Process and challenges in the merger between Apollo and Pan Africa General Insurance Companies

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YASH PAL BANSAL

A management research project submitted in partial fulfillment for the degree of Master of Business Administration, Faculty of Commerce, University of Nairobi.

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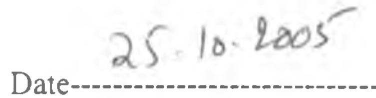
DECLARATION

I hereby declare that this research work is my own original work and has not been submitted anywhere for any award of any kind.

Signed Date 

Name: YASH PAL BANSAL Reg. No. D/61/P/7789/2001.

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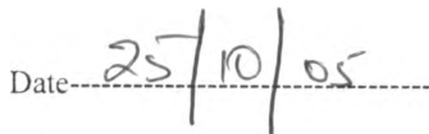
Signed Date 

Supervisor:

Mr. J. Maalu
Lecturer
Department of Business Administration
Faculty of Commerce
University of Nairobi.

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LIST OF ACRONYMS & ABBREVIATIONS

AKI	Association of Kenya Insurers
APA	APA Insurance Company Limited
APOLLO	Apollo Insurance Company Limited
BA	British American
CEO	Chief Executive Officer
CIO	Chief Integration Officer
CO.	Company
EC	European Community
EU	European Union
HR	Human Resources
ICEA	Insurance Company of East Africa
ICT	Information and Communication Technology
INS.	Insurance
IT	Information Technology
GDP	Gross Domestic Product
M&A	Merger and Alliance
MBA	Master of Business Administration
MIS	Management Information System
R&D	Research and Development
USA	United States of America

ABSTRACT

A lot of mergers took place in the banking industry in the recent past whereby smaller banks have been merging together after the Central Bank of Kenya made regulations about the minimum capital requirements for each bank. No such regulations have been made by the commissioner of insurance but his office has been encouraging mergers in the insurance industry. The merger between Pan Africa General and Apollo Insurance Company was the first one in the recent past in the insurance industry. So it was considered important to study this merger so that other players in the industry could benefit from its experience. The main objectives of this study were:-

1. To establish the factors that influenced Pan Africa General and Apollo Insurance Company to merge together.
2. To identify the key merger processes undergone during this merger.
3. To identify the challenges encountered after the merger.

The data was collected by in-depth interviews of 11 executives of the newly formed company- APA Insurance Company by using an interview guide. The results clearly showed that lack of internal capacity to manage general business. lack of technology & marketing skills on the part of Pan Africa General were the main factors which influenced this company to look for a strategic partner to merge with. Aspiration of the owners of Apollo Insurance Company to grow and expand into new markets and products was also the main contributory factor for this firm to merge with Pan Africa General. The

processes undergone were followed professionally. Apollo Insurance Company emerged as the dominant party. The integration process was also led very professionally by the CIO who was also the CEO of the new company.

Two main challenges faced by APA Insurance Company which came out very clearly were the cultural differences and the differences in the working practices and conditions of the employees of the two merging partners. However, the efforts to resolve the differences have born fruit and after one year of merger. people seem to be comfortable working in the new environment. It is recommended that a prospective study about the financial performance of this merged company be conducted for the next few years to see if this merger was helpful in creating wealth for the shareholders of the two merging partners.

CHAPTER ONE: INTRODUCTION

1.1 Background.

Strategy has been defined as large scale, future oriented plans for interacting with the competitive environment to achieve company objectives (Pearce & Robinson, 1997). It is the company's "game plan". While it does not detail all future development of resources, it provides the framework for managerial decisions. This definition provides that the main thrust of strategy is to achieve long term sustainable advantage over the competitors of the organization in every business in which it participates. It recognizes that competitive advantage results from a thorough understanding of the external forces that impact on the organization.

Firms exist in a turbulent environment and are open systems whereby they are affected positively or negatively by the changes in the environment and are forced to make changes to its strategies and in turn to its structure, processes, systems, capabilities etc. in order to survive and to maintain competitive advantage over the competitors. In order for organizations to achieve their goals and objectives, it is necessary for them to adjust to their environment (Pearce & Robinson, 1997). Since the environment is dynamic, organizations have to constantly re-design their strategies in order to remain competitive. Failure to effectively adapt the organization to its environment, leads to a strategic problem. Such a problem will be evidenced by a mismatch between what the organization offers and what the market demands (Ansoff & McDonnell, 1990).

An examination of the performance of Kenyan economy reveals that it has stagnated. Soon after independence in 1963, the economy grew very respectably. This upward trend continued throughout the 1960s and 1970s reaching the peak in the 1976/1977 coffee boom. Thereafter the economy showed signs of weakening and for most of the 1980s and 1990s; the economy was either stagnant or declining. Today the situation in Kenya can be described as one of economic crisis.

As is said above, it becomes essential for organizations to respond to such an environment by changing or adopting new strategies in order to survive or have competitive advantage. There are various types of strategic responses available like Porter's generic strategies (which include cost leadership, product differentiation, focus strategy etc.). focus on powerful customers, need to improve quality of products or services, relationship marketing strategy, strategic alliances and mergers among others.

A merger is said to occur when two or more companies combine into one company (Pandey, 1999). One or more companies may merge with an existing company or they may merge to form a new company. Business combinations which take the form of mergers, acquisitions and takeovers are important features of corporate structural changes. They have played an important role in the external growth of a number of leading companies the World over. Mergers take place because they are strategic decisions leading to maximization of a company's growth by enhancing its production and marketing operations. They have become popular in recent times because of enhanced competition, breaking the trade barriers and globalization of business as a

number of economies are being deregulated and integrated with other economies. Mergers thus help overcome the problem of slow growth and profitability in one's own industry.

When mergers and acquisitions take place, newly formed competitors often share up previous industry structures (Kujawa & Grosse, 1992). This is because retrenchment takes place and the economic position of the new company increases thus commanding a big voice in the market.

This case study entails the merger between Apollo Insurance Company and Pan Africa General Insurance Limited which was the wholly owned subsidiary of Pan-Africa Insurance Holdings Limited on 1st January, 2004 to form APA Insurance Company Limited which is now one of the largest insurance companies in the region. It has an associate company in Tanzania – the Reliance Insurance Company. The management of APA is one of the most versatile and dynamic in the industry and well suited to deal with all client needs.

1.2 Profile of APA Insurance Limited.

Pan Africa Insurance Holdings Limited was incorporated on 26thOctober, 1946 under the name Indo Africa Insurance Company Limited. The first chairman of the company was Ambalal Patel. The company started writing life business in 1947 (Pan Africa Website, Oct.2004). In 1963, the company was listed on the Nairobi Stock Exchange, the first

insurance company to be quoted. To date, there are only two quoted insurance companies, the other one being The Jubilee Insurance Company Limited. The name was changed in 1963 to Pan Africa Insurance Company Limited to reflect the broadened ownership. The company opened branches in Nairobi, Dar-e-Salaam and Kampala.

In 1972, the company started writing general insurance business. Political developments forced the company to close business in Tanzania and Uganda. On 1st August 1982, the company moved head office to Pan Africa House on Kenyatta Avenue in Nairobi. The company re-entered the regional market by way of an equity stake in Reliance Insurance Company (T) Limited in Dar-e-Salaam in 1998. In the year 2000, by way of rights issue, African Life Assurance of South Africa became a strategic partner. In the year 2002, the company was restructured into three entities namely, Pan Africa Insurance Holdings Limited which is the holding company quoted on the Nairobi Stock Exchange and its two wholly owned subsidiaries, namely :- Pan Africa life assurance Limited- dealing with life assurance business & Pan-Africa General Insurance Limited- dealing with general insurance business. It has made steady growth over the years despite difficult economic conditions and in 2002 attained a premium income in the region of Ksh.500 million. This premium income put Pan Africa Insurance among the top 10 of this category of business. This company merged with Apollo Insurance Company on 1st January, 2004 to form APA Insurance Company Limited. Pan Africa Insurance Holdings Limited was restructured in 2004 after the merger to form two wholly owned subsidiaries namely Pan Africa life Assurance Limited & P A Securities- which owns a 40% stake in APA Insurance, 100% stake in Mae properties & 25% stake in Runda water.

Apollo Insurance Company was launched in 1977 by the family of Mepa Kanji Shah, from a small room on the first floor of the Diamond Trust Building in Mombasa. The initial capital was Ksh. 1.2 million. The aim was to tap into the economic opportunities available in the insurance industry in Kenya as a result of the 1976 law requiring insurance companies to be incorporated in Kenya rather than be Kenyan branches of overseas companies. Apollo was the first locally owned insurance company in Kenya. Capitalizing on the sound management policies, Apollo has grown impressively over the years. In 1981, the Nairobi office at Hughes Building, Kenyatta Avenue was established. In 1984, Apollo House in Mombasa was acquired. In 1995, the Nakuru branch of Apollo was established at Giddo Plaza. In 1997, the Head Office was shifted from Mombasa to the Nairobi office. Life Agency offices have also been set up over the years in Kisumu, Meru, Nyeri, Eldoret and Kakamega.

The Life fund in Apollo grew in its first 10 years to Ksh. 34.4 million and to Ksh. 145 million in the second 10 years. By the year 2001, it stood at Ksh. 217 million with 6000 policy holders. The Health division was started in 1999. This division has grown tremendously and in 2003, generated premiums of over Ksh. 400 million. Apollo Insurance Company at the time of the merger was among the top 10 insurance companies in the country with an internationally recognized "A" credit rating from Duff & Phels. In 2002, the paid up capital was Ksh. 150 million and the total assets amounted to more than Ksh. 1,140 million.

1.3 Statement of the problem.

Central Bank of Kenya has been encouraging smaller banks to merge so as to have a solid resource base. The same applies to insurance sector. Insurance companies transfer risk to themselves and it is important that they have a strong resource base so as to handle risk efficiently. For this, it is imperative that smaller firms merge to form a bigger one and have strong financial, human resource and marketing base to serve the customers better without having to risk going into bankruptcy and face closures due to sudden large losses as they will be able to bear losses more ably if they are bigger and have a strong resource base.

The number of players in the insurance industry in Kenya is relatively large. There are 39 companies in a small market of about Ksh. 20 billion. Moreover, the economy has not been performing well with GDP growth rate of below 2%. The insurance firms thus reported a decline in premium income. The Republic of South Africa which accounts for more than 90% of premium in Africa has only half the number of insurers than in Kenya (Olotch, 1999). He thus suggests that local insurance companies should merge to create bigger but fewer units but little has been witnessed in this direction. Inspite of already having half the number of insurance companies in South Africa than in Kenya, mergers are still encouraged in South Africa and the government has raised capital bases for insurance companies from $50 million to $500 million, which will either lead to mergers or closure of weak institutions (Tendai Karonga, 2004). That very well illustrates the importance of mergers among insurance companies on the global scene. A sound national

insurance and re-insurance market is an essential characteristic of economic growth. Insurance is not merely a characteristic of economic growth but a necessity for the great majority of today's economies (Vels, 1999).

In Kenya, the premium income collected by seven major insurance companies under long term business, amounted to 84.6% of the total premium income collected by all the insurers under this class of business. All the other insurers in the country collected only 15.4% of the total premium under this category in the industry (Commissioner of insurance report, 2002). A review of the management expenses of the insurers for the year 2002 in the same report reveals that whereas these seven insurers collected 84.6% of the total industry premium in the above category of business, they spent only 42% of the total management expenses as incurred by all the insurers. The other insurers spent the rest of 58% of the management expenses whereas they had collected only 15.4% of the total premiums under the above category. This is a very strong case for mergers between the smaller and weaker insurance companies whereby they can benefit by cost-cutting measures and retrenchment. But this has not been happening in Kenya whereas on the global scene, this is a very common occurence where the legal machinery is in place regarding the mergers.

Recently this has started happening in the Kenyan insurance industry as well after having been preceded by mergers in the banking industry. The merger of Pan-Africa General Insurance Limited and Apollo Insurance Company Limited is an outstanding example on the local scene and will be a guiding force for the rest of the insurance industry. So it

would be very important to know the wisdom behind this merger, the factors leading to, the process undergone, the challenges faced thereafter and how the company coped with these challenges. The revelation of all these factors will motivate other players in the industry & they will be able to draw lessons for themselves. So a knowledge gap exists in the Kenyan situation as to the causal relationship between the factors responsible and the adoption of the strategy of merger which this study aims to fulfill.

1.4 Objectives of the Study.

The objectives of this study are to:-

(1) Establish the factors that influenced Apollo Insurance Company and Pan Africa General Insurance Limited to respond by merger.

(2) Identify the key merger processes undergone during this merger.

(3) Identify the challenges encountered after this merger.

(4) Establish how the company coped with those challenges.

These objectives are justified in that it will help the insurance industry to know what factors forced this merger in the Kenyan situation. Were the processes undergone in this case any different from what the firms undergo in the rest of the World? The mergers worldwide face difficulties in terms of cultural integration and integration of IT and other processes. Inevitably mergers lead to retrenchment as a part of cost cutting exercise and prove to be painful. It would be good to know the local experience in these areas.

1.5 Importance of the Study.

Once this study provides the answers to the above questions, it would serve as an instant source of information for the future and current staff and management of APA Insurance Company Limited as well for other firms in the local insurance industry. This is the first merger between the two insurance companies in Kenya in the recent past. The previous mergers took place quite sometime back. The merger between Union Assurance and Provincial Insurance to form UAP Provincial Insurance Company took place in 1993/94 & the merger between Heritage and AII to form Heritage AII took place in 1997. In view of the above, this study becomes even more important since it will provide answers to the above questions in the local perspective.

In academic terms, this study will contribute to the existing knowledge in the field of strategic management and act as a stimulus for further research to refine or extend the present study. This study will also serve as a guide to other firms and players in the insurance industry as to how best to respond to changing conditions, what challenges to expect after mergers and how to deal with them effectively. In a way, this study will not benefit only the APA Insurance Company but the insurance industry as a whole.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction.

This chapter deals with the literature review on the concept of strategy and the relationship between the environment, strategy and organizational capability. It also includes the literature review on mergers whereby the concept of mergers, objectives of the mergers, benefits of mergers, merger processes and challenges of mergers are discussed at length. Last but not least, the insurance industry in Kenya as well as mergers in the insurance industry on the global scene are explored.

2.2 Concept of strategy.

Strategy is the establishment of the long term goals and objectives of an organization including the taking of actions and allocation of resources for achieving these goals (Chandler, 1962). Strategy is also described as a pattern of objectives. purposes or goals and the major policies and plans for achieving these goals stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be (Andrew. 1971). Strategy is also identified as a plan that puts together an organization's major goals, policies and action sequences (Quinn, 1980). Strategy is said to be basically about competition and the means by which an organization tries to gain a competitive advantage (Porter, 1980). The only purpose of strategic planning is to empower an organization to efficiently gain a sustainable competitive edge over its

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competitors (Ohmae, 1983). According to this definition, the main purpose of strategy is to get a competitive advantage over the competitors.

Strategy is the long term direction and scope of an organization that facilitates the achievement of an advantage for the organization, through the mode of arrangement of resources within a changing environment (Johnson & Scholes, 1997). This would enable the organization to meet the needs of markets and to fulfill stakeholder expectations. Thus strategy is viewed as the matching of the activities of the organization to the environment in which it operates.

Strategy is also seen either as the building of defenses against competitive forces or as the finding of positions in the industry where competitive forces are weakest (Pearce & Robinson. 1997). The ability to identify and occupy attractive segments of an industry is critical to the success of an organization (Grant. 2000). The strategies an organization pursues have a major impact on its performance relative to its peers (Hill & Jones. 2001).

Strategic management is a way of conducting a firm (Hax & Majiluf. 1996). It has the ultimate objective of the development of corporate values. managerial capabilities, responsibilities and administrative systems that link strategic and operational decision making at all levels of the organization. Strategic management has been defined as a process through which a firm manages its relationship with the environment in which it operates (Ansoff & McDonnell, 1990). It consists of strategic planning, capability planning and management of change. Strategic management. therefore, is a continuous

activity that enables the organization plan for the exploitation of opportunities using its internal strengths while minimizing the impact of threats posed by the environment in the light of the organization's weaknesses. Strategic management has been described also as a process, directed by top management but engaged in throughout the organization, including the involvement of those concerned with satisfying customers' legitimate needs (Cole, 1997). It ensures the attainment of those fundamental goals through the adoption of adequate decision-making mechanisms and the provision of adequate resources for the planned direction for the organization over a given period.

Strategic management is a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives (Pearce & Robinson, 1997). It involves planning, directing & controlling the strategic decisions and actions of the business. Strategic management is described by some as the art and science of formulating, implementing and evaluating cross functional decisions that enable an organization to achieve its objectives (David, 2001). It implies focusing on integrating management, marketing, finance, accounting, production, operations, research & development and computer information systems to achieve organizational success.

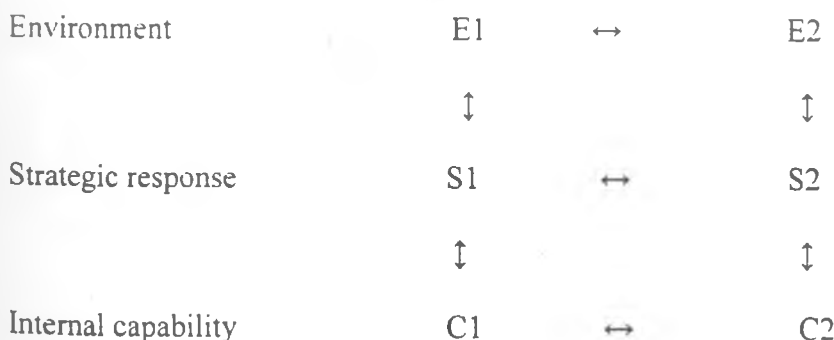
2.3 Environment, Strategy and Organizational capability.

As discussed earlier, firms are open systems and are directly influenced by the changes in the environment. Open systems are those which do interact with the environment, on which they rely for obtaining essential inputs and for the discharge of their system outputs (Cole, 1990). Firms, therefore, as open systems must interact with their

environment for survival as it gives better part of its resources to those firms that conform to its standard and weeds away those that don't.

As the firm's environment changes, it is necessary that the firm continually adapts its activities and internal configurations to reflect the new external situation (Aosa. 1998). Failure to do this endangers the future success of the organization. Firms create and sustain competitive advantage because of the capacity to continually improve, innovate and upgrade their competitive advantage overtime (Porter, 1991). Upgrading is the process of shifting advantages throughout the value chain to more sophisticated types and employing higher levels of skill and technology.

A successful strategy is consistent with the organization's goals and values, external environment, resources and capabilities and organizational systems (Grant, 2000). This indicates the fact that the organization depends on the environment for its survival and the responses to the environmental situation will determine its performance. Thus when there are changes in the environment, the organization's capability & strategy would have to be changed in order to ensure a continued "strategic fit".



Ansoff's strategic success formula clearly explains the relationship between the environment, the strategy and the internal capability of a firm. Whenever there is a change in the environment of a firm, the firm is forced to respond by a change in its strategies to suit that new environment. Because the firms are environment serving and have no control over the environment, they must respond in order to survive and maintain their competitive advantage otherwise they shall perish. The change in the strategy in turn requires resources which must be acquired in order to implement the new strategy. So there will be a change in the internal capability of the firm which will again, in turn, influence the choice of strategy. Better the internal capability of the firm, better it will be in a position to implement the new strategy and also in the choice of the best suiting strategy out of a choice of a few or many strategies available. Weakness or strength in the internal capability of a firm can also serve as a factor responsible for the choice of a particular strategy. For example, the weakness of a firm in its internal capabilities in certain area and the strength of another in the same area could prompt them to adopt the strategy of merger for achieving synergy.

Drucker (1954), Chandler (1962), Andrews (1971), Porter (1980), Pearce & Robinson (1997) concur on the fact that firms are open systems and are dependent on the environment. The writings of Ansoff (1965) & Andrews (1971) on the need for organizations to interact with their environment were instrumental in triggering off the adoption of corporate planning by business firms before the environment became turbulent in the early 1970s. The forces of change are frequently the result of some external forces such as increasing competition, new legislation or expectation of

customers (Senior, 1997). Responsiveness and flexibility are increasingly important factors that determine the success of an organization (Grundy, 1995).

Various different types of strategic responses are available to the organizations e.g. restructuring, marketing, IT, cultural change, mergers, acquisitions, strategic alliances etc. In this study, we are more particularly interested in the strategic response of merger.

2.4 Mergers.

2.4.1 Concept of merger.

A merger is said to occur when two or more companies come together voluntarily and combine into one company. Mergers are more usually the result of organizations coming together actively seeking synergistic benefits or perhaps as a result of common impact of changing environment in terms of either opportunities or threats (Johnson and Scholes, 1997). A merger/acquisition is also defined as combining two or more firms into a single enterprise/gaining possession of an ongoing enterprise (Zeithami & Zeithami, 1984). A merger is also said to occur when two companies form one corporation by mutual agreement (Bateman & Zeithami,1993).

A merger may take place through absorption or through consolidation. Absorption involves combination of two or more companies into an existing company. All the companies except one lose their separate identities. Merger applies to the consolidation of two companies of about equal in size whereas acquisition applies to a large firm taking over a smaller one (William et al, 1989). In other words, most acquisitions occur by

absorption of a smaller company into a bigger one and in consolidation all the companies dissolve and a new company is formed.

The same applies to our subject of study i.e. the dissolution of Apollo Insurance Company and Pan Africa General Insurance Company led to the formation of APA Insurance Company by the consolidated merger of the two.

2.4.2 Objectives of mergers.

There is strong evidence indicating that corporate takeovers generate net aggregate gains, resulting in benefits to the acquired firms' shareholders and no losses to the acquiring firms' shareholders. The cause of many of the mergers and acquisitions has been the desire to achieve greater cost savings and revenue generation and to improve the firm's overall financial position and solvency (Cornett and Saunders, 1999). Mergers are usually initiated for strategic or financial reasons.

Some M&As tend to happen in industries that have substantial overcapacity. These tend to be older, capital intensive sectors such as automotive, airlines, steel and petrochemical industries. The acquirer closes the less competitive facilities, eliminates the less effective managers and rationalizes administrative processes. Ultimately the acquirer has greater market share. Overcapacity acquisitions are aimed at reducing capacity and duplication. They are mostly as a result of shrinking World markets.

Therefore this objective can be chosen in markets which are static (Johnson and Scholes, 1997).

Mergers also take place to create synergy. Mergers create synergetic gains if production, administrative and marketing costs of the merged firms are smaller than the sum of these costs for the two individual firms before the merger. In some situations, alliances and mergers with domestic or foreign firms may help ameliorate adverse performance prospects (Ohmae, 1989). Merger is believed to be a strategic decision that leads to maximization of growth and sustaining of viable firms. Growth leads to increase in shareholders' value and higher profits. Increased capacity and capability can be achieved making the combined firm achieve competitive advantage.

The need for diversification also makes firms consider acquisition and mergers as a means of reducing risk where the combined firm's risk is less than the weighted average of the risks of the two individual firms prior to the merger. Firms merge to become more diverse, gain market share or penetrate new markets (Alkhafaji, 1990).

Three main reasons have been emphasized for mergers viz. to reduce competition, to manage interdependencies with sources of input/output and diversification (Pfeffer, 1972b). Merger represents the most complete solution to situations of organizational interdependence as it involves the total absorption of either a competitor or the acquisition of an organization operating in another area. Because it does involve total

absorption, merger requires more resources & is a more visible and substantial form of interorganizational linkage (Mintzberg & Quinn, 1991).

Companies may pursue a merger to reduce their tax burden. This situation may occur if one firm has made losses and another has made profits. The loss making firm pays no tax but the tax burden for the second firm will be smaller if the two firms merge hence their aggregate net profit will be lower leading to a lower tax liability. In cases of increased borrowing, the merged firms may enjoy the tax liability because of debt in tax-deductible expenses. This in turn helps to increase the profits/value of the shares of the firm. Mergers are made for growth and growth is brought of the relationship between firm size and marginal salaries (Reid, 1968).

Some mergers take place also due to statutory requirements. Commissioner of insurance (2002) report shows that some insurance companies could not meet the minimum solvency margins in certain types of businesses. It would have been much better for such insurance companies to merge together so that they have a better resource base to develop and be able to meet the solvency margins.

Mergers potentially decrease competition. The two firms no longer compete with each other and may compete more effectively with other large companies. Firms also merge to realize economies of scale, consolidate expenses and achieve access to markets, products, technology, resources & management talent (Bateman & Zythami, 1993). Salton &

Weinhold (1999) concur with the fact that M&As are the principal vehicles by which companies enter new product markets and expand the size of their operations.

2.4.3 Benefits of mergers.

Mergers help achieve positive and cross-promotional synergies by combination of skills and competencies. Mergers help ease of entry into certain markets and to help achieve economies of scale and scope. They also provide access to modern technology and best practices in business processes and help to achieve the desired return on investment in shorter timescales e.g. in the pharmaceutical industry whose lead-time for return on investment of R&D is upwards of 18 months. Most firms merge to reduce their tax liabilities. The prospect of solving the problem of competing in a difficult industry by buying a competitor or diversifying into a related field is very appealing. Acquisition is an attractive means of growth because of the rapidity with which this can be achieved through the external route of acquiring an existing business as opposed to the internal route of building up capacity by purchasing the necessary assets such as a plant, premises etc. (Bateman & Zythami, 1993). A sound merger must provide benefits in terms of time and expense. A merger must offer strong advantages over internal expansion (William et al. 1989).

2.4.4 Merger processes.

As soon as the idea of a merger is conceived in the mind of one of the merging partners and it is put across to the other party, negotiations usually can begin after a positive

response from the other merging partner. Negotiations are usually about which people to retain, who will keep which position, who will be the dominant party, about the sharing of resources, about deciding the place of business and most important who will run the show. Even before a letter of intent can be signed, it is imperative to conduct the evaluation of the target's operations from a risk management perspective to identify exposures or items that could impact the deal or even your strategy to merge. Such exposures could include: - Environmental liabilities. heritage or legal liabilities, business integration and other catastrophe exposures that put the target's enterprise value in question (William et al. 1989).

The role of the chief integration officer (CIO) is very important. Most important is for IT integration of two merging companies to go on fast and smoothly. Planning is important. 75% of the integrating effort during a merger is to determine which systems to keep. what data is important and how much integration is actually needed before the companies are technically joined. Once that planning is complete, the actual hands on work should be just like any other IT project- only a little more exciting (Bworthen, 2000).

Once a company has decided to grow by merger. the first step for the CIO is to come up with a detailed map of the company's IT infrastructure and communicate to the other executives that the company is ready to do a merger. Even before a merger candidate is chosen, the CIO needs to have explicit knowledge of his own architecture and what the most important systems are. Good scalable architecture makes integrating two companies possible. It is important to make sure that the base technology that is in place, is the

technology the company wants to grow with (Lippert, 2004). If the company does not have a scalable architecture in place, it should be made known to the business executives before the company starts down the merger path, otherwise the consequences are deadly. Once a merger is proposed, there are two separate but equally important steps to go through- Diligence and Planning.

The Diligence Phase is realistically the last chance to call off the merger before both sides commit and as such a CIO should be looking for red and yellow flags that suggest the integration will be harder than expected and budgeted for. Conversely the CIO of the acquiring company can also be looking for positive reinforcement: systems or processes from the other company that reminds everyone why the merger seemed like a good idea in the first place (Bworthen, 2004).

An examination of the Cultural differences between the two companies planning to blend must be part of the diligence phase. Owen Flynn (2004) warns that when it comes to systems integration, cultural differences can be a ticking bomb. It is advisable to spend as much time with the employees as is spent with financial analysts. People care about where they work. Make them a strategic partner. Get people of the two companies together as early as possible. Discuss the issues that were the perceived potential benefits behind the merger openly and frankly. If company A's strength is in sales and they are absorbing company B in part because of B's distribution capabilities, make sure A's distribution people know to listen to B's distribution people and B's sales force understands the opportunity to learn from A (Jeffrey Sonnenfeld, 2004).

Reduce the number of people. Cost savings through combining redundant tasks is a common goal for mergers. The trick is to release the people least well equipped to contribute in the new organization and to hold on to the "best" people. Make sure the evaluation of "best" looks at both companies' people equally. Be honest and frank with the people. Progressive corporations have realized that a merger is in name only without the positive support of the newly acquired human resources (John Reh, 2004).

Merging two companies with their different policies, procedures & culture will create stress for all the people involved. The "survivors" from both companies will have to deal with new people, new procedures, possibly more work & the loss of previous co-workers and friends. Be realistic in your workflow planning. Plan for people to be less productive than normal as they deal with the changes. Expect to lose some good people who are not comfortable with the new organization (Schoenberg. 2000).

Once the diligence phase is complete and the two sides agree to go ahead with the merger, planning begins. The goal of the planning phase is to break the seemingly daunting task of integrating the two companies into a series of smaller IT projects. It is crucial that one of the two partners emerge as the driving force behind the integration. The planning will go nowhere until a dominant side emerges (Bworthen, 2004).

Once the plan is complete, the Integration work can begin in earnest. Just as there needs to be a dominant side in the planning phase, the integration work itself has to have a single person who is ultimately accountable. To successfully integrate two companies, a

CIO needs to be aggressive and understand that he is working towards a business goal. But you also have to get creative. You go through and you throw so much out, only keeping what you have to. Actually it is a lot like cleaning out the garage (Bworthen, 2004).

A merger affects different functions differently. Each function is important to the success of a merger. IT/MIS – Merged companies may need to get their systems harmonized in record time and smooth integration of operations can be critical to the company's new public image. HR/Personnel- The first issue to resolve is whether to combine your company's plan with the merging company's. Your answer in most cases will be yes. Product Management/Operations & Marketing - It should be noted that after a major merger, the product management function in the controlling company is usually knocked off stride a bit. Business Perspective - "Getting" hitched involves more than just deciding whose name to use, where to set up shop & who runs the show. Walk the Talk- If we as managers truly believe that people are our most important asset, we need to treat them that way. A merger gives us an opportunity to do well by our people by being honest with them, keeping them in the loop & giving them all the information we can as early as we can. Do that and you will keep more of the good people from the company you are acquiring and from your own company (Sonnenfeld, 2004).

2.4.5 Challenges of mergers.

After the official announcement of a M&A deal, communications are often content free. They primarily consist of deal promotion and do not respond to stakeholder concerns.

Consequently, there are always more questions than answers. Communication is a stabilizer. It keeps people focused and energized rather than confused and perplexed. When stakeholders (employees, customers, suppliers and investors) spend time wondering about what will happen next, they are less productive. Early and frequent communication on issues of relevance to stakeholders can help retain productivity and have a positive and immediate impact on the bottom line. Early communication is critical. Communication of key goals for the merger, integration strategy and process, needs to include line management, in order to ensure ownership and support for the process. How to deal with people is the biggest challenge. Retain the best in each department. Get people from each merging partner to listen to the other side wherever they are better (John Reh, 2004).

Mergers are more typically the result of organizations coming together voluntarily because they are actively seeking synergistic benefits, perhaps as a result of the common impact of a changing environment in term either of opportunities or threats or of the excessive cost of innovation. This may encourage managers in both organizations to work harder at overcoming problems of post-merger integration (Sudarsanam et al, 1996).

There are three main approaches to issues of cultural fit. First is the decision that parent culture will remain and to put efforts for the joiners to adapt to that culture. Second is to try to build a hybrid culture that combines the features of both organizations, in fact, a difficult task. Third is the decision to keep the previous cultures intact and separate. This

option can work where the reason for acquisition is financial rather than strategic (Gregory, 1997).

Cultural integration is more complex than some executives assume. Many times this aspect is overlooked for more tangible deliverables. Integrating two cultures requires swift alignment of idiosyncratic behavior sets and policies. Where acquisition is being used to acquire new competencies, this 'clash of cultures' may simply arise because the organizational routines are so different in each organization. Cultural fit can be even more problematic with cross-border mergers. This is because of the added complication of different national cultures (Schoenberg, 2000). Cultural differences must be addressed swiftly. By creating profiles that support business strategy, consistent with the professional values and economic drivers, it will enable management to rapidly select, deploy, motivate and coach "role models" that will *lead by example*.

The expected synergistic benefits, which are often the cited reasons for acquisitions, are not realized because of the inability to integrate the new company into the activities of the old (Larsen & Finkelstein, 1999). IT integration between merging firms is of utmost importance to determine which systems to keep, what data is important and how much integration is actually needed before the companies are actually joined (Bworthen, 2000).

M&A is not a guaranteed way to improve financial performance. It may take the acquiring company considerable time to gain any financial benefit from acquisitions. As many as 70% of acquisitions end up with lower returns to shareholders of both

organizations. Importance to non-economic factors such as previous experience of acquisitions, decisions on whether to remove or retain executives of the acquired company, the management of post-acquisition cultural issues and the level of employee resistance to the change of ownership, should be considered as very crucial (Gregory, 1997).

There are some other important areas which require to be addressed. The issues arising in mergers most often are usually of corporate governance, tax & contractual issues (Wmanning, 2004). These issues need to be dealt with at the pre-merger as well as at the post-merger stage. The spending of incredible amount of money, time & legal complications also pose a major challenge. 50% never achieve the initial financial & market goals projected (Copyright, 1998-2000).

2.4.6 The Insurance Industry in Kenya.

Formally organized insurance whereby the relationship between the insured and the insurer is documented in a contract (policy) is relatively new in Kenya. However the phenomenon of insurance whereby the loss of one or few is shared by many has always existed in nearly all the ethnic societies that now constitute the Kenyan Nation. For example, among the Akamba, if by accident, a man killed another, the family and clan of the killer would compensate the family of the deceased. Even if the killer was very wealthy, he was not permitted to make the payment alone without a contribution from the family and the clan.

As the demand for the services offered by the formally organized insurance industry in Kenya is a function of economic development, there was very little "development of either" during colonial Kenya. This is mainly because the colonial power did not get involved in any sizable economic development projects that would in turn have created demand for insurance services. The limited demand that there may have been, was met by the foreign companies that operated branches in Kenya. In 1979, all foreign owned and incorporated insurance companies in the country were asked to accept local shareholders and to incorporate locally. The government acquired controlling interest in what was called Kenya National Assurance Company (which has since collapsed) and later established the Kenya Reinsurance Corporation. The second development plan (1970-1974) acknowledged that the insurance companies were the most important non-bank financial intermediaries in Kenya.

During the fifth national development plan (1984-1988), the financial strength of non-bank financial institutions (of which insurance companies are the most important) grew faster than that of the commercial banks. As the non-bank institutions became progressively more important, it became necessary to put in place regulatory framework to govern such institutions. So the office of the commissioner of insurance and The Insurance Advisory Board of Kenya was created by the Insurance Bill of 1984. The purpose was to strengthen regulations to ensure that any organization or company which received premiums to buy policies or properties was well managed and had adequate capital for its purposes. The ability of the insurance companies to sustain themselves and to be able to honour their obligations was the main purpose. Ever since insurance

companies have been mushrooming in Kenya with the result that today all big and small ones included, there are 39 insurance companies in a very small insurance market of Kenya (AKI Website, 2004).

All the Kenyan insurance companies fall under the umbrella of Association of Kenya Insurers. The membership of the association currently stands at 39. Out of these, two companies namely Jubilee Insurance Company Limited and Pan-Africa Insurance Company Limited are listed on the Nairobi Stock Exchange. Membership of the association is open to any insurance company registered under the Insurance Act to conduct business in Kenya and which meets the criterion for membership of the association (AKI Website, 2004).

Kenyan general insurance business environment has been characterized by increased competition. The effects of premium undercutting together with difficulties related to premium have been felt by the industry. Kenyan insurance market is a very small market of only Ksh. 20 billion with as many as 39 insurance companies operating in this market. The GDP growth rate is below 2%. The premium income is on the decline. A review of the gross direct premium incomes of insurers under long term insurance business revealed that out of a total of Ksh. 7.2369 billion of premiums collected by all insurers. 53% was collected by only three firms namely Alico(16.34%), British American (14.2%) and ICEA (22.4%). Further 31.6% was collected by other four firms namely Pan Africa Life (8.3%), Madison (8%), KenIndia (8 %) and Jubilee (7.6%). This means only the above seven firms collected 84.6% of the total premium in this category. All the other

insurance firms combined collected only 15.4% of the total premium under this category in the industry (Commissioner of insurance annual report, 2002). This means that these seven firms dominate the industry and all the others are really small timers.

The same annual report shows that out of a total profit of Ksh.3.828721 billion of the insurers in year 2002, 73% was shared among five insurers namely Ken India (24.4%), Old Mutual (18.6%), ICEA (12.44%), Heritage AII (9.26%) and Jubilee (8.31%). The rest of 27% was shared by all the other insurers in the industry. This also means that the above five insurers combined took 73% of the total industry profits whereas they had collected 44.45% of the total industry premium under long term business. The rest of the insurers combined had collected 55% of the total industry premium but shared a total of 27% of the profits out of a total of Ksh. 3.828721 billions.

The management expenses of the insurers for the year 2002 in the same report revealed that out of total management expenses of Ksh. 8.819391 billions. 42% was incurred by only seven insurers. These included Alico (8%), B.A (5.84%), ICEA (4.08%), Pan Africa Life (6%), Madison (4.84%), Ken India (8.42%) and Jubilee (4.85%). The rest of the insurers incurred 58% of the total management expenses in the industry. These seven insurers collected 84.6% of the gross direct premium income of all insurers under long term insurance business but spent only 42% of the total management expenses for all the insurers. The rest of the insurers collected only 15.4% of the gross direct premium for all the insurers but spent as much as 58% of the total management expenses as incurred by all the insurers. The report also showed that as at 31st Dec., 2002, fifteen insurers were

not able to meet the solvency margins in the long term insurance business and two insurers were not able to meet their solvency margins in the general insurance business (Commissioner of Insurance annual report, 2002).

In view of the above scenario, the future of the insurance industry in Kenya is worrisome unless the smaller insurance companies start coming together and save themselves from collapsing. Otherwise they are at a risk of meeting the same fate as that of smaller banks in the past which had to merge together after the Central bank made regulations about the minimum capital requirements for each bank. The commissioner of insurance is encouraging mergers in the insurance industry. An example has been set by the merger of Apollo Insurance Company & Pan Africa general insurance which have led the rest of the insurance industry in responding to the current environment by merging together. So a study of the factors responsible for this merger, the processes undergone and the challenges faced thereafter is very crucial for the rest of the insurance industry. Some lessons will be drawn from this study which will serve as an inspiration as well as a learning guide for other players in the industry so that they can adopt or adapt themselves to them.

2.4.7 Mergers in insurance industry.

After the wave of mergers in banks, mergers in the insurance industry are prevalent in Europe, Americas, Australia, and South Africa. The number and value of mergers & acquisitions for all financial services sectors in USA peaked in 1998 with 1278 deals worth US$ 415 billions (Loma Website, 2004). Insurance companies were deregulated

after the formation of EU so that the insurers could operate throughout the EC if they were licensed to operate in one European country. This deregulation led to the unprecedented wave of mergers & acquisitions. From 1990 to 2002, there were 2595 mergers & acquisitions involving European insurers of which 1669 resulted in a change in control. As a whole, the transactions led to substantial value creation (Cummins & Weiss, 2004).

The trend of mergers in the health insurance industry in the USA is increasing. The President of American Medical Association – Donald J. Palmisano MD is alarmed by the mergers in health insurance industry and fears that competition has already reduced and is reducing. He says, "The model of a traditional not-for-profit health plan, which operated for the benefit of the community, seems to be disappearing (AMA website, 2004).

The necessity of mergers among insurance companies in Jordan has been deeply felt. Mohammed (2000) reported, "According to Basel Hindawi, head of the newly formed insurance regulatory committee, Kingdom's insurance companies face severe competition from abroad due to their small size & inability to meet the high financial commitments that were within the capacity of big foreign firms operating in the Kingdom. He said that insurance companies' mergers were a strategic option that would help restructure the domestic sector and encourage it to develop. He further said that movement of foreign companies into the Jordanian market could cause many firms to disappear thereby stripping the country of a significant source of hard currency. But

mergers would enable local companies to accommodate the entire market and they might lead to the creation of new insurance companies able to reach the Arab & regional markets."

Japanese marketplace has demonstrated three trends: M&As among insurers, the emergence of new competitive parameters and the convergence of financial services. Financial market deregulation, globalization & the e-revolution are rapidly reshaping the competitive landscape of Japan's US$ 500 billion insurance market, the World's second largest. Japanese insurers are actively seeking consolidation to stay competitive, turning towards M&As in an effort to solidify existing business relationships and fend off potential contenders from overseas and other domestic industries (Download, 2000).

In South Africa, there are new requirements compelling insurance companies to raise their capital bases from $50 Million to $800 Million and that of re-insurance companies to $ 2Billion. This could either lead to tie ups within the industry or closure of weak institutions. Mergers could be imminent, failure of which could lead to the collapse of some companies (Tendai, 2004).

In Australia, following a series of bank mergers which transformed that industry into one of overwork & precarious employment, the merger of big insurance firms is seen as the start of a similar process. All mergers are about economies of scale. They are a cost cutting exercise which places the interests of shareholders above that of the staff and the general public (Kirsty, 1999). The insurance industry has a very big challenge ahead.

That challenge is how to address the needs of staff and customers in the face of the demands of shareholders. A lot of lessons learnt during the bank mergers will be helpful in the insurance sector too.

2.4.8 Conclusion.

As can be seen from the above literature, insurance industry mergers are quite common and rampant in the rest of the World. In Kenya, the merger between Apollo Insurance Company and Pan Africa General Insurance to form APA Insurance Company is the first one of its kind in the recent past and therefore it is interesting to study this merger closely and see what lessons can be learnt in the local perspective which will be useful to other members of the insurance industry and other stakeholders.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction.

This chapter deals with the research design used in this study and how the data was collected and analyzed.

3.2 Research design.

This is a case study. This method was chosen as it allows for an in depth investigation of the study unit. This study unit is important because this is one of the first mergers between two insurance companies in the recent past on the local scene. This study can tell us whether there are any unique factors, relating to this company, which influenced this merger or whether there are some factors distinct to the Kenyan insurance industry or whether the factors which influenced this merger also apply to the mergers worldwide in general.

This study can also shed light on the issue of the merger processes undergone and the post-merger challenges faced by APA Insurance Company and how these related to the merger processes and post-merger challenges faced by companies worldwide.

"A case study involves a careful & complete observation of a social unit- a person, institution, family, cultural group or an entire community- and emphasizes depth rather than the breadth of a study"(Kothari, 1990).

3.3 Data collection.

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In depth personal interviews involving senior executives from the company were used to provide the primary data. The executives in the administration & HR, marketing, IT, purchases, finance, underwriting, public relations etc. were targeted for interviews. The senior most executives from each of these departments were selected for interviews but where this was not possible, next layer of management was considered. Efforts were made to include some long serving employees in junior posts at the section head level preferably who had worked for more than five years from both merging partners, to establish as to the differences in the cultures of the merging partners and how they were able to blend the different cultures together and how they were able to learn from each other after the merger. The data was collected by using an interview guide. The interview guide questions were derived from the literature review carried out in chapter two of this paper. In depth probing during the interview was used as well to get more information whenever deemed necessary.

3.4 Data analysis.

The qualitative data thus collected was subjected to content analysis. Content analysis was chosen because it is very useful for analyzing qualitative data. Content analysis guards against selective perception of the content, provides for the rigorous application of reliability and validity criteria and is amenable to computerization.

Content analysis follows a systematic approach starting with the selection of a unitization scheme. The first evaluation uses syntactical and referential units to select categories. The second evaluation uses propositional and thematic units where applicable. Statistical algorithms are applied to create categories from open ended responses. The computer program also automatically penetrates the chaos of diverse answers by stemming, aliasing and excluding words that obscure important terms which are necessary to define meaningful categories.

CHAPTER FOUR: FINDINGS AND DISCUSSION

4.1 Introduction.

This is a study of APA Insurance Company Limited which came into existence on 1st January, 2004 as a result of the merger between Pan Africa General and Apollo Insurance Company Limited. Pan Africa General was the wholly owned subsidiary of Pan Africa Insurance Holdings Limited which was incorporated on 26thOctober, 1946 under the name Indo Africa Insurance Company Limited. Pan Africa General was dealing with general insurance business and had made steady growth over the years and in the year 2002 attained a premium income of Ksh.500 million and was merged with Apollo Insurance Company Limited on 1st January. 2004. Apollo Insurance Company was launched in 1977 with an initial capital of Ksh.1.2 million and has been engaged in Life and General insurance business. It has grown steadily over the years and in the year 2002, its paid up capital stood at Ksh.150 million and the total assets amounted to more than Ksh.1140 million.

This study aimed to identify the factors that influenced the merger between Pan Africa General and Apollo Insurance Company Limited, the merger processes undergone and the post-merger challenges faced. The data was collected by using the interview guide. Eleven (11) senior executives from different departments were interviewed in depth and came out with different types of information related to their respective departments. They

were from the departments of Business Development, Medical, ICT, Claims, Legal. Finance, Marketing, General and Underwriting. Out of the eleven executives interviewed. four (4) were originally from Pan Africa General Insurance Limited, while seven (7) were from Apollo Insurance Company. Each of them had worked between 3 and 20 years in their original companies. The respondents held the positions of CEO, Director, Underwriter, Officer-General Department, Supervisor-Claims Department, Business Development Manager, Chief Accountant/Financial Controller, Legal Officer, Assistant Manager-Claims Department, Director-ICT etc.

4.2 Urgency for the merger.

The first objective of this study was to identify the factors that influenced the merger between Pan Africa General and Apollo Insurance Company. The data analysis has revealed very many interesting factors that influenced Pan Africa General and Apollo Insurance Company to merge together. It was important to identify these factors so that we could know what influences the companies to come together in the Kenyan Insurance sector and whether these factors are unique to the Kenyan situation or are consistent with factors that influence insurance companies to merge worldwide. The data was collected by in depth personal interviews of all the four interviewees who were former employees of Pan Africa General and all the seven interviewees who were former employees of Apollo Insurance Company. Each one of them came up with interesting information regarding the situation in their companies and the factors that contributed to the conception of idea of a merger in the minds of the management/owners of their respective

companies. In the following paragraphs, we shall discuss the findings in relation to such factors that influenced this merger.

When the respondents were asked to explain what in their opinion, were main factors, that influenced their respective companies to merge with the other, the following responses were received. These were (1) Lack of internal capacity on the part of Pan Africa General to handle general business (2) Increased competition and expectation of shareholders of Pan Africa General and (3) To gain more market share and become much stronger on the part of Apollo Insurance Company. These motives for merger fully coincide with the statement of Cornett & Saunders (1999) who state that the cause of many of the mergers & acquisitions has been the desire to achieve greater cost savings and revenue generation and to improve the firm's overall financial position & solvency.

South African Life Insurance (Africa Life) which was the majority shareholder of Pan-Africa Insurance Holdings Limited holding 47% of shares had a management contract with Pan Africa Insurance Holdings Limited. In South Africa, this company was exclusively dealing with life insurance. They had no experience in managing general insurance. The board of Pan Africa Insurance Holdings Limited decided to separate life and general business. They decided to look for a strategic partner to manage general insurance business since they did not have internal capacity to manage it. So lack of internal capacity to manage general insurance was a driving force on the part of Pan Africa General to merge with Apollo who had such a capacity. Moreover, when Africa Life acquired majority shares in Pan Africa General through Pan Africa Insurance

Holding Limited, they expected higher returns and wanted the company to be run properly by those who had adequate experience in handling general business. On the other hand, Apollo was growing well and the owners aspired for more market share and wanted to become much stronger. So when Pan Africa General started their search for a strategic partner in the industry, Apollo saw the opportunity and agreed for the merger.

It was also felt that Pan Africa General lacked in human resource management, administration, marketing and financial skills and that the company was making losses before the merger. There was a lot of bureaucracy in the system. The culture of doing things was too traditional. Even if somebody wanted to innovate new ways of doing things, they were held back by bureaucracy and tradition. So there was an urgent need for a change for the company to survive. The respondents from Pan Africa General also agreed that this company lacked in technology. There was an urgent need to upgrade their IT system. Apollo Insurance Company was at the same time in the process of upgrading theirs. This made it convenient for Pan Africa General such that now after the merger with Apollo, there was no need to start looking for a new IT system.

It was also revealed during the interviews that the owners of Apollo were not satisfied with the market share. They had high aspirations to grow and expand and considered it prestigious. They also wanted to extend into new markets and products. Bateman & Zythami (1993) agree to this fact that mergers can help firms to achieve access to new markets, products, technology, resources & management talent. Salton & Weinhold (1999) also concur with the fact that M&As are principal vehicles by which companies

enter new product markets and expand the size of their operations. So it was a good opportunity for Apollo when they found Pan Africa General looking for a strategic partner to merge with. Apollo Insurance Company had the internal capacity to manage, Pan Africa General had the market and wider network of branches but lacked skills of managing general insurance business. So synergy creation was also a major factor contributing to this merger. This finding coincides with the views of Ohmae (1989) on mergers being created for synergetic gains.

4.3 The merger processes that were undergone.

The second objective of this study was to identify the merger processes that were undergone during this merger. The idea was to establish how and who conceived the idea of merger, how the negotiations were carried out, whether due diligence was carried out and how the integration of the two companies took place. To achieve this, in depth personal interviews from seven former employees of both merging partners were carried out. Of these two were former Pan Africa General employees and five were former Apollo employees. Each individual came up with very interesting information about their companies and departments. The following facts were obtained.

Africa Life, who was the major shareholder of Pan Africa General with 47% shareholding, had seconded a director to act as CEO of the company. Africa Life did not have the experience to manage general business, so it *conceived* the idea of looking for a strategic partner who was efficient and had the skills to manage general insurance

business. While they were searching for a suitable partner in the local insurance industry in around early 2002, Apollo saw this opportunity and consented to come together and merge. Pan Africa General also saw Apollo having what they lacked- internal capacity to manage general business, an upcoming new IT system and financial & marketing skills. So *negotiations* were carried out between the CEOs of the two companies and in early 2003, an intention to merge by the two companies was released in the press but the staff of the two companies had already been informed by their respective CEOs. At the same time, the first application to the regulatory authorities was made starting with the Commissioner of Insurance. While the Commissioner of Insurance was already encouraging mergers in the local insurance industry, he gave his nod. Then the applications were made to Nairobi Stock Exchange for approval because Pan Africa General was a publicly quoted company. Other applications were made to the Capital Markets Authority, Commissioner of Monopolies and Ministry of Finance for approval. William et al (1989) concur with the fact that negotiations and evaluation of the target's operations as to environmental liabilities, heritage or legal liabilities etc. are a very important step in the merger process.

While all this was going on, due *diligence* was performed in early 2003 by the CEOs of the two companies with the help of a few committees that were formed involving personnel from each department of the two merging partners. This involved evaluation of the other merging partner as regards to legal liabilities, environmental liabilities and other factors which could be detrimental to the firm and to carry out the evaluation of the IT infrastructure. Of course, either party had also appointed their own advisors, lawyers,

accountants, auditors, bankers etc. The two CEOs from both sides were appointed to oversee the merger process. Each party had also appointed their own consolidating agents to oversee the merger. CFC Financial services were appointed on behalf of Pan Africa General and a financial advisor was appointed on behalf of Apollo Insurance Company. The importance of due diligence has been well emphasized by Bworthen (2004) which was duly performed by both merging partners. Lippert (2004) stressed on drawing a detailed map of the company's IT infrastructure which was also duly performed by the merging partners in this study.

The *negotiations* about the retention of the people, sharing of the posts, about whether to shift the head office and where, and the place of business were done by experts through joint discussions. Apollo Insurance Company emerged as the dominant party in the merger with 61% shares for Apollo and 39% for Pan Africa General, the total shareholding being approximately Ksh.300 million. This was a cashless transaction. The whole transaction was settled by asset allocation. The head office was retained at the venue of the Apollo's premises. So all the staff from Pan Africa General had to shift to the offices of Apollo Insurance Company.

The *integration* process to integrate the functions of the two companies and to join them physically was started in mid 2003 under the guidance of the CIO who was also the CEO of Apollo Insurance Company. The IT integration as regards to which systems should be kept and which data was important was performed by IT experts from both companies. The IT infrastructure of the two firms was evaluated and communicated to the other

executives. The integration of the different departments was carried out by a series of small projects. This included looking for negative and positive points in both companies, looking for cultural differences, getting the people of different departments together, ascertaining weaknesses and strengths, retrenchment for cost savings, making the staff understand the benefit behind the merger and taking them into confidence as they needed to adjust to different procedures, policies and cultures. Training sessions for all the staff in customer care and team building were carried out every Friday. All the members get together, play games, talk, discuss and relax apart from normal office work. It is a continuous exercise and is still going on. The various managers in their respective departments are the in charge of their departments for creating harmony but mainly the CEO of APA Insurance Company is responsible for team building and team work and to see harmonization with the help of various managers. The integration process was complete by 1stJanuary, 2004 when the merger was said to have officially taken place. Owen Flynn (2004) also emphasized on the examination of the cultural differences between the two merging partners. In this study, this was duly performed. Bworthen (2000) also laid a great stress on the importance of IT integration during the merger process. This was also duly performed during this merger. In this study, the process of integration was conducted by planning into smaller projects. This has been very well supported by Bworthen (2004) in his studies.

4.4 The challenges that APA has faced since the merger.

The third and the last objective of this study was to identify the difficulties that the new formed company has faced since the merger. Whenever two individuals marry or two

companies merge, there are bound to be some differences and difficulties which need to be overcome for the smooth sailing of the new relationship. It is important to identify the difficulties faced after this merger so that other players in the field can benefit from the experience of this merger and expecting certain peculiar difficulties relating to the local scene, can be prepared to tackle them efficiently. The data regarding the post-merger challenges was collected by in-depth interviews from eleven executives out of which four were former Pan Africa General employees and seven were former Apollo employees. Each one of them came up with interesting information regarding the post-merger challenges faced in their departments. In the following paragraphs, we explain and discuss such difficulties as were encountered by APA Insurance Company Limited.

When the interviewees were asked to list the main challenges/difficulties their company had faced since the merger, the main challenges which came out very clearly, were the cultural differences between the two merging partners and the difficulties in adaptation to the new business procedures and environment. The next challenge which was felt by majority of the interviewees was that people still identified themselves with their original companies and lacked communication. Most of them also complained of the de-motivation due to pay scale differences among people doing the same work. Communication is very important for the success of a merger. John Reh (2004) also supported this view and stressed on the importance of communication as a solution to the cultural difficulties and different ways of doing things.

It was difficult to adjust to the new ways of functioning of the people from either side. For example. in Pan Africa General, even for internal mail, new stationery was used. The things were too bureaucratic. But in Apollo Insurance Company, old envelopes could be used for internal mail. Initially, the staff from Pan Africa General felt awkward but with proper explanation, understood the importance of cost cutting and with time adopted the Apollo way of doing things. In Pan Africa General, there was red tapism whereby it was difficult for a junior person to see the top man but in Apollo, the top could communicate with the junior most and vice-versa. In the beginning, it was strange for the staff of Pan Africa General but with time, they got used to it. Another example of differences in practices was that in Pan Africa General, each person had his/her own e-mail address but in the new company, the mail was centralized such that everybody's mail comes to a central location and then it is sent to each individual's e-mail address. It was found to be time wasting and inefficient and was done away with. Finally, the former way of doing things as in Pan Africa General was adopted. There were also different practices of claim handling in the two merging partners. In Pan Africa General, claims could be finalized by a clerk or a supervisor. Each one had a limit. But in Apollo, all claims, however small. must go to the senior management. Schoenberg (2000) supports this finding in our study and claims in his literature that cultural differences between the two merging partners and difficulties in adaptation to the new business procedures are a big hurdle to the success of many of the mergers.

Another challenge was the complete integration of the IT system as well as financial and accounting information. There were backlog problems as well. The workload had

increased. Another problem which surfaced up was the demoralization of the staff of Apollo Insurance Company who discovered a disparity in the pay scales among the employees of the two merging partners. (In general. the salary structure of Pan Africa General was higher than that of Apollo). This anomaly has since been taken care of. Larsen & Finkelstein (1999) and Bworthen (2000) have also pointed out at the difficulties in the complete integration of the IT system as well as financial and accounting information as one of the challenges to the success of the mergers. APA Insurance Company also faced this difficulty after the merger.

There were other difficulties as well. For example, there were difficulties with clients at the time of renewals. The underwriting terms of Pan Africa General were too liberal and the staff of Apollo found the terms not beneficial to the company. So in the process, many clients decided to go somewhere else. Also there were difficulties in dealing with brokers who were used to dealing with the staff of Pan Africa General at their offices. They also shifted their business somewhere else because they could not agree on the new way of doing things. The same happened with some medical policies issued by Pan Africa General which Apollo could not support. The products from the former were found to be not economical. They were too good to be true. Even the claims process was not handled efficiently by Pan Africa General. It was loss making. All this supports the claims that Pan Africa General was lacking in internal capacity to manage general business. It was also found that the culture of Pan Africa General was inflexible. Many former employees of Pan Africa General could not adjust to the way of doing things at Apollo and left the new company after the merger. There were also problems in the IT

sector. There was difficulty in understanding the terminologies in the IT sector in the beginning.

Efforts have been made to resolve the differences by way of outings, get-togethers and team building sessions and exercises. Brokers and agents have been approached to give them proper information and pull them back. These efforts have been successful. Communication has been reasonably open. If anybody has any concerns, he/she can raise it via bill board system (It is an in-built system in IT. One can login and post whatever one feels, to different forums. There are forums for all cadres of staff right from the CEO to the lowest cadre). The response will come very fast. Sudarsanam et al (1996) also agreed that it is very important to overcome problems of post-merger integration for a merger to succeed. It is also very important to sort out issues of cultural fit and to choose and keep various cultures intact. Gregory (1997) fully supports this view in his studies. APA Insurance Company was very successfully able to do exactly that. They were able to choose the different ways of doing things from each merging partner according to their merit and usefulness and thus were able to keep the two cultures intact.

The above shows that all the findings in this study relate positively to those cited in the literature review in chapter two of this paper. It was useful to know that there were no exceptional difficulties faced by this company and that the challenges faced relate positively to those faced by companies worldwide after the mergers. The other firms ready to merge in the insurance industry can always be ready to deal with such problems from the word go.

CHAPTER FIVE: SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Introduction.

This chapter summarizes the whole study, draws conclusions and deals with recommendations for further studies.

5.2 Summary.

The main purpose of this study was to establish the factors that influenced Apollo Insurance Company and Pan Africa General to merge together. to identify the key merger processes undergone during this merger and to identify the challenges encountered after the merger. A case study method was chosen to establish these objectives. Data was collected by in depth interviews of some senior executives of the company. The qualitative data thus collected was subjected to content analysis.

The results clearly show that the major *factors* which influenced the merger between Pan Africa General and Apollo Insurance Company were lack of internal capacity, lack of technology and lack of marketing skills on the part of Pan Africa General on one hand and the aspiration of the owners of Apollo Insurance Company to grow and expand on the other hand. There was also need to increase manpower, skilled in marketing, in Pan Africa General. Moreover, this company had been making losses for about 2-3 years

before the merger. There was a lot of bureaucracy in the system. The culture of doing things was too traditional. Synergy creation was also considered a major factor contributing to this merger.

The search for a strategic partner to merge with was started by Africa Life who was a major shareholder of Pan Africa General. Apollo Insurance Company whose directors were aspiring to expand and grow consented to merge with Pan Africa General. So *negotiations* took place between the CEOs of the two companies and agreements were reached about whom to retain, where to keep shop and sharing of the posts. Apollo Insurance Company emerged as the dominant party. Due *diligence* was performed by teams of experts from both merging partners. The *integration* process was led by the CEO of Apollo Insurance Company who also became the CEO of the newly formed company after the merger. All the above *processes* were handled very professionally and were consistent with those undergone by the firms worldwide during such mergers. All the processes starting with initial proposals, negotiations, due diligence and integration were performed using the professionals in the field and were successfully handled.

The main *challenges* which have come out very clearly in this study are the cultural differences and the difference in the working practices and conditions of the employees of the two merging partners. Another challenge was the complete integration of the IT system as well as financial and accounting information. There were backlog problems as well. The workload had increased. Another problem which surfaced up was the demoralization of the staff of Apollo Insurance Company who discovered a disparity in

the pay scales among the employees of the two merging partners in that the employees coming from Pan Africa General were drawing higher salaries than those from Apollo Insurance Company for doing the same work. It was also found that the culture of Pan Africa General was inflexible. Many employees could not adjust to the way of doing things at Apollo and left the new company.

5.3 Conclusion.

Looking at the data analysis and the results of the study, the factors responsible for the merger, the processes undergone and the post-merger difficulties seem to have come out very clearly. A comparison of these findings with the literature review in chapter two of this paper shows a complete consistency of these findings with the practices as they relate to the mergers and alliances in the rest of the World. Cultural issues which are always at the top of the most post-merger challenges have come out clearly and the efforts of the new company to resolve the differences during this one year of post-merger period have been quite fruitful. This merger should serve as a lesson for the rest of the Kenyan insurance industry and the members of the industry can learn and benefit from this study by evaluating themselves and decide if they also need to merge with another insurance company for the benefit of the stakeholders as well as stockholders.

5.4 Recommendations for further studies.

It is recommended to perform a long term (3 to 5 years) prospective study of the post-merger financial performance of APA Insurance Company. After all, the purpose of any

strategic move ultimately is to gain competitive advantage over the competitors and to improve the financial performance of the firm and to increase the shareholder's wealth except sometimes when the strategic move is made in order to survive and prevent the firm from collapsing. Whatever the motive, further research will assist in ascertaining whether the merger was successful in meeting the objectives of the owners of the two merging partners.

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INTERVIEW GUIDE

The following interview guide was used followed by in depth probing from all the respondents. General information formed an essential part of all respondents. The CEO was mainly concerned with part 1,2, 3 and 4 as being the overall boss, he is supposed to come out with more detailed and reliable information than others. All the heads of the departments were interviewed using part 1, 3, and 4 of the guide as all the departments are concerned with these areas and are expected to come out with different types of information related to their respective departments.

1.0 GENERAL INFORMATION.

1.1 Which department do you belong to?

1.2 What is your position in the department?

1.3 From which merging partner do you originally belong to?

1.4 For how many years have you worked for that organization?

2.0 FACTORS RESPONSIBLE FOR THE MERGER.

2.1 What was the prominent factor which led your firm to merge?

2.2 Please answer the following questions in yes or no.

2.2.1 Was your firm satisfied with the market share?

2.2.2 Was your firm lacking in any financial skills?

2.2.3 Was your firm lacking in technology?

2.2.4 Was your firm lacking in human resource management skills?

2.2.5 Was your firm lacking in administration skills?

2.2.6 Was your firm lacking in marketing skills?

2.2.7 Was your firm making losses before the merger?

2.2.8 Was your firm making profits before the merger?

2.2.9 Was there any statutory requirement forcing your firm to merge with another?

2.2.10 Was your firm aiming to extend into new markets?

2.2.11 Was your firm aiming to extend into new products?

2.2.12 Were there any tax motives behind the merger?

2.2.13 Was the aspiration of the owners for growth a factor behind the merger?

2.2.14 Was the aspiration of the owners for prestige a factor behind the merger?

2.3 Was the motive of creating synergies behind the merger?

2.3.1 Were the overheads of your company when alone too high?

2.3.2 Did the merger help in reducing administration, production and marketing costs?

2.3.3 Did the merger help in improving local management?

3.0 PROCESS OF MERGERS.

3.1 Who conceived the idea of merger, put it across to the other party, gave offers and received counteroffers? Who was responsible for communicating to other executives and staff about the merger?

3.2 How was the merger actually done? E.g. by swapping shares or paying cash etc.

3.3 Who announced the deal?

3.4 Was getting a "no objection" from the govt. regulatory bodies a problem?

3.5 How were the negotiations carried out about retention of the people, sharing of the posts, about whether to shift the head office and where, place of business and very importantly who will be the dominant party?

3.6 Was the evaluation of the other merging partner as regards to legal liabilities, environmental liabilities and other factors which could be detrimental to your firm, carried out and if yes, by whom and how?

3.7 Was the IT integration of the two firms as regards to which systems should be kept and which data is important, performed and by whom?

3.8 Was the IT infrastructure of your firm evaluated and communicated to other executives?

3.9 After the proposal of merger was made, was due diligence of the two firms performed? For your information, due diligence includes looking for negative and positive points in the other company, looking for cultural differences, getting the people of different departments from the two

companies together, ascertaining weaknesses/strengths of the two companies' all departments, retrenchment for cost savings, making the staff of the two companies understand the benefit behind the merger, taking them into confidence as they need to adjust to different procedures, policies and cultures.

3.10 How was the planning to integrate the two companies done? Was it done by a series of small projects or by a different method? Who was the chief integration officer? Which of the two merging partners lead the integration process which includes harmonizing the IT systems of companies, human resources, product management and operations/marketing?

4.0 CHALLENGES OF MERGERS.

4.1 What are the main challenges/ difficuities the company has faced since the merger on 1st January, 2004?

4.2 Has the newly formed company faced any lack in communication of goals for the merger to line managers, customers, employees etc.?

4.3 Were there any problems in the clarification of authority, control and reporting relationships?

4.4 Were there any problems faced in the integration of the cultures of the two firms?

4.5 Was there any problem in identifying value creating activities and giving them priority?

4.6 Was the cutover period clearly defined?

4.7 After the change in the control of the management, were there any problems in tracking and achieving the synergies and realign accountability?

4.8 Was any dishonesty and skeletons in the cupboard discovered in the other merging partner?

4.9 How was the culture of the other merging partner? Was it very strong and difficult to change?

4.10 Was there any problem in rationalizing the process of the other merging partner and in getting rid of the non-essential processes?

4.11 Were the executives properly motivated?

4.12 Were the key people retained?

4.13 Was the proper time spent in keeping the new people happy and fitting the new products/technologies into existing activities?

4.14 Lastly and more importantly, how was the new company able to cope with the entire post merger problem encountered?

LETTER TO RESPONDENTS

University of Nairobi
Department of Business Administration
P.O. Box 30197,
NAIROBI.

Dear Respondent,

RE : INTERVIEW

I am a postgraduate student at The University of Nairobi, Faculty of Commerce pursuing Masters Degree in Business Administration. I am carrying out a research project on "Process & challenges in the merger between Apollo & Pan Africa General Insurance Limited."

You as a respondent have been chosen as a part of this study. The information obtained will be confidential and will be used for academic purposes only. Yours being the first merged insurance company locally in the recent past, will form an interesting study and will serve as a guide for the rest of the insurance industry.

As a respondent in this study, you will be free to access the findings of the study. I shall personally conduct the interview.

I look forward to your co-operation and thanking you in advance.

Yours faithfully,

YASH P BANSAL — MR. J MALLU

MBA STUDENT — SUPERVISOR LECTURER