.

In this study the theory will be helpful since in the organization there is an agency relationship existing when the shareholders appoint the management to perform duties in the firm on their behalf (Ross, 1973). The CEO duality aspect will come into play where the management is appointed by the shareholders and hence the CEO cannot be the chairman of the board due to the agency relationship principles. The theory will be of great help in evaluating how CEO duality affects performance. Board independence also will be evaluated using the concepts of this theory. The shareholders transfer the role of making company decisions to the management who should make sound decisions that do

not harm the shareholders. An agency problem erupts when the appointed management and board works on its best own interest contrary to the goals of the shareholders. In the securities market the shareholder expects management to perform effectively by increasing the shareholders wealth. According to Berle and Means (1932) managers are accountable and should report to shareholders of the expected earnings. The theory leads to agency costs which must be monitored in order to ensure the strong financial performance is achieved. The incentives provided to management must be in alignment with the company's performance.

2.2.3 The Stakeholders Theory

Wheeler, Fabig and Boele (2002) proposed that stakeholder theory is a mixture of both the social and organizational behavior disciplines in a company's operations. A stakeholder is viewed as a group or a person who affects or is affected directly or indirectly by the activities undertaken by the organization. Stakeholder theory researchers advocate that in an organization manager have a number of relationships whom they owe a duty of responsibility. Examples include the suppliers, employees, government, society, debtors, shareholders and business partners among others. This group of network who are mostly outsiders are also very important other than the manager, employee and owner relationship as is the case in the theory of agency. Sundaram & Inkpen (2004) argues that stakeholder's theory main focus is to address the group of people who are affected by the decisions of the management indirectly making them to deserve the management's attention in decision making.

The stakeholder theory depicts that an organization is a social interaction composed of various stakeholders with various need that must be attended. An organization is perceived as the place where stakeholders network and meet in order to exchange services, information, influence and other resources (Mersland & Strøm, 2009). Thus, according to Harrison, Bosse and Philips (2007) an organization creates value when the needs of the firm's key stakeholders in a win-win scenario are met by attending to the interests of all their stakeholders - not just their shareholders. According to Freeman and Harrison (1999), stakeholders are a group of people or organizations or an individual who

has the power to affect or be affected by the involvement of the organization's vision. This is an individual or a group that are affected in a positive way or impacted negatively impacted by the undertakings of an organization.

This theory will be important in evaluating the board committees since various boards are charged with different responsibilities to different stakeholders. The board committees address various issues and various groups in the organization. These stakeholders can be distinguished in terms of the magnitude of influence, their interest and their location. Hence looking at the various board committees and their contributions to financial performance the theory principles will have great importance in addressing the various groups. In terms of effect two categories of stakeholders can be identified as primary and secondary stakeholders. Primary stakeholders are people who are affected in a direct manner either with a positive or negative effect by the actions of the organization. Their continued participation and involvement in the organization is very important to ensure business continuity in an organization. Jawahar and MClaughlin (2001) identified primary stakeholders as the customers, investors, shareholders, employees and suppliers. Secondary stakeholders are the groups, individuals or organizations which can indirectly affect or be affected by the organization's actions. A number of theories have been advanced by various scholars on the stakeholders' organization relationship.

2.3 Determinants of Financial Performance

The corporate governance component that determines the financial performance of the insurance companies are discussed below.

2.3.1 Corporate Governance

Research has proved that good corporate governance does indeed pay huge returns (Eisenhofer, 2010). However there have been different results on the impact corporate governance has on the performance of the organizations in context. The returns of organizations practicing sound corporate governance are normally higher than the companies that have neglected good corporate governance in running their affairs The firms market valuation is affected to a large extent by the corporate governance practices put in place Zahra and Pearce (2009) concluded that portfolios that performs well are for companies with very superior corporate governance measures where as poor corporate

governance leads to non performing and undesirable portfolios. Companies with higher governance ratings enjoy higher profits and returns.

High sound governance scores enjoy low cost of capital because investors and lenders assume the low risk. The level of investment in companies with good corporate governance practices is higher than while poorly governed companies have very low returns for their investments. However, Clark (2007) argued that in some developing countries the corporate governance advocacy was yet to penetrate and hence the investment decisions in such countries is affected by completely different factors other than corporate governance practices.

The annual reports issued by most companies always relay information about their board structures and other corporate governance disclosures. The financial reports in the financial statements can be related to the corporate governance of that particular company. When a firm has a good financial performance, the managers can be allocated incentives in order to improve the corporate governance disclosure quality in order to showcase the corporate governance systems put in place for the outstanding performance. On the other hand, when a company records a poor financial performance they should invest in a quality corporate governance mechanism in order to boost shareholder’s and investor’s confidence by assuring them systems are in place to improve the performance in the new future. A more detailed information on corporate governance gives the manager san upper hand to support their remuneration and job security and to be a signal to gain the investor’s confidence (Jensen & Murphy, 2011) .

2.3.2 Size of the Company

In setting the corporate governance systems an organization is likely to incur costs, due to this fact most large firms have better corporate governance practices due to their large pool of resources. The economies of scale allow large firms to invest in large board size and strong internal control systems which make them perform well financially. During financial reporting and setting up good disclosure system a firm will incur financial costs, most of which are of a fixed component and are easily borne by larger firms. When it comes to sophisticated and complicated business structures which most large firms have

they require good corporate governance structures. Large firms should have great corporate governance structures to ensure increased profitability and business sustainability. The characteristics of the board committees in large organisation impact the quality of corporate governance (Castello & Ozawa, 1999).

Bigger firms have the advantage to diversify their operations in order to gain an advantage over small firms. Larger firms also have the advantage to buy on large scale earnings great quantity discounts and therefore reducing the unit cost of production which consequently lowers the sale price unlike small firms. Larger firms also have the capability of employing exemplary human resources that can boost the performance of the firm (Penrose, 1959).

Small firms on the other side have less agency problems and a flexible non-bureaucratic structures which are critical in changing business environments (Yang and Chen, 2009). Small size of an organization may significantly affect the capacity of the managers to implement strategies crucial to the organization thus posing a challenge to the going concern nature of the organization (Armstrong et al., 1998). Lack of economies of scale by small firm significantly affects their performance in sectors where they have to incur a lot of fixed and sunk costs. In addition their ability to hire few competitive human personnel may also affect to a large extent the firms' procurement options.

2.3.3 Investment

Investment policies comprise of asset allocation policy, and the extent to which the selected asset classes are to be actively managed. A company should set a written statement and actively observe the overall investment policy. The level of investment has an effect on the financial performance of a firm. When the firm is making investment decisions it should evaluate how the cashflows of the firm affects both the balance sheet and the statement of financial performance. The policy should as a minimum have clear investment objectives, a strategic asset allocation, sound risk management process, procedure for selection and monitoring of fund managers; and a procedure by which the governing body will be reviewing the effectiveness of the policy (OECD, 2009).

In the investment decisions the asset allocation decisions determines how well the investment portfolio's (Brown, Garlappi and Tiu, 2010). The investment can either be long-term or short term in nature. When making the decision on the duration of the investment the finance committee should evaluate the implication. The decision on how the assets are allocated affects the level of the returns on the investment. The investment size affects the financial performance and the yields of that particular investment. Investments funds that are large in size have the advantage of the economies of scale and a huge scope making them more efficient in relation to firms that are small in size. However when investment funds become more and more larger, there is likelihood of some inefficiencies that may cause inferior financial performance (Majumdar, 1997).

2.4 Empirical Literature Review

Maina (2005) examined the effect of board composition on firm's performance in companies quoted in the NSE for a period of ten years starting from 1994 to 2003. The primary data was gathered by the use of a questionnaire through interviews while secondary data was also utilized and a multiple linear regression model was used to analyze the data gathered. Performance was evaluated and analyzed using return on equity and Tobin's Q while elements of board composition practices included board independence, audit committee independence, CEO duality and directors from financial institutions. No significant relationship between firms' performance as measured by ROE and board composition variables was found She also documented that the most popular or preferred board mix consists of an average of 8 members in size, 70% non-executives and no CEO duality. The study used ROE to evaluate performance which might not give the overall performance view of the firm due to funds sourced from other avenues.

Aduda (2011) in his study to evaluate the interaction between the executive compensation and financial performance variables on the nine commercial banks listed at the NSE as at December 2008. He did a census survey which employed secondary data gotten by examining the financial statements of the banks included in the study. Multiple regression model was used to do the analysis using SPSS to analyze the data. The researcher concluded that there is a negative relationship that was not significant between executive compensation and performance of commercial banks in Kenya. He indicated that in

commercial banks with large size, size is a key criterion in deciding the level of executive compensation. The researcher also found that there is need to monitor the executive compensation practices for the smaller banks to protect the larger shareholders who are also the bank directors. This ensure the returns and smaller owners of the bank are well protected. The study considered only executive compensation as the only drive of financial performance which is a very rare scenario considering that financial performance is affected by various other factors.

Opanga (2013) sought to establish how the number of directors, number of resolutions passed in general meetings, number of committees and the frequency of holding meetings affect the insurance firms' financial performance in Kenya. An 80% sample of the 45 insurance firms in Kenya during the period of 2010 – 2012 was used in the study. The study established that the number of board committees, board meeting frequency, number of resolutions passed in an AGM and number of board of directors all are positively correlated with financial performance. The study assumed that the number of resolutions passed in a general meeting had an effect on the financial performance without considering that some resolutions passed may not even affect the firm's performance in any way.

Chepkosgei (2013) studied the influence of board composition on financial performance of 43 commercial banks in Kenya for the period 2005-2009. Findings of the study revealed that board size, average tenure, ratio of female directors, occupational experience of the directors and ratio of non-executive could significantly predict only ROE and ROA. The researcher also concluded that previous corporate governance researches did not give a clear evidence on the role of independent directors in improving financial performance. However, the researcher did not give a clear recommendation on what is the best board composition for optimal financial performance to the firms.

Murage (2010), in his research on the impact corporate governance systems on the financial performance of Parastatals in Kenya concluded that large boards enhanced corporate performance. Further to his research when the board of directors have many non-executive directors the value of a firm improves significantly. While the CEO duality

impact was not significant on the financial performance measure of ROA, in his study, it had a positive relationship with financial performance in conflict with other studies. When it comes to governmental organization it is not easy to determine how much such organization makes due to the fact that the nature of activities are not purely profit making and hence performance measurement using ROA could be challenged.

Khan and Awan (2012) also undertook a research study investigating the effect of board composition on a firms' performance in Pakistan. Population of the study comprised 100 firms that form the stock exchange index and a sample of 91 firms obtained. Secondary data was used in the study and regression analysis undertaken. Levene's test and t tests were undertaken to test the significance of the model and relationships identified. The study findings indicate that the firms with independent board members have greater financial performance. This study supports the agency theory which calls for board independence. However the study narrowly focuses on only one parameter of board composition which is the board independence to analyze performance hence ignoring other corporate governance components that may affect the performance of a firm.

Marimuthu (2009) empirically examined the impact of the diversity in demographics of the companies' boards and how the firm's financial performance is affected. The research used secondary data gathered from the Top 100 Malaysian non-financial listed companies between the year 2000 and 2006. Diversity in demographics was analyzed based on the difference in ethnicity and the gender diversity while the financial performance was measured by return on assets and return on equity. The ordinary least squares regressions were employed to carry out the data analysis for the research. The results found a negative correlation between the board diversity and financial performance although ethnicity proved to impact the financial performance significantly. The study should have made a recommendation on the characteristics of the diversity of the boards that made more contribution to the financial performance and the motivation behind it.

2.5 Conceptual Framework

The following conceptual framework represents how the components of corporate governance affect the insurance firms financial performance. The interactions between the independent variables and financial performance can be conceptualized as depicted below.

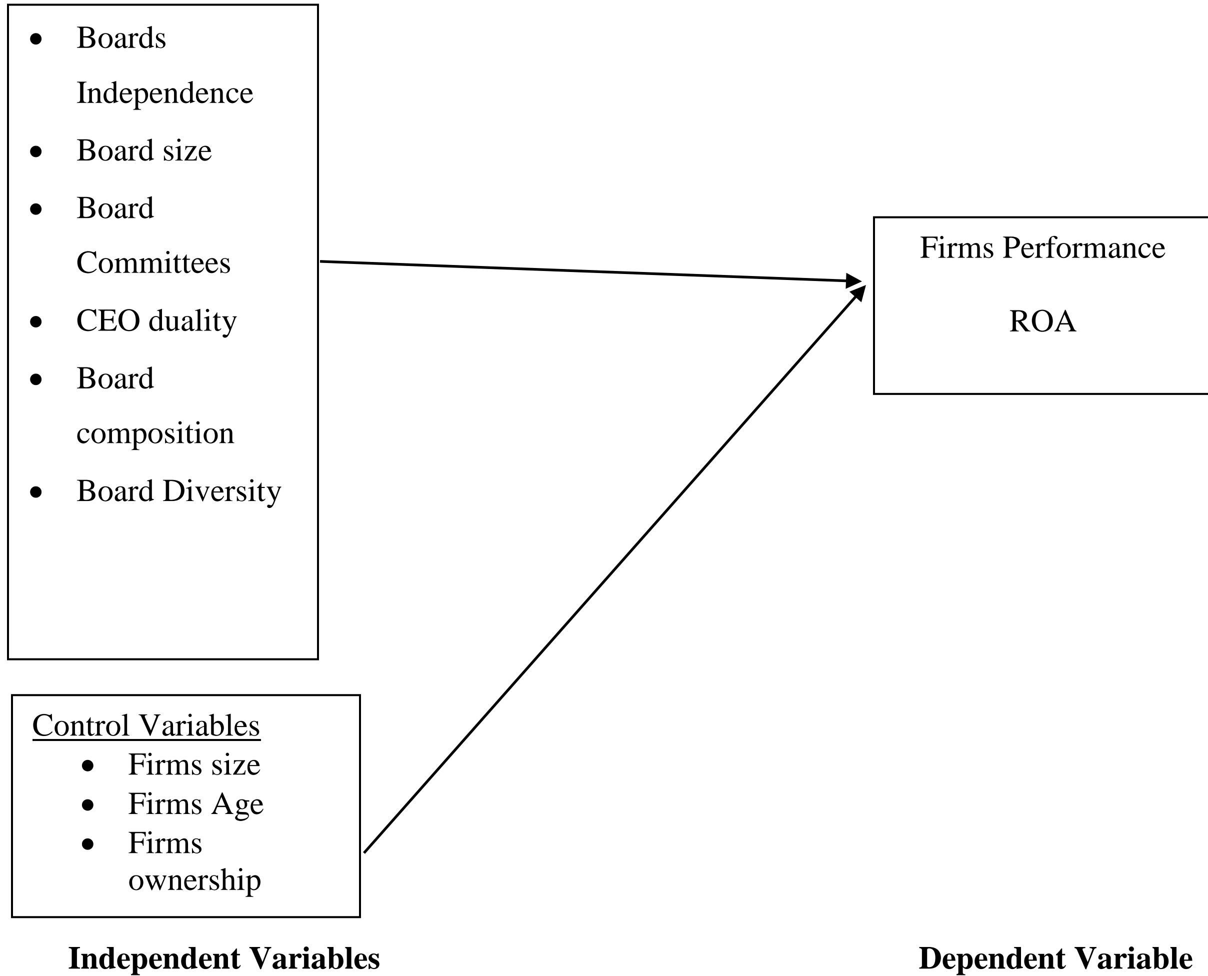

Figure 1: (Researcher, 2017

2.6 Summary of Literature Review

The stakeholder's theory, agency theory and stewardship theory have had a key role in explaining the delicate nature of the corporate governance issues. The theories have critically evaluated how corporate governance has developed and how the common practices have evolved particularly the relationship that exists between management and the shareholders. The board composition, board committees and board size have been identified as the major corporate governance influencers on the financial performance. The conceptual framework shows the linkage between corporate governance practices and the financial performance. The empirical studies identified various results of the effect of the corporate governance practices on the financial performance. The empirical literature studies were done in Kenya and in other countries showed some conflicting relationships.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The section evaluates the research design, population, sample design, data collection, and data analysis. The chapter also discusses the research methodology put in place in order to realize the objectives of the study. It further discusses the data collection method and the ways through which the data was analyzed.

3.2 Research Design

The research adopted the descriptive research design. Descriptive research design mostly involves observation of trends as a means of collecting data. It is a formalized and well-structured method with well stipulated hypotheses and investigative questions hence provide a detailed and highly accurate picture (Walliman, 2011). Descriptive design allows discovery of associations among different variables in order to determine if the variables are independent and if they are dependent to identify the relationship strength or magnitude. The study dealt mainly with the quantitative data to determine the financial performance. Also, qualitative approaches was incorporated to measure the non quantitative variables and provide more insights and comprehension of the results from the quantitative data. The design was used considering the type of data and the analysis that was carried out. A descriptive study is concerned with identifying the frequency on which a particular scenario occurs and how the variables relates with each other (Cooper & Schindler, 2003).

3.3 Population

The population constituted all the 49 insurance companies operating in Kenya as at December 2015 (See Appendix 1). The companies are divided into two categories; General Insurance and Life Assurance Companies. The feedback from these companies was used in the analysis of the corporate governance components in the insurance industry and hence analyzed the influence of these components on the performance of the Insurance Companies. The population of this study included 49 insurance companies

under the Insurance Regulatory Authority. In the research a census of all the 49 insurance companies was carried out.

3.4 Data Collection

The study used secondary data. The secondary data gathered from the insurance companies annual reports and the audited financial statements from 2011-2015. The data comprised of both financial and non-financial information of the insurance companies in a period of five years that was used to gather the corporate governance practices and analyze the financial performance. The information contained in the company's annual reports shed light on the organizational systems the corporate governance practices for the period under review.

3.6 Diagnostic Test

Reliability and validity tests were used as the key determinants for soundness of the research instrument. According to Kothari (2004), validity indicates the degree the instrument chosen is right and measures the correct thing what it is supposed to measure on the other hand reliability measures the degree the measuring instrument provides results that can be replicated and are consistent.

Multivariable analysis was used in the research since the multiple predictive variables are considered to estimate the association with study measurements. The predictive variables are uncorrelated hence multi-collinearity tests was performed using the regression analysis. T tests for individual coefficients was performed while F test was used to confirm that the model is adequate to predict the financial performance (y).

3.7 Data Analysis

Regression analysis was used to establish the linear relationship that exists between corporate governance and financial performance of insurance companies in Kenya. The research used tools which include MS Excel and Statistical Package for Social Studies (SPSS) to analyze the data. According to Healey (2011), descriptive statistics enables the researcher to condense large quantities of data using methods that are understandable to the observer. Both linear regression and correlation analyses was used to assess the

hypothesized relationships between the independent and dependent variables. R- squared, adjusted R-squared, F statistic the Analysis of Variance (ANOVA), and beta coefficients and their p-values will be used to interpret the inferential results.

3.7.1 Analytical Model

The model used multiple independent variables which are the corporate governance practices to establish the relationship with the financial performance. Multiple regression analysis assisted in critically defining the relationship between corporate governance practices and financial performance. The board composition, board size, board committees and CEO duality all affects the financial position and were analyzed using the multiple linear regression equation shown below. Since the corporate governance variables are all measurable in a particular organization because the are likely to be present at the same time and hence evaluating them using a multiple regression linear equation is deemed appropriate.

The model for the study will be as follows:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 \quad \varepsilon t$$

Where:

Y = Financial Performance determined by return on assets (ROA);

Where

$$ROA = \frac{\text{Net profit}}{\text{Total Assets}} \times 100\%$$

β0 = Constant;

β1 - β5= regression coefficients;

X1=Board composition as represented by the ratio of the number of executive and non-executive directors

X2=Board size as represented by log of the total number of directors

X3=Board committees; Measured by the total number of the board committees in a company

X4=CEO Duality; measured as Yes = 1, No =0

The control variables include:

X5 = Firm Size, measured as the Log of the total Assets

X6 = Age of the Firm, measured using the Log of the length of time the company has been in operation

εt = Error term;

3.7.2 Test Of Significance

The t test was used to determine whether each individual variable was significant in explaining the financial performance of insurance companies. A 5% level of significance was used. The model was a viable method to apply in this study keeping in mind assumptions of multicollinearity, normality and linearity. All the assumptions were tested statistically using Statistical Package for the Social Science (SPSS)

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter covers the results, data analysis and discussion of what was found out in the research on the effects of corporate governance components and financial performance of firms in Kenya. This chapter concludes with the interpretation of data and summary of the findings. The independent variables that is board composition, board size, board committees, CEO duality were evaluated. The control variables included in the study were the age of the firm and the size. Financial performance was measured using ROA.

4.2 Response Rate

The study was targeting 49 insurance companies with operations in Kenya. Secondary data was collected from the financial reports/statements and annual reports of all the insurance firms. Data about the board composition, size of the beard, board committees and CEO duality from the 49 insurance companies was gathered and analyzed.

4.3 Descriptive Analysis

This section discusses the descriptive results of the study including measures of central tendency, skewness, maximum and minimum and standard deviation. The section also explains the characteristics of corporate governance factors that affect the financial performance of insurance companies in Kenya. From the analysis of descriptive statistics the finding clearly reveals that return on asset has a mean of 1.665 with a maximum of 10.521 and minimum of -16.281 and standard deviation of 0.898, board size has a weighed mean of 0.875 maximum of 1.08 and minimum of 0, board composition weighed mean of 0.25, maximum of 1 and minimum of 0 and standard 6.29 deviation of 0.04.

The study revealed that in all the insurance companies surveyed, the chairman of the board was a different person from the CEO of the company hence refuting the CEO-Chairman duality theory.

Table 4.1: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	Kurtosis
ROA	49	-16.89	10.52	1.67	6.29	39.55	-1.26	1.07
Board composition	49	0	1	0.25	0.04	0.06	2.26	4.42
Board Size	49	0	1.08	0.88	0.18	0.03	-2.69	11.34
Board Committee	49	0	4	1.22	0.8	0.64	2.39	5.76
CEO duality	49	0	0	0	0	0	0	0
Firm size	49	0.60	7.77	5.25	1.73	2.99	-0.74	-0.01
Age of the firm	49	0	2.02	1.36	0.46	0.22	-1.41	1.87

Source: (Researcher, 2017)

4.4 Correlation

Correlation analysis looks at the existing relationship between two or more variables likely to be either strong or weak correlation. The correlation an also be positive or negative correlation. Four independent variables and two control variables were generated to see how the variables correlates to each other. The correlation matrix is a very important indicator that is used to test the linear relationship, amongst the variables. The matrix also assists to determine the strength of the various variables i.e. strength of the relationship between the dependent variable i.e., performance (return on assets) and the independent variable

Table 4.2: Correlation analysis

	Board composition	*Board Size*	*Committees*	*CEO Duality*	*Firm Size*	*Age of the Firm*	*ROA*
Board Composition	1						
Board Size	0.148	1					
Board Committees	-0.169	0.218	1				
CEO Duality	0.000	0.000	0	1			
Firm Size	-0.010	0.050	-0.097	0	1		
Age of the firm	-0.016	0.203	0.148	0	0.025	1	
ROA	-0.292	0.076	-0.069	0	-0.219	0.280	1

Source: (Researcher, 2017)

From the results there is a positive relationship between board size and board composition (0.148), board size and board committees (0.218) and firm size and age of the firm (0.025). Whereas a negative relationship exists between: Board committees and ROA (-0.069), board composition and ROA (-0.292) and firm size and ROA (-0.219).

4.5 Regression Analysis

The corporate governance components i.e duality of the CEO, size of the board of the directors, composition of the board of directors, board committees and age of the firm and size of the firm were analysed. An analysis on multiple regression was carried out to determine how the variables relates with each other as indicated under Appendix 2

Table 4.3: Regression Analysis and ANOVA

Model	Sum of sq	Df	Mean Sq	F	Sig
Regression	108.792	6	18.132	9.058	0.000
Residual	478.478	239	2.002		
Total	587.270	244			

ANOVA table shows results of analysis of variance which includes the regression and residual values, degree of freedom (df), sum of squares, mean square, regression and gotten from regression analysis. From the above table 4.3, the mean square calculated as the sum of squares over the degrees of freedom was 18.132. The F static calculated as the regression mean square divided by the residual mean was 9.058. Degree of freedom df, was 4.00. Statistically, the analysis of variance, F-Ratio is 0.249. The results show that corporate governance has no significant effect on performance ($p < 0.05$).

4.5.1 Regression Analysis and equation

Table 4.4 Regression Analysis and equation

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-2.284	2.36		-0.968	0.035
Board Composition, X1	0.450	0.119	0.410	3.781	0.025
Board Size, X2	2.546	0.151	0.527	16.861	0.000
Board Committee X3	0.613	0.065	0.408	9.431	0.000
CEO Duality X4	0.00	0.00	0.00	0.00	0.000
Firm Size, X5	1.628	0.125	0.428	13.024	0.000
Age of firm, X6	3.891	1.841	0.162	2.114	0.005

Source: Researcher (2017)

From the results obtained as shown in Table 4.4, the equation

Y = β0 + β1X1 + β2X2 + β3X3 + β4X4+ β5X5 + β6X6 + ε)

This means

Y= -2.284+ 0.450X1 +2.546X2+ 0.613X3 +1.628X5 +3.891X6

From the above regression model on corporate governance and financial performance, this study shows that a unit change in board composition holding other factors constant, financial performance measured by ROA will increase by 0.450, a unit change in board size holding other factors constant would change the financial performance of the insurance companies by a factor of 2.546. A unit change in the number of board committees other factors in the insurance companies being constant would increase the financial performance by a factor of 0.613.

The study was conducted at a significant level of 5%. TO test if the independent variables were significant or not significant for the model, the figures were compared with the resulting probability value and α=0.05. When the probability value is less than α, then the predictor variable is significant if not the model is considered not significant. In this study the independent variables were significant in the model since the probability values were found to be not more than α=0.05

Table 4.5: Model Summary

Model	R	R^2	Adjusted R^2	Estimate Std. Error
1	0.729	0.532	.512	.37489

Source: researcher, (2017)

Coefficient of determination is used in this study in order to determine the fitness of the model. The multiple coefficient of determinations the adjusted R^2, shows the percentage variance of the dependent variable which can be uniquely explained by the independent variables. The average adjusted coefficient of determination (R^2) obtained was 0.512 and which implied that 51.2% on the variations financial performance is explained by the

independent variables understudy board composition, board size, board committees, CEO duality, Size of the firm and the firm age.

4.6: Test of significance

4.6.1 Test for linearity

From the regression equation derived during the regression analysis the equation showed that a linear relationship exists between the independent and dependable variable. The equation also shows a constant value that exists in the absence of the independent variables.

4.6.2 Test for Normality

The P value was used to test for normality. Normality doesn't exists when the p value is less than or equals 0.05. This means that at a 95% confidence normality doesn't exist. From the study the independent variables were not normally distributed.

4.6.3 Multicollienarity Tests

Table 4.6: Diagnostic Tests

	Collinearity Statistics	
	Tolerance	VIF
Constant		
Board composition	0.505	1.980
Board size	0.393	2.348
Board Committees	0.717	1.395
CEO duality		
Firm size	0.641	1.560
Firm Age	0.524	1.735

Source: Researcher, 2017

The table above also shows multicollinearity test. The major reason of this test was to establish whether any correlation among independent variables was found or not. An adequate regression model should be free from correlation between variables. The variables should not be orthogonal that is the independent variable should have a zero correlation with other independent variables. Multicollinearity is observed from the correlation matrix by looking at the independent variables on the value of variance inflation factor (VIF). When the VIF value is below 10 and the tolerance value rises above 0.1, this is translated to mean that no multicollinearity amongst the independent variables exists. From table above, the tolerance values and VIF values for each variable were as shown. This means that when the VIF value < 10 and tolerance value > 0.1, then multicollinearity does not exist.

4.7 Interpretation of the Findings

In summary, this study observed that implementation of proper corporate governance is an important element in the financial performance. The regression equation revealed that Board Composition, Board Size, CEO duality, board committees, firm size and firms age while at a constant of zero, financial performance of companies would stand at -2.284. An increase in Board composition leads to increase in ROA of insurance companies by a factor of 0.45, an increase in Board size would lead to increase in ROA by a factor of 2.456, a unit increase in board committees would lead to decrease in ROA by a factor of 0.163, any change in CEO duality will not have an effect on the financial performance.

When the control variable of the firm size unit increases it would lead to increase in ROA by a factor of 1.628 while a unit increase on the age of a firm would lead to 3.891 increase on the ROA.

The results in table 4.3 shows, the goodness of fit as indicated by the coefficient of determination R^2 with value of 0.512. This means that independent variables explain 51.2% of the variations that affect the financial performance. 48.8% of variations are brought about by other factors that exist in the industry. The results indicate that the model had an F-ratio of 9.058 which was significant at the 0.00 level of significance. This implies that the overall regression model is statistically significant and can be used for prediction at level of significance of 0.05. From the analysis the independent variables used are statistically significant in predicting financial performance of the insurance industry.

CHAPTER FIVE: SUMMARY OF FINDINGS CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter we identify and discuss the significant data discoveries, the inferences drawn from these research findings and the recommendations made. It's important to note the overall inferences or deductions made from this report including the propositions drawn were made from studying the relationship between corporate governance and financial performance of insurance companies in Kenya.

5.2 Summary of the findings

The objective of the study was to establish if corporate governance has an effect on financial performance of the insurance companies in Kenya. Corporate governance was aspects that the study focused on were: board composition, board size, board committees and the CEO duality. It was established that the board size for the insurance companies was mainly between 6-12. This is a sufficient number as per the requirements by the Insurance Regulatory Authority which is the regulatory body of the insurance companies in Kenya. The findings of this study show that good corporate governance practices have a positive but insignificant effect on the performance of the insurance companies in Kenya.

The Coefficient of Correlation and regression analysis were used to find the relationship between the variables to be measured i.e. corporate governance practices and financial performance of insurance companies in Kenya. The study focused on the board composition by comparing the number of executive directors compared to the non-executive directors. It was found that the number of executive directors were fewer in the boards ranging from 1-4 in most boards. The board size was also evaluated, and the findings were that the optimal board size in most companies was 5-13 directors. The board committees in most companies were 1-4 committees. In all the insurance companies there was no CEO duality since most companies have the CEO and chairman as different persons.

The study found that independent variable i.e. board size and the age of the firm, have a positive effect on the financial performance of the insurance companies in Kenya. There is also a positive effect of board composition, board committees and the size of a firm on the financial performance of insurance companies in Kenya. However, it's important to note that CEO duality had no effect on the ROA since CEO duality did not exist in all the insurance companies. From the findings, there's a significant relationship between the dependent variables and independent variables. The p-values of the independent variables depicts that there's relationship that exist. But the p-value varies and the one with the most significant factor is board size (0.36). The study found that the board size was the most influential factor followed by board committees and then board composition.

5.3 Conclusion

The relevance of corporate governance cannot be over-emphasized since it constitutes the success of a company on how it is well managed. Corporate governance brings new outlook and enhances a firm's corporate competitiveness. The study examined the effect of corporate governance on the financial performance of insurance companies in Kenya by using ROA as the performance measure. The regression results show further that the direction and the extent of firm's performance is dependent on the predictors being examined. Results show that large corporate practices, policies and rights of shareholders enhance corporate performance and that when such factors are capitalized, it enhances firm value.

Findings on the relationship between corporate governance variables and ROA indicated significant negative relationship. Board composition plays a crucial role in the financial performance of the company. If a firm has more non-executive directors on its board will perform better than one that does not. On the board size, a smaller is more preferable to a larger one. Board composition (Ratio of executive directors against total board members) had a negative relationship to the ROA of the firms and thus firms should increase their boards' composition for better corporate governance.

Also noted from the empirical evidence gathered from this study is mixed and gives little evidence for the shape of an optimal governance structure. One explanation is that the existing theories have not been sufficiently complete to include all major determinants of good corporate governance. Perhaps there will be no optimal governance structure because no two firms, two markets, two legal regimes or two authorities that are exactly the same, resulting in highly complex issues of corporate governance. Ultimately corporate governance is determined by a combination of the above factors and their dynamics. The way forward is examining corporate governance for insurance firms in Kenya, perhaps might be increasing the focus on Shareholder interests and concerns, rather than trying to find some specific mechanisms which are universally applicable for effective corporate governance.

5.4 Recommendations

From the findings on the effect of board size on financial performance which was negative and for boards to be effective in performing their roles, there is need to review the numbers of board members to avoid having large boards. Smaller boards were found to be more effective.

On the firms' board composition, the firms should increase their number of non-executive directors against total board members as well as gender as this would ensure compliance with better corporate governance principles and this would lead to a better financial performance.

Insurance companies should develop training programs for their managerial personnel, as well as for board members, aiming at improving and advancing their corporate governance practices in the light of OECD principles.

5.5 Limitation of the study

The results of this study were limited to the 49 insurance companies without considering other financial institutions like banks. The study only focused on few corporate governance variables that influence financial performance. Corporate governance practices were limited to board composition, board size, board committees and CEO

duality. Other variables such as role of audit committees, remuneration committees, risk management committee, number of board meetings, board diversity and non-executive directors were not considered. The study did not consider any other factors that inevitably affect performance regardless of corporate governance such as Political, environmental and social-economic and technological

Other factors responsible for financial performance such as competitiveness, government policy, inflation rates and customer demand were also not considered. The study also focused on one financial measurement to evaluate the financial performance. The focus on only ROA as the main determinant of financial performance is not adequate for evaluation

5.6 Suggestions for Future Research

This study has examined effect of corporate governance on the financial performance of insurance companies in Kenya. Studies should be carried out in another industry using the same variables to find out if the same results would be obtained. This will be of value in assisting researchers and ascertain whether it can be summarized to give one general conclusion on how corporate governance affects financial performance especially in Kenya.

The study used six variables as the measures of corporate governance in determining financial performance and these were Board composition, CEO duality, board committees, size of company, age of the company and board size. Further studies in determining the relationship between corporate governance and financial performance should use other variables such as the board diversity, board meetings board roles, board characteristics, executive compensation contingence and board effectiveness.

Future researchers should consider using an interview to gather data so that the emotions, behaviors and feelings of the respondents are identified. This will help identify if there is any bias in the responses that are provided.

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APPENDIX 1

List Of Insurance Companies

1. AAR Insurance Kenya Limited
2. Africa Merchant Assurance Company Limited
3. AIG Kenya Insurance Company Limited
4. APA Insurance Limited
5. APA Life Assurance Limited
6. Barclays Life Assurance Kenya Limited
7. Britam General Insurance Company (Kenya) Limited
8. Cannon Assurance Limited
9. Capex Life Assurance Company Limited
10. CIC General Insurance Limited
11. CIC Life Assurance Limited
12. Continental Reinsurance Limited
13. Corporate Insurance Company Limited
14. Directline Assurance Company Limited
15. East Africa Reinsurance Company Limited
16. Fidelity Shield Insurance Company Limited
17. First Assurance Company Limited
18. GA Life Assurance Limited
19. GA Insurance Limited
20. Gateway Insurance Company Limited
21. Geminia Insurance Company
22. ICEA LION General Insurance Co Limited
23. ICEA LION Life Assurance Company Limited
24. Intra Africa Assurance Company Limited
25. Invesco Assurance Company Limited
26. Kenindia Assurance Company Limited
27. Kenya Orient Insurance Limited
28. Kenya Orient Life Assurance Limited

29. Kenya Reinsurance Corporation Limited

30. Liberty Life Assurance Kenya Limited

31. Madison Insurance Company Kenya Limited

32. Mayfair Insurance Company Limited

33. Metropolitan Cannon Life Assurance Limited

34. Occidental Insurance Company Limited

35. Old Mutual Life Assurance Company Limited

36. Pacis Insurance Company Limited

37. Pan Africa Life Assurance Limited

38. Phoenix of East Africa Insurance Company Limited

39. Pioneer Assurance Company Limited

40. Prudential Life Assurance Kenya Limited

41. Resolution Insurance Company Limited

42. Takaful Insurance of Africa Limited

43. Tausi Assurance Company Limited

44. The Heritage Insurance Company Limited

45. The Kenyan Alliance Insurance Company Limited

46. The Jubilee Insurance Company of Kenya Limited

47. The Monarch Insurance Company Limited

48. Trident Insurance Company Limited

49. UAP Insurance Company Limited

APPENDIX2 : Corporate Governance and Return On Assests

	Board Composition	Board Size	Board Committes	CEO Duality	Firm size	Firm Age	Net Profit Sh Millions	Net Assets Sh Millions	ROA
AAR INSURANCE KENYA LIMITED									
2011	2,9	11	1	0	3.580	36	176	3,800	5%
2012	2,9	11	1	0	3.600	35	198	3,978	5%
2013	2,9	11	1	0	3.605	34	219	4,024	5%
2014	2,9	11	1	0	3.614	33	285	4,110	7%
2015	2,9	11	1	0	3.617	32	218	4,138	5%
AFRICAN MERCHANT ASSURANCE COMPANY									
2011	1,8	9	3	0	3.329	20	43	2,135	2%
2012	1,9	10	3	0	3.371	19	67	2,348	3%
2013	1,8	9	3	0	3.449	18	133	2,810	5%
2014	1,9	10	3	0	3.511	17	103	3,247	3%
2015	1,8	9	3	0	3.648	16	139	4,444	3%
AIG INSURANCE COMPANY									
2011	1,7	8	3	0	3.544	40	112	3,500	3%
2012	1,7	8	3	0	3.568	41	124	3,698	3%
2013	1,7	8	3	0	3.568	42	157	3,698	4%
2014	1,7	8	3	0	3.600	43	174	3,979	4%
2015	1,7	8	3	0	3.622	44	203	4,191	5%
APA INSURANCE COMPANY									
2011	1,8	9	4	0	3.544	35	735	3,500	21%
2012	1,8	9	4	0	3.565	36	650	3,670	18%
2013	1,8	9	4	0	3.572	37	500	3,733	13%
2014	1,8	9	4	0	3.583	38	735	3,825	19%
2015	1,8	9	4	0	3.583	39	650	3,825	17%
APA LIFE ASSURANCE COMPANY									
2011	1,7	8	4	0	3.546	35	(7)	3,512	0%
2012	1,7	8	4	0	3.546	36	(10)	3,512	0%
2013	1,7	8	4	0	3.565	37	(11)	3,671	0%
2014	1,7	8	4	0	3.600	38	(13)	3,979	0%
2015	1,7	8	4	0	3.583	39	19	3,825	0%
BARCLAYS LIFE ASSURANCE									
2011	1,4	5	1	0	2.701	1	5	502	1%
2012	1,4	5	1	0	2.712	2	-2	515	0%
2013	1,4	5	1	0	2.796	3	-12	625	-2%
2014	1,4	5	1	0	2.889	4	27	775	3%
2015	1,4	5	1	0	3.211	5	-433	1,625	-27%
BRITISH AMERICAN INSURANCE									
2011	3,10	13	4	0	4.616	7	-11	41,258	0%
2012	3,10	13	4	0	4.629	48	542	42,595	1%
2013	3,10	13	4	0	4.640	49	930	43,689	2%
2014	3,10	13	4	0	4.659	50	-236	45,628	-1%
2015	3,10	13	4	0	4.722	51	2919	52,683	6%
CANNON ASSURANCE COMPANY									
2011	1,5	6	2	0	3.230	48	-40	1,698	-2%
2012	1,5	6	2	0	3.231	49	-15	1,704	-1%
2013	1,5	6	2	0	3.244	50	5	1,755	0%
2014	1,5	6	2	0	3.367	51	10	2,328	0%
2015	1,5	6	2	0	3.368	52	-433	2,334	-19%
CAPEX LIFE ASSURANCE COMPANY									
2011	1,5	6	1	0	1.591	12	-10	39	-26%
2012	1,5	6	1	0	2.628	13	-6	425	-1%
2013	1,5	6	1	0	2.677	14	-5	475	-1%
2014	1,5	6	1	0	2.680	15	2	479	0%
2015	1,5	6	1	0	2.674	16	3	472	1%

CIC LIFE ASSURANCE COMPANY									
2011	1,10	11	3	0	3.844	44	57	6,989	1%
2012	1,10	11	3	0	3.844	45	150	6,990	2%
2013	1,11	12	3	0	3.857	46	359	7,200	5%
2014	1,10	11	3	0	3.873	47	184	7,458	2%
2015	1,10	11	3	0	3.922	48	676	8,353	8%
CONTINENTAL REINSURANCE PLC									
2011	2,10	12	4	0	2.553	27	-50	357	-14%
2012	2,10	12	4	0	2.615	28	114	412	28%
2013	2,10	12	4	0	2.662	29	157	459	34%
2014	2,10	12	4	0	2.688	30	200	487	41%
2015	2,10	12	4	0	3.156	31	243	1,432	17%
CORPORATE INSURANCE COMPANY									
2011	1,11	12	3	0	2.928	30	5	847	1%
2012	1,11	12	3	0	2.934	31	7	859	1%
2013	1,11	12	3	0	2.962	32	22	916	2%
2014	1,11	12	3	0	3.123	33	103	1,327	8%
2015	1,11	12	3	0	3.151	34	178	1,415	13%
DIRECTLINE ASSURANCE COMPANY									
2011	3,4	7	1	0	3.507	7	170	3,210	5%
2012	3,4	7	1	0	3.519	8	220	3,307	7%
2013	3,4	7	1	0	3.620	9	337	4,170	8%
2014	3,4	7	1	0	2.551	10	356	4,320	8%
2015	3,4	7	1	0	2.093	11	124	5,138	2%
EAST AFRICA REINSURANCE COMPANY									
2011	2,8	10	2	0	3.091	17	229	1,233	19%
2012	2,8	10	2	0	3.091	18	338	1,233	27%
2013	2,8	10	2	0	3.181	19	290	1,518	19%
2014	2,8	10	2	0	3.751	20	334	5,632	6%
2015	2,8	10	2	0	3.756	21	276	5,698	5%
FIDELITY SHIELD INSURANCE COMPANY									
2011	1,6	7	1	0	3.290	0	76	1,949	4%
2012	1,6	7	1	0	3.348	0	152	2,226	7%
2013	1,6	7	1	0	3.365	0	122	2,315	5%
2014	1,6	7	1	0	3.455	0	164	2,854	6%
2015	1,6	7	1	0	3.537	1	76	3,447	2%
FIRST ASSURANCE COMPANY									
2011	2,4	6	1	0	3.581	21	272	3,808	7%
2012	2,4	6	1	0	3.682	22	410	4,811	9%
2013	2,4	6	1	0	3.802	23	407	6,339	6%
2014	2,5	6	1	0	3.852	24	537	7,110	8%
2015	2,4	6	1	0	3.852	25	540	7,110	8%
GA INSURANCE LIMITED									
2011	3,5	8	1	0	3.404	33	337	2,533	13%
2012	3,6	9	1	0	3.404	34	35	2,533	1%
2013	3,6	9	1	0	3.615	35	390	4,121	9%
2014	3,5	8	1	0	3.897	36	401	7,887	5%
2015	3,5	8	1	0	3.932	37	591	8,548	7%
GA LIFE ASSURANCE LIMITED									
2011	3,5	8	1	0	4.079	33	440	11,990	4%
2012	3,6	9	1	0	4.079	34	430	12,007	4%
2013	3,6	9	1	0	4.123	35	519	13,270	4%
2014	3,5	8	1	0	4.124	36	541	13,293	4%
2015	3,5	8	1	0	4.172	37	386	14,850	3%

GATEWAY INSURANCE COMPANY									
2011	1,4	5	1	0	3.279	30	-80	1,900	-4%
2012	1,4	5	1	0	3.298	31	-192	1,987	-10%
2013	1,4	5	1	0	3.305	32	7	2,020	0%
2014	1,4	5	1	0	3.310	33	-200	2,042	-10%
2015	1,4	5	1	0	3.310	34	-124	2,042	-6%
GEMINIA INSURANCE COMPANY									
2011	1,9	10	3	0	2.787	31	74	613	12%
2012	1,9	10	3	0	2.801	32	90	632	14%
2013	1,9	10	3	0	2.967	33	107	926	12%
2014	1,9	10	3	0	3.559	34	158	3,622	4%
2015	1,9	10	3	0	3.610	35	281	4,070	7%
HERITAGE INSURANCE COMPANY									
2011	1,2	3	2	0	3.981	16	-470	9,569	-5%
2012	1,2	3	2	0	3.906	17	81	8,051	1%
2013	1,2	3	2	0	3.995	18	537	9,888	5%
2014	1,2	3	2	0	3.958	19	514	9,076	6%
2015	1,2	3	2	0	3.990	20	419	9,765	4%
ICEA LION LIFE ASSURANCE COMPANY									
2011	1,10	11	3	0	4.661	48	19	45,789	0%
2012	1,10	11	3	0	4.678	49	247	47,592	1%
2013	1,10	11	3	0	4.698	50	298	49,875	1%
2014	1,10	11	3	0	4.705	51	306	50,754	1%
2015	1,10	11	3	0	4.757	52	576	57,154	1%
INTRA-AFRICA ASSURANCE COMPANY									
2011	1,5	6	1	0	3.207	35	7	1,612	0%
2012	1,5	6	1	0	3.218	36	19	1,652	1%
2013	1,5	6	1	0	3.227	37	25	1,687	1%
2014	1,5	6	1	0	3.236	8	27	1,721	2%
2015	1,5	6	1	0	3.244	39	38	1,754	2%
INVESCO ASSURANCE COMPANY									
2011	0	8	1	0	3.475	15	-5	2,987	0%
2012	0	8	1	0	3.479	16	-8	3,014	0%
2013	0	8	1	0	3.492	17	30	3,104	1%
2014	0	8	1	0	3.493	18	-15	3,111	0%
2015	0	8	1	0	3.494	19	52	3,119	2%
JUBILEE INSURANCE COMPANY LIMITED									
2011	1,5	6	3	0	4.365	75	294	23,163	1%
2012	1,5	6	3	0	4.488	76	492	30,768	2%
2013	1,5	6	3	0	4.504	77	-59	31,936	0%
2014	1,5	6	3	0	4.560	78	790	36,279	2%
2015	1,5	6	3	0	4.563	79	277	36,524	1%
KENINDIA ASSURANCE COMPANY									
2011	1,8	9	1	0	3.859	34	37	7,236	1%
2012	1,8	9	1	0	3.877	35	44	7,539	1%
2013	1,8	9	1	0	3.930	36	63	8,510	1%
2014	1,8	9	1	0	4.374	37	233	23,640	1%
2015	1,8	9	1	0	4.420	38	728	26,298	3%
KENYA ORIENT INSURANCE COMPANY									
2011	1,7	8	1	0	3.414	24	-8	2,597	0%
2012	1,7	8	1	0	3.462	25	-15	2,896	-1%
2013	1,7	8	1	0	3.464	26	30	2,913	1%
2014	1,7	8	1	0	3.468	27	23	2,937	1%
2015	1,7	8	1	0	3.480	28	55	3,018	2%

KENYA ORIENT LIFE ASSURANCE									
2011	1,6	7	1	0	0.000	0	0	-	0%
2012	1,6	7	1	0	0.000	0	0	-	0%
2013	1,6	7	1	0	2.628	0	-5	425	-1%
2014	1,6	7	1	0	2.679	1	37	477	8%
2015	1,6	7	1	0	2.744	2	33	554	6%
KENYA REINSURANCE CORPORATION									
2011	2,10	12	3	0	4.281	41	1,163	19,096	6%
2012	2,10	12	3	0	4.376	42	3,297	23,788	14%
2013	2,10	12	3	0	4.365	43	3,309	23,173	14%
2014	2,10	12	3	0	4.441	44	3,418	27,628	12%
2015	2,10	12	3	0	4.556	45	3,554	35,954	10%
LIBERTY LIFE ASSURANCE KENYA									
2011	2,8	10	4	0	4.311	1	258	20,470	1%
2012	2,8	10	4	0	4.334	2	(58)	21,587	0%
2013	2,8	10	4	0	4.358	3	378	22,789	2%
2014	2,8	10	4	0	4.370	4	437	23,463	2%
2015	2,8	10	4	0	4.371	5	202	23,496	1%

MADISON INSURANCE COMPANY									
2011	1,6	7	3	0	3.401	24	31	2,520	1%
2012	1,6	7	3	0	3.404	25	36	2,534	1%
2013	1,6	7	3	0	3.508	26	99	3,223	3%
2014	1,6	7	3	0	3.898	27	404	7,903	5%
2015	1,6	7	3	0	3.976	28	570	9,472	6%
MAYFAIR INSURANCE COMPANY									
2011	1,9	10	1	0	3.221	7	29	1,662	2%
2012	1,9	10	1	0	3.337	8	70	2,173	3%
2013	1,9	10	1	0	3.624	9	455	4,203	11%
2014	1,9	10	1	0	3.574	10	299	3,746	8%
2015	1,9	10	1	0	3.637	11	464	4,331	11%
METROPOLITAN LIFE ASSURANCE									
2011	1,6	7	3	0	0.000	0	0	-	0%
2012	1,6	7	3	0	0.000	0	0	-	0%
2013	1,6	7	3	0	0.000	0	0	-	0%
2014	1,6	7	3	0	2.887	0	79	771	10%
2015	1,6	7	3	0	3.018	1	85	1,043	8%

OCCIDENTAL INSURANCE COMPANY									
2011	1,9	10	1	0	3.191	25	95	1,551	6%
2012	1,9	10	1	0	3.288	26	113	1,939	6%
2013	1,9	10	1	0	3.349	27	209	2,235	9%
2014	1,9	10	1	0	3.406	2	245	2,546	10%
2015	1,9	10	1	0	3.427	29	190	2,674	7%
OLD MUTUAL ASSURANCE COMPANY									
2011	2,10	12	4	0	4.146	92	-80	13,987	-1%
2012	2,10	12	4	0	4.162	93	-134	14,536	-1%
2013	2,10	12	4	0	4.143	94	-263	13,887	-2%
2014	2,10	12	4	0	4.128	95	**(72)**	13,437	-1%
2015	2,10	12	4	0	4.068	96	-427	**11,704**	-4%
PACIS INSURANCE COMPANY									
2011	1,11	12	3	0	2.921	7	38	834	5%
2012	1,11	12	1	0	3.000	8	58	999	6%
2013	1,11	12	3	0	3.211	9	243	1,625	15%
2014	1,11	12	3	0	3.207	10	120	1,610	7%
2015	1,11	12	3	0	3.241	11	71	1,742	4%

PAN AFRICA INSURANCE COMPANY									
2011	5,3	8	4	0	4.061	66	286	11,514	2%
2012	5,3	8	4	0	4.217	67	600	16,474	4%
2013	5,3	8	4	0	4.325	68	1253	21,158	6%
2014	5,3	8	4	0	4.391	69	871	24,599	4%
2015	5,3	8	4	0	4.433	70	-62	27,109	0%
PIONEER ASSURANCE COMPANY									
2011	1,6	7	1	0	3.009	82	30	1,021	3%
2012	1,6	7	1	0	2.999	83	32	998	3%
2013	1,6	7	1	0	3.068	84	18	1,170	2%
2014	1,6	7	1	0	3.319	85	263	2,086	13%
2015	1,6	7	1	0	3.498	86	156	3,148	5%
PHOENIX OF EAST AFRICA INSURANCE COMPANY									
2011	1,8	9	3	0	3.372	100	-5	2,354	0%
2012	1,8	9	3	0	3.414	101	58	2,597	2%
2013	1,8	9	3	0	3.304	102	67	2,014	3%
2014	1,8	9	3	0	3.564	103	75	3,664	2%
2015	1,8	9	3	0	3.655	104	-397	4,514	-9%

PRUDENTIAL LIFE ASSURANCE									
2011	2,5	7	1	0	0.000		0	-	0%
2012	2,5	7	1	0	0.000		0	-	0%
2013	2,5	7	1	0	2.924	1	-198	840	-24%
2014	2,5	7	1	0	2.945	2	-264	882	-30%
2015	2,5	7	1	0	2.965	3	-377	923	-41%
RESOLUTION INSURANCE COMPANY									
2011	1,6	7	1	0	3.168	10	68	1,474	5%
2012	1,6	7	1	0	3.168	11	57	1,474	4%
2013	1,6	7	1	0	3.168	12	-354	1,474	-24%
2014	1,6	7	1	0	3.473	13	-246	2,972	-8%
2015	1,6	7	1	0	3.650	14	-425	4,470	-10%
TAKAFUL INSURANCE OF AFRICA									
2011	1,5	6	2	0	2.707	1	-82	509	-16%
2012	1,5	6	2	0	2.810	2	-33	646	-5%
2013	1,5	6	2	0	2.856	3	20	717	3%
2014	1,5	6	2	0	2.860	4	55	724	8%
2015	1,5	6	2	0	2.903	5	60	799	8%

TAUSI ASSURANCE COMPANY									
2011	1,7	7	1	0	3.186	19	54	1,535	4%
2012	1,7	7	1	0	3.261	20	164	1,822	9%
2013	1,7	7	1	0	3.325	21	256	2,114	12%
2014	1,7	7	1	0	3.298	22	133	1,984	7%
2015	1,7	7	1	0	3.328	23	142	2,130	7%
THE KENYAN ALLIANCE INSURANCE									
2011	1'6	7	2	0	2.994	22	30	987	3%
2012	1'6	7	2	0	2.981	23	70	958	7%
2013	1'6	7	2	0	3.098	24		1,254	0%
2014	1'6	7	2	0	3.131	25	216	1,351	16%
2015	1'6	7	2	0	3.522	26	42	3,326	1%
THE MONARCH INSURANCE COMPANY									
2011	1,6	7	3	0	2.603	26	9	401	2%
2012	1,6	7	3	0	2.690	27	-3	490	-1%
2013	1,6	7	3	0	1.716	2	7	52	13%
2014	1,6	7	3	0	2.769	29	15	587	3%
2015	1,6	7	3	0	2.998	30	12	995	1%

TRIDENT INSURANCE COMPANY									
2011	1,4	5	1	0	3.601	30	120	3,989	3%
2012	1,4	5	1	0	3.601	31	127	3,990	3%
2013	1,4	5	1	0	3.603	32	132	4,007	3%
2014	1,4	5	1	0	3.603	33	132	4,011	3%
2015	1,4	5	1	0	3.629	34	-21	4,260	0%
UAP INSURANCE COMPANY LIMITED									
2011	1,14	15	4	0	4.100	18	290	12,589	2%
2012	1,14	15	4	0	4.114	19	292	12,997	2%
2013	1,14	15	4	0	4.133	20	379	13,598	3%
2014	1,14	15	4	0	4.162	21	431	14,519	3%
2015	1,14	15	4	0	4.206	22	622	16,056	4%