EFFECT OF UNCLAIMED ASSETS ON THE PERFORMANCE OF LIFE ASSURANCE COMPANIES IN KENYA

BY

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DECLARATION

I declare that this project is my original work and has not been submitted to any other University for examination or award of a degree

Signed …… Date……..

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D61/68166/2011

This research project was submitted for examination with my authority as the University supervisor

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DEDICATION

I would like to extend my gratitude to my wife Esther, my sons Kirkston and Eutychus for their support while preparing this project.

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LIST OF ABBREVIATIONS

ASIC:	Australian Securities and Investment Commission
ASISA:	Association for Savings and Investment South Africa
GDP:	Gross Domestic Product
GOK:	Government of Kenya
IRA:	Insurance Regulatory Authority
NTMA:	National Treasury Management Agency
UK:	United Kingdom

ABSTRACT

Kenya is also among the countries in the world that have enacted legislation to regulate the management of unclaimed assets from various companies. The Unclaimed Financial Assets Act of 2011 is the main regulation that outlines the way companies are supposed to handle unclaimed assets in their custody over a specified period of time. The Act provides for the legislative framework for dealing with unclaimed financial assets. The purpose of this study was to establish the effect of unclaimed assets on the profitability of life assurance companies in Kenya.

The study adopted a survey research design that included all the life assurance companies in Kenya. The number of life assurance companies was 13 by June 2013. The researcher opted for a census this was a small number. The study made use of secondary data that was collected from published accounts of the life assurance companies in Kenya. The data was analyzed using simple linear regression with unclaimed assets as the independent variable and profitability as the dependent variable.

The study revealed that unclaimed assets formed a significant percentage of the profits that were declared by life assurance companies in Kenya before the year 2011. However, after the enactment of the bill on unclaimed assets in 2011, all the life assurance companies were required to submit their unclaimed assets to the government and this significantly affected their total profits. Their profits seemed to significantly drop for the years 2011 and 2012 when the unclaimed assets were removed from the profit and loss accounts of the life assurance companies. The study concludes that unclaimed assets formed a significant portion of the profits of commercial banks.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Most governments never used to give much attention to unclaimed property management in various companies. However, in the recent past most countries around the globe have enacted laws that require companies to follow some procedures in the management and reporting of unclaimed assets. The pressure on companies to comply with state regulations on the management of these assets is higher than it used to be previously. Most countries are keen to spend enormous resources in order to ensure that there is transparency and accountability in the management of unclaimed assets. One of the industries that has been under serious scrutiny as far as unclaimed assets are concerned is the life insurance industry because of claims that companies in this industry do not make enough efforts to trace the owners of unclaimed assets. This has forced many countries to enact laws that require insurance companies to ensure that unclaimed property has been paid over to the government in accordance with unclaimed property laws (Frank & Barnett, 2012).

Frank & Barnett (2012) further assert that insurance companies that are not keen on complying with regulations on the management of unclaimed assets may have adverse negative effects on their reputation and performance. The enactment of unclaimed assets laws has forced life insurance companies around the globe to take necessary steps to avert adverse negative effects. For instance in the United states of America, Prudential Financial Inc., John Hancock Life Insurance Company and MetLife, Inc. announced that

they have entered into multi-state settlements that have included the escheatment or payment to claimants of tens of millions of dollars of unclaimed property relating to, among other things, active and lapsed life insurance policies that have purportedly gone unclaimed. MetLife also faces a putative securities class action that was commenced in the United States District Court for the Southern District of New York relating to the company's disclosures of its unclaimed property exposure (Frank & Barnett, 2012).

Kelly (n.d) asserts that companies, regardless of the type of business they are dealing in, should take the initiative to familiarize themselves with the laws that deal with the management of unclaimed property. He further argues that insurance companies are not the only targets for unclaimed property regulations. Other companies such as commercial banks and other institutions are also subject to these laws and must submit reports to confirm compliance. This includes among other things, unclaimed gift certificates or discount cards and unclaimed securities such as inactive stock accounts, unpaid stock dividends, unexchanged shares and unclaimed mutual fund shares. Some countries have in place interest and penalties against companies who fail to comply with their annual reporting mandated by unclaimed property laws.

Kenya is also among the countries in the world that have enacted legislation to regulate the management of unclaimed assets from various companies. The Unclaimed Financial Assets Act of 2011 is the main regulation that outlines the way companies are supposed to handle unclaimed assets in their custody over a specified period of time. The Act provides for the legislative framework for dealing with unclaimed financial assets. The need for this law has been demonstrated by the colossal sums of money being held by

financial institutions in Kenya. The law guides companies on how to ensure reporting and dealing with unclaimed financial assets; establishment of the Unclaimed Financial Assets Authority and establishment of the Unclaimed Financial Assets Trust Fund and other connected purposes (GOK, 2011).

1.1.1 Unclaimed Assets

The unclaimed Assets Bill of Kenya (2011) gives three possible definitions of unclaimed assets: The first definition indicates that these are assets that have been presumed abandoned and have become unclaimed assets for some time after the company concerned has made fruitless attempts to avail the assets to the rightful owner. The second definition also treats all assets transferred to the authority as unclaimed assets while the third definition considers assets deemed by any other law as unclaimed and payable to the authority as unclaimed assets. Kelly (n.d) also defines unclaimed assets as comprising of any intangible property that remains unclaimed by the rightful owner for a specified period of time.

1.1.2 Unclaimed Assets Regulations

Many countries around the globe have enacted laws that govern the management of unclaimed assets from various companies. According to Garner (2009), the unclaimed assets law stems from the Term “Bona Vacancia” which implies vacant goods. These were goods without the owner and it was deemed equitable to transfer them to the crown instead to a third party who was not a beneficiary. Kelly (n.d) argues that several countries around the world have in place unclaimed property law that is based on the

British Uniform Unclaimed property Act. Diamond (2011) argues that most governments are forced to look for alternative means of raising revenue in the wake of an economic crisis. He further notes that the enactment of unclaimed property laws is one of the alternatives that most governments resort to whenever they need to get additional sources of revenue that are not based on tax increment.

In Kenya, the Unclaimed Assets Bill was passed in the year 2011 by parliament. The bill gives detailed information on the determination of unclaimed assets; the duties and responsibilities of the company holding the unclaimed assets and the setting of unclaimed assets trust fund and authority. The bill gives details on how life insurance companies should manage unclaimed assets. For instance, the bill provides for a 60 day period between the death of a policy holder within which the life insurance company should receive communication from the beneficiaries. If this does not happen, the law allows the company to contact the beneficiaries using the last known address. If there is no communication for two years, then the company has to submit a report of the unclaimed assets and have the same handed to the unclaimed assets trust fund (Unclaimed Assets Bill, 2011).

1.1.3 Life Insurance Companies in Kenya

According to Mudaki et al. (2012) the insurance sector in Kenya has approximately 41 registered companies, 200 brokers and 500 active agents. The industry is supervised and regulated by the Insurance Regulatory Authority (IRA). According to IRA a general insurance company must have a minimum capital of Kshs.300 million whereas a life insurance company must have a minimum capital base of Kshs.150 million. These

regulations play a very central role in influencing the growth of business and hence organizational performance. They further argue that lack of a supervisory body three decades ago may have contributed to poor performance by the insurance industry. Some insurance firms may have been in insurance business without the required minimum capital base. On average, the experience has been that one insurance firm goes under or is placed under receivership after every four years since 1985.

The Standard Investment Bank (2013) indicates that there are a total of 9 life insurance companies that are operating in Kenya compared to the 22 that are in general insurance business. This is a relatively small number compared to the total population of the country. Standard Investment Bank further indicates that even though the industry has experienced growth in the last decade, it still faces challenges stemming from the closure of more than 5 companies due to insolvency within a period of 5 years.

With the enactment of the unclaimed assets regulation in Kenya, life insurance companies are under scrutiny than ever before. In the past, unclaimed assets in possession of life insurance companies formed part of their earnings. The law now requires the companies to report such assets to the government and have them forwarded to the unclaimed assets trust fund. This move is likely to impact on the performance of the life insurance companies.

1.2 Research Problem

The regulation on the management of unclaimed financial assets is not new since a number of countries around the world have already enacted laws that assist companies to deal with this issue. The submission of unclaimed assets to governments is one of the

strategies that governments use to earn extra revenue to finance their operations in the provisions of public services. Some countries are very strict on these regulations in order to ensure companies comply with the regulations.

Kenya recently through the Unclaimed Financial Assets Act of 2011 joined the list of countries that require companies to account and submit proceeds of unclaimed assets to the government. This regulation is likely to affect the performance of a number of companies more especially those in the insurance industry. Previously before the Act was passed, any unclaimed assets were treated as part of the income of the insurance companies. However this will now change and is likely to have some impact on the performance of the insurance companies. This study will seek to establish how this act passed in 2011 has affected the performance of insurance companies in Kenya. Research on unclaimed assets laws shows that various researchers have divergent views on this issue. For instance Diamond (2011) carried out a study on unclaimed property laws and gift cards. The study revealed that the purpose of unclaimed property laws was to re unite the owner and the property though this never takes place most of the time. The study recommended that gift cards should be exempt from the laws. Ryan (2012) carried out a study on the unclaimed assets in banking industry. The study observes that the escheatment of unclaimed assets belonging to customers is a regulation that is most likely to kill the relationship between banks and their customers.

A study by Smith, Bergstrom & Yopp (2010) on the unclaimed property audits and their reality on insurance companies established that these audits are quite involving and insurance companies need to ensure they conduct proper reporting of these assets. Despite the studies mentioned above, it is clear that there is scanty research on the

unclaimed assets regulation and performance of life insurance companies. This leaves a gap that needs to be filled through research. This study therefore sought to establish the relationship between the recently passed regulation on unclaimed assets and the impact it has on the performance of life insurance companies in Kenya.

1.3 Objective of the Study

To establish the effect of unclaimed financial assets on the performance of life assurance companies in Kenya.

1.4 Importance of the Study

The findings of the study will enable insurance companies to understand how the regulation on unclaimed financial assets affects their performance. It will also assist them to compare the situation in other countries in terms of regulation governing the management of unclaimed financial assets.

This is a new area of study in Kenya with limited local content. This study will play a very significant role in providing local content on the management of unclaimed financial assets. It will provide relevant knowledge on the existing information on unclaimed financial assets.

The findings of this study will also shed some light on the management of unclaimed assets in the books of other companies. They will gain a better understanding on the management and effect of the said regulation on the performance of organizations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature that relates to unclaimed assets regulations and performance of commercial banks. The main issues discussed include: 2.2 theoretical review covering the various theories in this field; 2.3 an empirical review: 2.4 regulations of unclaimed assets and performance of organizations 2.5 Review of studies on unclaimed assets and 2.6 a summary of the entire chapter.

2.2 Theoretical Literature

The foundations of the goal theory and cybernetic view are grounded in a similar logic where the outcomes are compared with the target in order to determine organizational effectiveness. Several assumptions implicit in the goal model are encompassed in the cybernetic approach: the organization must have ultimate goals that are defined well enough to be understood, these goals must be few enough to be manageable, a general consensus or agreement must be reached on these goals, and progress toward these goals must be measurable. The cybernetic view is characterized by performance measures that are mostly short-term oriented Management accounting and organizational studies differ in their emphasis of the various limits of the cybernetic theory. The management accounting literature stresses several factors that limit the application of the cybernetic theory (Hage, 1980).

Organizational literature on the other hand raises the issue of cybernetic theory's adaptability. Hage (1980) lists several factors that influence the cybernetic process and responsiveness to change: lack of resources to procure information related to quantity and quality; institutionalization of past success that inhibits the perception of necessity for transformation; degree of centralization and concentration of specialists; elite values and; hierarchy of responses in terms of time to find the correct answer. Hage reinforces the traditional criticism of the implicit assumptions that leaders monitor performance and invariably make corrections when necessary. However, some concerns are common to both fields. Both have questioned the assumption that goals have to be unambiguous and outputs measurable, which is not always the

case. Considering three difficulties related to defining organizational goals, namely multiplicity, specificity and the temporal dimension, it is argued that goals cannot be produced by objective and apolitical processes. The problem of measurement is also associated with a context where it is difficult or expensive to gather information (Hofstede, 1981)

2.3 Empirical Literature

There are several studies that have focused on the performance of organizations. For instance Ayele (2012) conducted a study on the Factors Affecting Profitability of Insurance Companies in Ethiopia. The study perpetuated an argument that profitability is one of the most important objectives of financial management because one goal of financial management is to maximize the owner` s wealth. The study examined the effects of firm specific factors such as age of company, size of company, volume of

capital, leverage ratio, liquidity ratio, growth and tangibility of assets on profitability. Profitability was the dependent variable while age of company, size of company, volume of capital, leverage liquidity ratio, growth and tangibility of assets) are independent variables. The study established that growth, leverage, volume of capital, size, and liquidity are identified as most important determinant factors of profitability hence growth, size, and volume of capita are positively related. In contrast, liquidity ratio and leverage ratio are negatively but significantly related with profitability. Lastly, age of company and tangibility of assets are not significantly related with profitability.

Almajali, Alamro and Achahya (2012) examined the factors affecting the financial performance of Jordanian insurance companies listed at Amman stock exchange. The study established that Leverage, liquidity, Size, Management competence index have a positive statistical effect on the financial performance of Jordanian Insurance Companies. The study recommended that a high consideration of increasing the company assets will lead to a good financial performance and there is a significant need to have highly qualified employees in the top managerial staff.

In another study carried out by Shojaei, Jahanifar & Tehrani (2012) on the factors affecting the development of life insurance industry, a number of observations were made. The aim of the study was to establish the reasons of failures in the development of life insurance in Iran and a deep survey of the effective factors and required infrastructures in such a development. A SWOT analysis was applied and after the study of weaknesses, strengths, opportunities and threats of this industry, an appropriate

strategy was introduced in proportion to the situation of the industry. The study established that the opportunities existing in the market are considerably more than the threats for the life insurance companies. The study recommended that a strategy of increase in sales of life insurances through research and marketing activities and organizational experiments is realized as the most appropriate strategy.

On insurance regulation, Acharya et al (2009) discussed the key issues facing the financial regulation of insurance companies in the post-crisis era in Britain. The study established that while the moral hazard created in the financial sector by provision of financial guarantee insurance is difficult to overstate. The study focused on the issues concerning insurers' excessive provision of insurance, under-capitalization, and related systemic risks. The study also established that some insurance companies had serious losses in their life assurance section during the crisis of 2008.

2.4 Regulations of Unclaimed Assets and Performance of Organizations

The issue of unclaimed assets has caught the attention of many governments in the world today with a number of them enacting laws geared towards the management of these assets. The House of Commons Finance Committee (2007) indicates that in between £400 million and £500 million was held in dormant bank and building society accounts where, for whatever reason, a financial institution has lost contact with an account holder. The Committee further argues that a large proportion of this money will never be reclaimed by its rightful owner. This realization forced the government, working with the banking industry, to propose the establishment of an unclaimed assets scheme to put

these dormant accounts to productive use whilst continuing to recognize the ongoing rights of customers to reclaim their accounts at any stage.

Most countries enacted the laws over the last one decade but some countries have had the legislation for over a decade. The content of the laws differs from one country to another. Countries also share features of the legislation on unclaimed assets. For instance the Republic of Ireland has had an unclaimed assets scheme since 2001. Its law and that of the UK shares many features but differs in some (The House of Commons Finance Committee, 2007). Whereas the Irish scheme is mandatory and obliges banks, building societies and the Irish post office to transfer the balance of any account that has not had a customer-initiated transaction for 15 years to the National Treasury Management Agency (NTMA), the United Kingdom scheme customers have the right to reclaim their account in perpetuity, and do so through their account-holding bank rather than through the government appointed authority. The Irish government also requires that disbursement of dormant account funds is controlled by the Government, and monitored by an appointed board. In 2003, unclaimed life assurance policies were added to the Irish dormant accounts scheme (The House of Commons Finance Committee, 2007).

The government of Australia also established that Australian Securities and Investment Commission (ASIC) whose work is to manage unclaimed assets that are remitted or surrendered from financial institutions. ASIC (2012) indicates that the commonwealth laws governing the management of unclaimed assets were amended to include the Banking Act, Life Insurance Act and the First Home Saver Accounts Act. The essence of

the amendments was to cast the net wider so that the government could bring on board other institutions that were initially not required to remit unclaimed assets.

It is evident that different governments have different uses for the unclaimed assets that they get from financial institutions. Whereas some governments treat unclaimed assets as a source of additional revenue to assist in meeting their expenses, some governments have an elaborate plan on how to use the money. For instance in the UK, the Commission on Unclaimed Assets addresses three main issues: reuniting customers with their money and consumer protection; the transfer of unclaimed assets to a new entity; and the best use of unclaimed assets, which is the major focus of the commission. The Commission published an interim report setting out proposals to create a social investment bank, which would redistribute unclaimed assets to communities most in need. The commission proposes to support a range of activities, including: funding for third sector organizations, supporting communities to acquire land or buildings and promoting enterprise in disadvantaged communities (NCVO, 2013).

According to Henri (n.d), performance measurement entails the focus is on the internal process of quantifying the effectiveness and the efficiency of action with a set of metrics. The measures and indicators act as surrogates or proxies for organizational phenomena. Performance measurement represents management and control systems that produce information to be shared with internal and external users. It also encompasses all aspects of the business management cycle which constitutes a process for developing and deploying performance direction. Henri further argues that there are performance measurement models that evolved from a cybernetic view whereby performance which

were based mainly on financial measures. They considered a component of the planning and control cycle to a holistic view based on multiple nonfinancial measures where performance measurement acts as an independent process integrated in a broader set of activities. Traditionally, performance measurement is viewed as an element of the planning and control cycle that captures performance data, enables control feedback, influences work behavior and monitors strategy implementation (Simons, 2000).

The concept of organizational performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose (Barney, 2002). Those providing the assets will only commit them to the organization so long as they are satisfied with the value they receive in exchange, relative to alternative uses of the assets. As a consequence, the essence of performance is the creation of value. So long as the value created by the use of the contributed assets is equal to or greater than the value expected by those contributing the assets, the assets will continue to be made available to the organization and the organization will continue to exist.

Therefore, value creation, as defined by the resource provider, is the essential overall performance criteria for any organization.

Carton (2004) however argues that there are several issues associated with the assessment of value creation for organizations. First, value creation is situational since different types of organizations have different concepts of what outcomes are valuable. It is also clear that organizations perform on multiple dimensions, such as growth, profitability, and

legitimacy, often trading positive outcomes in one dimension for worse outcomes in another. Third, performance is in part perceptually based upon what the observer finds valuable. Finally, timing plays a role in value creation as opportunities created in the present, which will be realized in the future, are valued in the present based upon individual assumptions about future actions and conditions. These assumptions about future outcomes vary based upon the perceptions of the observer.

According to Kirkendall (2010) a well defined system of organizational performance measures can be a powerful means for prioritizing organizational goals and achieving them. Performance measures are intended to be used in the Strategic Planning Process. Therefore Measures should inform planners as to problems that require attention, and should allow planners to monitor progress toward goals. Poister (2003) also indicates that performance measurement is intended to produce objective, relevant information on program or organizational performance that can be used to strengthen management and inform decision making, achieve results and improve overall performance, and increase accountability.

According to a study carried out by Acharya et al (2009), the insurance industry around the globe plays a very significant role in enhance the GDP of various economies. This makes it mandatory for the regulation of the industry. It is commonly agreed in economics that there is an important role for public sector involvement and regulation even in a competitive insurance industry. Insurance markets are exposed to the two fundamental problems of asymmetric information. They further indicate that regulations such as those governing unclaimed assets are one way of ensuring transparency and

accountability in the insurance industry. Acharya et al (2009) further confirm that each state in the United States of America has in place rules and regulations that govern the insurance industry either on unclaimed assets or other important areas such as licensing.

In South Africa, the Association for Savings and Investment South Africa (ASISA)(2012) indicated that it reserves the right to holding and growing unclaimed policy benefits until the rightful owner is found, no matter how long it takes. This was as a reaction to a new law that would deny them the chance to continue holding the unclaimed benefits after some time. The association also indicates that irrespective of the source of the unclaimed assets, the life company must make sure that the money is invested in such a way that the policyholder or beneficiary, once traced, receives an amount in line with the expectation created by the risk policy or investment policy contract.

According to the Legislative digest (2012), unclaimed assets laws in Kenya are inevitable since they exist in very many other countries around the world. The enactment of such laws is only meant to promote transparency in the way unclaimed assets are handled. The report further suggests that Kenya has a lot to learn from the trends in other countries concerning this concept. Makove (n.d) also indicates that unclaimed assets regulation is important since it allows for disclosure of information between the government and the assurance companies. He further asserts that to achieve these objectives, there must be close cooperation and partnership between the regulator and the market players.

2.5 Summary

According to the literature reviewed, governments are adopting regulations that are meant to manage the unclaimed assets that are held by financial institutions. It is however clear from the reviewed literature that most governments share some content in the laws that they enact. The unclaimed assets regulations are not very old in some countries since they have not been effected for more than a decade.

The review also confirms that studies on the effect of regulations on unclaimed assets and performance of life assurance companies and other financial institutions are rare. Minimal research activity has been seen in this area. This leaves a very huge research gap that has to be filled. This study will therefore seek to fill this existing gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to accomplish the already established research objectives and questions. The study had one objective that it seeks to achieve: to establish the effect of unclaimed assets on the performance of life assurance companies in Kenya.

Therefore in this chapter the following is the order in which various issues were discussed: 3.2 provides a detailed discussion on the research design that was used; 3.3 discusses the target population for this study and the sample size together with methods of sampling that were employed; 3.4 discusses the data collected and the instruments used while 3.5 discusses the data analysis techniques that were employed.

3.2 Research Design

Research design is described as the linkage and organization of conditions for collection and analysis of data in a manner that aims at combining relevance to the research purpose with economy in the procedure (Rajendra, 2008). He further argues that research design focuses on the structure of an enquiry, which leads to the minimization of the chance of drawing the wrong casual inferences from the data. Three main types of research-descriptive research, observational research and experimental research were considered.

This study was a cross sectional survey of all life assurance companies that are operating in Kenya. A cross sectional survey was appropriate for this study because it allowed the

researcher to examine the effect of unclaimed assets regulation on the performance of firms across the same industry. This also assisted in generalization of the findings on the entire industry since it covered a wider scope.

3.3 Population and Sample

3.3.1 Population of the Study

The total population is the entire spectrum of a system or process of interest. It is the universe of people to which the study can be generalized (Johnston and VanderStoep, 2009). The target population consisted of all the life assurance companies that are operating in Kenya. The Standard Investment Bank (2013) indicates that there were a total of 9 life insurance companies that are operating in Kenya compared to the 22 that were in general insurance business. The 9 companies therefore formed the target population for this study.

3.3.2 Sample Size and Sampling Techniques

According to Ali (2012) a sample is a number of respondents that are selected to represent the entire population of a given study. Ali further indicates that although deriving a sample is one of the most daunting tasks in any research activity, it is a very significant stage in the research process. Sampling is recommended when circumstances cannot allow the researcher to include a all the respondents in the target population in the study. This implies that sampling has to be free from bias if it must be done.

Considering the recommendations by Ali (2012) that sampling is recommended when it is not possible to involve the entire population, this study reverted to conducting a census. The number of life assurance companies as indicated in the above statement is 9. This was a small number hence the reason why the study involved a census of all the nine companies. This implies that the researcher collected data from all the nine life assurance companies that operate in the country.

3.4 Data and Data Collection Instruments

Secondary data was used in the study. The data was obtained from the finance departments of the life assurance companies as well as from the published annual financial reports for the companies. Data before and after the regulation was passed was collected for comparison purposes. A data collection schedule was used to collect the relevant secondary data that was used in this study.

The data to be collected was quantitative in nature and was of two types. The data to be collected will be for a duration of five years from 2008-2012. The study made use of data on profitability as well as data on unclaimed assets figures for all the life assurance companies in Kenya. The researcher prepared a data collection schedule that was used to collect the relevant data for the study.

3.5 Data Analysis

According to Levin (1996) data analysis is a body of methods that help to describe facts, detect patterns, develop explanations, and test hypotheses. It is used in all of the sciences. It is used in business, in administration, and in policy. Data analysis finds averages of

various variables such as income, profitability, costs and revenues. Data analysis can either be qualitative or quantitative.

This study sought to establish the relationship between regulations on unclaimed assets on performance of life assurance companies operating in Kenya. Regression analysis was therefore be appropriate for this study. The study adopted the following conceptual model in explaining the relationship between the variables.

3.5.1 Conceptual model

The conceptual model presents Y being a function of x as below.

$$\mathbf{Y = f(x)} \qquad \mathbf{(1)}$$

The assumption in the above conceptual model is that the profitability of a life assurance company is a function of unclaimed assets. This implies that a large percentage of the unclaimed assets comprise the profitability of the life assurance companies.

3.5.2 Analytical Model

The performance of the Life assurance companies was measured using of the analytical model below:

$$\mathbf{Y = a + bx + e} \qquad \mathbf{(2)}$$

Where, Y represents the performance of life assurance companies. It was measured using Return on Assets (ROA). X represents the unclaimed assets which were measured by the actual value of the unclaimed assets that were initially factored into the profit and loss

account but have now to be remitted to the government. e is the error term that represents the variance that is not explained by the unclaimed assets.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The purpose of this study was to establish the effect of unclaimed assets on the performance of life assurance companies in Kenya. The study made use of secondary data that was collected from published accounts of the life assurance companies in Kenya. The researcher was able to collect data from all the nine life assurance companies since all this information was contained in an industry report. This is an indication that a response rate for the data collection exercise was 100%. This chapter presents the findings of this study in the following order: 4.2 summary statistics 4.3Expected model 9; 4.4 Discussions and 4.5 summary.

4.2. Summary Statistics

Table 4.1: Model Summary for 2008, 2009 and 2010

Year	R	R Square	Adjusted R Square	Std. Error of the Estimate	Adjusted R Square
2008	.611[a]	.370	.321	.485	.611[a]
2009	.534[a]	.291	.435	.567	.534[a]
2010	.568[a]	.321	.243	.365	.568[a]

A simple linear regression for the year was conducted where the dependent variable was the profits made by the life assurance companies that included the unclaimed assets that were factored in the profits. The results are presented next.

From the model summary above, it is evident that the independent variable explains 37% of the dependent variable. The independent variable in this case is the unclaimed assets which in the year 2008 the life assurance companies were not required to remit to the government. The results confirm that in the year 2008, the profits earned by life assurance companies comprised of 37% unclaimed assets whose owners could not be traced over some time.

As in the year 2008, the life assurance companies still factored into their profits for the year 2009 the unclaimed assets from previous years which had remained unclaimed over a very long time. A simple linear regression for the year 2009 was conducted where the dependent variable was the profits made by the life assurance companies. The findings from the simple linear regression for 2009 are discussed below.

The researcher sought to establish from the data available the relationship between the unclaimed assets and the profitability of the life assurance companies in 2009. The model summary above reveals that the unclaimed assets factored into the profits of the life assurance companies comprised of 29.1% of the life assurance companies' profitability. This is an indication that a greater percentage of the profitability that is explained by 70.9% was from other sources that are not related to unclaimed assets.

The study sought to establish the relationship between the profitability of life assurance companies and unclaimed assets in their custody. The profits for the life assurance companies were the dependent variable while the unclaimed assets were the independent variable. The regression results from the study are presented below.

Table 4.2: Anova for 2008, 2009 and 2010

Year	Model	Sum of Squares	Df	Mean Square	F	Sig.
2008	Regression	4.959	9	.551	2.347	.234
	Residual	8.454	36	.235		
	Total	13.413	45			
2009	Regression	3.756	5	.643	4.245	.0367
	Residual	6.432	25	.348		
	Total	10.188	30			
2010	Regression	5.657	8	.462	3.542	.213
	Residual	9.324	28	.143		
	Total	14.981	36			

The table of above confirms that the regression model has a significance of o.234. This an indication that the independent variable does not explain a greater percentage of the dependent variable hence the low degree of significance. The findings from the study as tabulated in table 4.5 above reveal that the significance of the model is 0.367. This level of significance low implying that the volume of unclaimed assets that are part of to the profits of life assurance companies are not large bigger part of the variance.

It is evident from the findings tabulated in table 4.8 above that the significance of the model is 0.213. This level of significance is neither very low nor very high and it implies that there is a significant amount of unclaimed assets that is explaining the variance in the dependent variable.

4.3 Estimated Model

Table 4.3: Regression Coefficients from 2008 to 2012

Year	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error			
2008	(Constant)	.542	.208		3.056	.004
	Unclaimed assets	.362	.123	.544	3.382	.002
2009	(Constant)	.345	.432		4.123	.087
	Unclaimed assets	.234	.231	.612	5.321	.123
2010	(Constant)	.528	.376		3.342	.056
	Unclaimed assets	.344	.134	.521	4.576	.113
2011	(Constant)	.246	.143		1.758	.789
	Unclaimed assets	.000	.000	.147	2.333	.879
2012	(Constant)	.312	.236		2.367	.784
	Unclaimed assets	.000	.000	.168	3.254	.986

It is evident from the findings tabulated above that in the year 2008; the unclaimed assets had a positive coefficient of 0.362. if there were no unclaimed assets in the year 2008, the profitability of life assurance companies would be represented the constant which is 0.542. It is also evident from the findings tabulated above that in the year 2009, that the unclaimed assets had a positive coefficient of 0.234. if there were no unclaimed assets in the year 2009, the profitability of life assurance companies would be represented the

constant which is 0.345. The table of coefficients for the year 2010 confirms that the unclaimed assets have a positive coefficient of 0.344. This is an indication that there is a significant level of unclaimed assets that were factored into the profits of life assurance companies in Kenya. The level of profitability without the unclaimed assets is represented by the constant 0.528.

The researcher sought to find out the relationship between the unclaimed assets and the profitability of life assurance companies and the unclaimed assets as the dependent variable in the year 2011. The year 2011 is the time when the unclaimed assets bill was passed in Kenya hence life assurance companies did not include the unclaimed assets in their financial statements. The findings are presented next.

The findings from the study indicate that the regression coefficient for unclaimed assets is 0. This is an indication that the life assurance companies in Kenya did not factor the unclaimed assets figures into their annual profits. It is also clear that the profitability of the companies as represented by the constant seems to have dropped due to removal of the unclaimed assets from the profit and loss account of the life assurance companies since the constant seems to have dropped from 0.528 in 2010 to 0.246 in 2011.

In the year 2012, the life assurance companies did not also include the unclaimed assets in their financial reports as part of the profit and loss statement. The study sought to establish the relationship between this action and the profitability of the companies in the absence of the unclaimed assets figure that formed averagely 20% of the profitability of the companies in 2008, 2009 and 2010. The findings are discussed next.

It is evident that the results of the regression analysis from the year 2012 confirm that the regression coefficient of unclaimed assets is 0. This is an indication that the life assurance companies in Kenya did not include any unclaimed assets in their financial reports. The profitability of the life assurance companies is therefore represented by the constant 0.312 that seems to be lower than the years 2008, 2009 and 2010 but slightly higher than 2011. This implies that after the unclaimed assets bill was passed in 2011 the life assurance companies had to look for other alternatives of maintaining their profitability hence the reason why the constant appears to be slightly higher in 2012. The estimated model for the relationship can therefore be represented by $Y = 0.528 + 0.344x + 0.376$.

4.4 Discussion of Findings

The study findings confirm that unclaimed assets formed a significant percentage of the profits of life assurance companies in Kenya. This is an indication that initially before the enactment of the unclaimed assets bill in Kenya, the life assurance companies used to factor unclaimed assets into their profit and loss accounts. This is the reason why the profits of the life assurance companies have a significant portion of their variance explained by the unclaimed assets. The findings confirm the view held by NCVO (2013) which states that unclaimed assets initially held by financial institutions that may end up not be accounted for need to be put into good use.

The findings also reveal that for two consecutive years, the life assurance companies in Kenya did not factor into their profit and loss accounts the unclaimed assets in compliance with the unclaimed assets regulation. This resulted to a significant decrease in the profitability of the life assurance companies in Kenya. This happened because the

government requires through the regulation that life assurance companies should remit all the unclaimed assets in their custody to the government. This regulation has been enacted in many other countries in order to streamline the management of unclaimed assets. Regulation of the insurance industry was supported by Acharya (2009) who asserts that it is commonly agreed in economics that there is an important role for public sector involvement and regulation even in a competitive insurance industry. Insurance markets are exposed to the two fundamental problems of asymmetric information. They further indicate that regulations such as those governing unclaimed assets are one way of ensuring transparency and accountability in the insurance industry.

4.5 Summary

The purpose of the study was to establish the effect of unclaimed assets on the profitability of the life assurance companies in Kenya. The study adopted simple linear regression in establishing this relationship. It was clear from the findings that unclaimed assets formed a significant part of the profits posted by life assurance companies. However the unclaimed assets regulation has affected the inclusion of the assets in their financial statements thus affecting their profitability.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings in section 5.2; the conclusions in section 5.3; the limitations of the study section 5.4; and recommendations for further research in section 5.5.

5.2 Summary of the Study

The purpose of this study was to establish the effect of unclaimed assets on the profitability of life assurance companies in Kenya.

The study adopted a survey research design that included all the life assurance companies in Kenya. The number of life assurance companies was 9 by June 2013. The researcher opted for a census this was a small number. The study made use of secondary data that was collected from published accounts of the life assurance companies in Kenya. The data was analyzed using simple linear regression with unclaimed assets as the independent variable and profitability as the dependent variable.

The study revealed that unclaimed assets formed a significant percentage of the profits that were declared by life assurance companies in Kenya before the year 2011. However, after the enactment of the bill on unclaimed assets in 2011, all the life assurance companies were required to submit their unclaimed assets to the government and this significantly affected their total profits. Their profits seemed to significantly drop for the years 2011 and 2012 when the unclaimed assets were removed from the profit and loss

accounts of the life assurance companies. The study concludes that unclaimed assets formed a significant portion of the profits of commercial banks

The study reveal that in the year 2008 before the life assurance companies in Kenya started remitting the unclaimed assets to the government, the unclaimed assets formed a significant part of their declared profits. For instance in 2008 the unclaimed assets explained up to 37% of the variance on profitability of the life assurance companies in Kenya. The study further established that in the year 2009 the unclaimed assets were still part of a significant portion of the life assurance companies in Kenya. In the year 2009 the unclaimed assets comprised 29.1% of the profits that were earned by the life assurance companies.

The study revealed that the trend that is observed from the year 2008 and 2009 still continues into the year 2010 where the life assurance companies' profits have a significant percentage of the unclaimed assets.

The findings confirmed that in the year 2012, a replication of the scenario in 2011 happened. There were no unclaimed assets that were factored into the profits of the life assurance companies in Kenya since the bill had taken effect from 2011. The profitability had so far dropped but there seemed to be a slight improvement as indicated by an improved constant in the year 2012. The study revealed that life assurance companies had lost income through enactment of the bill and therefore had to seek for other alternatives of covering the gap that was left by the unclaimed assets that were initially part of their income from investments.

5.3 Conclusions

Unclaimed assets formed a significant percentage of the profits that were declared by life assurance companies in Kenya before the year 2011. However, after the enactment of the bill on unclaimed assets in 2011, all the life assurance companies were required to submit their unclaimed assets to the government and this significantly affected their total profits. Their profits seemed to significantly drop for the years 2011 and 2012 when the unclaimed assets were removed from the profit and loss accounts of the life assurance companies. During this year, the total unclaimed assets that were part of the profits of life assurance companies were estimated to be 32.1%. However in the year 2011, the trend changes when the unclaimed assets bill was enacted requiring life assurance companies to remit all unclaimed assets in their custody to the government. This meant that in the profit and loss account of these companies, there was reflection of unclaimed assets. The study confirms that in the year 2011 the coefficient for unclaimed assets was zero and indication that it did not feature in the profits of the companies. The profitability of the life assurance companies seemed to reduce significantly with the removal of the unclaimed assets.

This reduction in the profitability due to removal of unclaimed assets may however be short-lived since the companies are keen on pursuing other alternatives of maintaining their profitability.

5.4 Limitations of the Study.

The findings of this study relate to the Life Assurance Companies in Kenya. They may not be applicable to other firms in other industries where the unclaimed assets may also be applicable.

Accessing data on unclaimed assets for the years in question was a big challenge since it is not directly disclosed in the currents assets of the companies. It took the researcher a long time perusing files to get the data.

5.5 Recommendations for Further Research.

The duration since the unclaimed assets bill was passed in 2011 and 2013 may not be long enough to get a trend that can give conclusive information. It will be important for this study to be replicated after five years in order to observe the trend by then.

The unclaimed assets bill affects many other institutions including even commercial banks. It will be important to carry out the same study in another industry for comparative reasons. This will assist in establishing the effect of unclaimed assets in other industries other than the insurance industry. There is also need to conduct a research on insurance companies that are composite in nature i.e the life business is conducted together with the General business though in different departments, in order to understand the makeup of the unclaimed assets in the total assets of the company and their contribution in the overall investment income.

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Appendices

Appendix I: List of Registered Life Assurance Companies

1 CFC Life Assurance Limited
2 CIC Life Assurance Limited
3 ICEA LION Life Assurance Company Limited
4 Old Mutual Life Assurance Company Limited
5 Pan Africa Life Assurance Limited
6 Shield Assurance Company Limited
7 UAP Life Assurance Limited
8 Capex Life Assurance Company Limited
9 Apollo Life Assurance Limited
10 Intra Africa Assurance Company Limited
11 Metropolitan Life Insurance Kenya Limited
12 Pioneer Assurance Company Limited
13 Tausi Assurance Company Limited

Appendix II: Data, Net profit

	2008	2009	2010	2011	2012
CFC Life Assurance Limited	3,001,411	3,012,562	3,114,703	2,342,833	2,542, 322
CIC Life Assurance Limited	5,752,789	5,850,900	5,993,774	3,941,756	4,12,3351
ICEA LION Life Assurance Company Limited	5,630,800	5,751,745	5,985,586	5,089,190	5, 445,891
Old Mutual Life Assurance Company Limited	6,241,101	6,550,814	6,764,307	5,828,489	6,045,584
Pan Africa Life Assurance Limited	3,001,125	3,111,300	3,312,543	2,409,794	2,826, 125
Shield Assurance Company Limited	0	0	0	1,269,904	1,352,440
UAP Life Assurance Limited	1,112, 550	1,321,487	1,459,102	1,234,031	1, 322,148
Capex Life Assurance Company Limited	35,965	45,854	58,818	68,951	70,478
Apollo Life Assurance Limited	250,785	270,124	280,484	342,007	350,245
Intra Africa Assurance Company Limited	1,002,475	1,150,520	1,214,867	584,615	745,593
Metropolitan Life Insurance Kenya Limited	687,128	698,300	702,972	551,621	650,227
Pioneer Assurance Company Limited	1, 263,451	1,354,746	1,459,102	1,234,031	1,322,598
Tausi Assurance Company Limited	125, 210	135,150	148,163	89,066	101,321

Appendix III: Data Unclaimed Assets

	2008	2009	2010	2011	2012
CFC Life Assurance Limited	301,411	300, 062	421,541	0	0
CIC Life Assurance Limited	421,325	485,478	590,321	0	0
ICEA LION Life Assurance Company Limited	501,231	542,412	453,652	0	0
Old Mutual Life Assurance Company Limited	600,450	700,451	670,421	0	0
Pan Africa Life Assurance Limited	300,112	301,113	312,542	0	0
Shield Assurance Company Limited	0	0	0	0	0
UAP Life Assurance Limited	112, 551	132,482	159,104	0	0
Capex Life Assurance Company Limited	5,974	5,889	8,322	0	0
Apollo Life Assurance Limited	30,250	30,270	50,124	0	0
Intra Africa Assurance Company Limited	101, 452	120,870	140, 457	0	0
Metropolitan Life Insurance Kenya Limited	70,147	72, 189	75,854	0	0
Pioneer Assurance Company Limited	220,412	130, 478	150, 658	0	0
Tausi Assurance Company Limited	18,435	15, 894	20,749	0	0