

**THE RELATIONSHIP BETWEEN BOARD DIVERSITY AND FINANCIAL  
PERFORMANCE OF INSURANCE UNDERWRITERS IN KENYA**

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## **DECLARATION**

I declare that this project is my original work and has not been presented for an award of a degree in any other University.

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## **DEDICATION**

I dedicate this project to my wife Veronica and my daughter Chantel, for your understanding and support the entire time it took me to complete this project, you mean the world to me. To my late mother, Esther for her efforts to bring up a well educated son, and for the love we shared.

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## **ABSTRACT**

The purpose of this study is to investigate the relationship between board diversity and the financial performance of insurance underwriters in Kenya. The importance of age, gender and ethnicity as components of board diversity are raising the issues of their effect on the performance of the firm. Board diversity on the other hand, is a component of corporate governance, an area which has become critical on the success of firms in relation to their financial performance. The insurance industry is an important component of the financial sector of the economy because of its financial intermediation role. They give protection to policyholders by guaranteeing the safety of their investments against accident and thereby promoting business activities in the country. As a result of the peculiar characteristics of the insurance industry and the significant contributions that is making to the development of the economy coupled with the non existence of such study, there is a strong ground to conduct this research.

The secondary data was collected from the Nairobi Securities Exchange for listed insurance underwrites and from the individual companies for none listed underwriters. Pearson correlation was used to measure the degree of association between variables under consideration, the panel data regression was used to estimate the relationship between board diversity and financial performance. Furthermore, in examining if board diversity variables are significantly different from that of financial performance, the Chi-Square was used.

The findings show that a diversified board is positively associated with the financial performance of insurance underwriters in Kenya. The insurance underwriters are therefore encouraged to consider constituting diversified boards as part of good corporate governance practices to improve their financial performance. Most importantly the regulatory authorities must ensure that insurance underwriters' boards are well constituted in terms of gender, age and ethnicity to help the growth and development of the insurance industry.

## TABLE OF CONTENTS

<b>DECLARATION</b> .....	ii
<b>DEDICATION</b> .....	iii
<b>ACKNOWLEDGEMENT</b> .....	iv
<b>ABSTRACT</b> .....	v
<b>LIST OF TABLES</b> .....	viii
<b>LIST OF ABBREVIATIONS</b> .....	ix
<b>CHAPTER ONE: INTRODUCTION</b> .....	1
1.1 Background of the Study .....	1
1.1.1 Board Diversity .....	2
1.1.2 Financial Performance .....	3
1.1.3 The Relationship Between Board Diversity and Financial Performance .....	5
1.1.4 The Insurance Industry in Kenya .....	6
1.2 Research Problem.....	7
1.3 Objectives of the Study .....	8
1.4 Value the Study.....	8
<b>CHAPTER TWO</b> .....	10
<b>LITERATURE REVIEW</b> .....	10
2.1 Introduction.....	10
2.2 Theoretical Framework .....	10
2.2.1 Resource Dependence Theory.....	10
2.2.2 Human Capital and Social Capital Theories .....	11
2.2.3 Similarity-Attraction Theory.....	12
2.2.4 Information and Decision Making Theory.....	13
2.2.5 Agency Theory .....	13
2.3 Potential Benefits and Costs of Board Diversity .....	14
2.3.1 Potential Benefits of Board Diversity .....	14
2.3.2 Potential Costs of Board Diversity .....	15
2.4 Board Diversity and Firm Performance .....	16
2.4.1 Board Gender Diversity and Firm Performance.....	16
2.4.2 Board Age Diversity and Firm Performance.....	17

2.4.3 Board Ethnic Diversity and Firm Performance .....	18
2.5 Performance Indicators in the Insurance Industry .....	18
2.6 Empirical Literature .....	20
2.7 Summary of Literature Review .....	22
<b>CHAPTER THREE .....</b>	<b>24</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>24</b>
3.1 Introduction.....	24
3.2 Research Design.....	24
3.3 Population.....	24
3.4 Data Collection .....	24
3.5 Data Analysis .....	25
3.5.1 Analytical Model .....	25
<b>CHAPTER FOUR.....</b>	<b>26</b>
<b>DATA ANALYSIS AND FINDINGS .....</b>	<b>26</b>
4.1 Introduction.....	26
4.2 Descriptive Statistics .....	26
4.3 Correlation and Regression Analysis .....	28
4.3.1 Correlation Analysis .....	28
4.3.2 Regression Analysis .....	28
4.4 Interpretation of Findings .....	31
<b>CHAPTER FIVE.....</b>	<b>33</b>
<b>SUMMARY, CONCLUSION AND RECOMMENDATION.....</b>	<b>33</b>
5.1 Introduction.....	33
5.2 Summary of Findings .....	33
5.3 Conclusion .....	35
5.4 Policy Recommendations .....	36
5.5 Limitations of the Study .....	36
5.6 Suggestions for Further Research .....	37
References .....	37
Appendices .....	43

## LIST OF TABLES

<b>Table 4.1</b> The overall performance of board diversity and financial performance variables from 2000-2012.....	27
<b>Table 4.2</b> Correlation coefficients of the board diversity variables and financial performance indicators.....	28
<b>Table 4.3</b> Regression coefficients of the board diversity variables and financial performance indicators.....	28
<b>Table 4.4</b> Chi-Square Test: two-sample assuming equal variances insurance underwriters with poor financial performance and insurance underwriters with good financial performance indicators.....	30
<b>Table 4.5</b> Board Diversity Versus Financial Performance .....	31



## **LIST OF ABBREVIATIONS**

ROA	Return on Assets
NSE	Nairobi Securities Exchange
CEO	Chief Executive Officer
SPSS	Statistical Package for Social Sciences
FEM_COM	The number of women in the audit committee
FEM_BOARD	Percentage of women on the board of directors
FEM_IND	Percentage of independent women on the board of directors
MIN_BOARD	Percentage of foreign directors on the board

## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

The importance of insurance underwriters cannot be overstated considering their vital role in economic development and financial recovery against immense economic uncertainties in both the developed and emerging economies. The financial performance of the same is therefore crucial to its sustainability on which economic security vitally depends. Among the key determinants to the performance is the management and of particular importance the board, key in crucial decision making. A major impediment to this however, is the board diversity as regards among other key issues: Age, gender, socio-economic status, interest, expertise, experience and cultural group. A lack of diversity of these key elements among the board members denies the insurance industry robust and harmonized decisions reflected in the financial performance of the same.

The social psychology literature provides evidence on the relationship between demographic similarity and attraction (Zander 1979). In the management literature, Lau and Murnighan (1998, 328) develop the concept of group fault lines as “hypothetical dividing lines that may split a group into subgroups based on one or more attributes.” Salient demographic characteristics may split groups into implicit subgroups. Demographic dissimilarity may limit communication among subgroups, create conflict, and reduce interpersonal attraction and group cohesiveness, and (Ferreira, 2007).

In the case of corporate boards, perhaps a key problem associated with diversity is the possibility of communication breakdowns between top executives and minority outside directors. Outside directors rely on executives to gain access to firm-specific information. Executives may perceive demographically heterogeneous directors as sharing different values and espousing dissimilar views. The reluctance of executives to share information with minority outside directors could compromise board effectiveness (Adams and Ferreira, 2007).

Some directors may be more interested in pushing their own personal agenda even at the expense of the company's profits. Perhaps more problematic is the case in which directors also represent the interests of outsiders (for example, directors with financial industry connections). A more diverse board may be in greater risk of being influenced by directors with distinct personal and

professional agendas. The cause of this risk is not diversity per se, but an insufficient alignment with shareholders' interests. An excessive focus on some characteristics (e.g., functional background) as a criterion for selecting directors may have the unintended consequence of appointing directors whose loyalties lie elsewhere (Ferreira, 2010).

### **1.1.1 Board Diversity**

The Governance glossary defines board diversity as the extent to which a board generally comprises a broad range of backgrounds and interests, including members from different cultural groups, minorities, as well as issues of gender, age, socio-economic status, experience, connections, values and disability. The board of directors is defined by Murphy and McIntyre (2007) as a team of individuals that participates in the development and selection of ideas for the development of the firm.

While the initial emphasis was on board independence, size and board tenure, board diversity is also considered desirable for improved decision making (Higgs, 2003). A diverse board improves outcomes, particularly financial performance and decision-making processes as well as add value by bringing new ideas and different perspectives to the table, which may in turn, improve firm performance (Luis, 2008).

Many studies indicate that such diversity in the boardroom results in real value for both companies and shareholders. In fact, a report commissioned by the California Public Employees' Retirement System (CalPERS) found that companies that have diverse boards perform better than boards without diversity. The report *Board Diversification Strategy: Realizing Competitive Advantage and Shareowner Value* stated that companies without ethnic minorities and women on their boards eventually may be at a competitive disadvantage and have an under-performing share value (Luis, 2008).

Several firms around the world are beginning to exemplify that diversity in board of directors leads to higher firm performance (Carter et al., 2003); Some countries, and in specific Europe, have even introduced mandatory quotas for female directors (Grady, 1999).

Such developed countries as the United States and Australia have also established equal-opportunity commissions. Proposals on governance reform also increasingly state the importance of diversity on the board of directors (Adams and Ferreira, 2009). Furthermore, the governments of Norway and Sweden have imposed gender quota on the boards of directors (Medland, 2004; Randøy et al., 2005). Closer home, Diane Grady (1999) points out that boards need diverse perspectives to challenge the thinking of management. As part of the results in a survey conducted to examine the corporate governance in Nigeria, she contends that directors of Nigerian banks believe that their boards are quite diversified (with a score of 5.9 on a 7-point scale) in terms of having a mix of people with different personality, educational, occupational and financial background.

In Kenya, most corporate boards are said to be male dominated since the appointments are done in an old boy network where the male directors introduce their friends to boards before they retire (Business Daily, 2010). The Institute of Directors of Kenya however has been vocal in recent years, arguing that this appointment process denies majority of the women the chance to be selected to the corporate boards hence depriving the organization this important resource (Mboya et al, 2010). Kenya therefore misses out on the potential benefits of diverse boards in its industries, a fact that may soon be done away with, with the new Kenya constitution inaugurated in 2010 that champion for fair representation of both gender and the minorities in all sectors.

### **1.1.2 Financial Performance**

Insurance company financial reporting and performance measurement are going through a significant transformation. Insurers are beginning to look at their business based on what many refer to as the “economic value framework.” Under this framework insurance companies determine the economic value of the capital invested in their business and the economic value of earnings to derive a risk-adjusted return on capital (Larry et al, 2009). As Katsuri, (2006) puts it, insurance industry is part of an immune and repair systems of an economy. Successful operation of the industry sets impetus for other industries and development of an economy, therefore keeping track of the industry’s performance is of utmost significance in ensuring a successful operation of the industry. The most common measures of firm financial performance, as Bhoelje

(1999) puts it include: Profitability, Liquidity, Solvency, Financial efficiency and repayment capacity. (Boehlje et al, 1999) adds that benchmarking is an important aspect in performance measurement and that this can be done by analyzing a firm's past performance, projected performance as well as performance of similar firms.

Profitability measures the extent to which a business generates a profit from the use of land, labor, management, and capital. An insurer's profits depend heavily on the premium revenue the insurer generates. Insurers use rates based on the insured's loss exposures to determine the premium to charge for insurance policies (Kearny, 2010). Measures of insurer profitability based on premiums consider premium growth issues and the rate of growth that is sustained over time. Premium growth is not always a positive indicator of an insurer's success. An insurer should achieve premium growth by writing new policies rather than depending solely on insurance rate increases or inflation (Kearny, 2010).

Liquidity measures the ability of a firm to meet financial obligations as they come due in the short term, without disrupting the normal operations of the business. A review of liquidity resources (sources and uses of cash) at the holding company is fundamental. Measured by current ratio, the measurement of a company's liquidity is one of the most important factors in determining a life insurer's financial strength. Fundamentally, the liquidity profile of a company can be assessed by reviewing the nature and duration of its assets and liabilities, which in turn drives the inherent nature of the liquidity risk.

Solvency measures the firm's ability to pay all financial obligations if all assets are sold continue viable operations after financial adversity. It is measured the debt to asset ratio, debt to equity ratio and equity to asset ratio. The use of solvency measure of financial performance is common among insurers and as Reid et al, (1999) reports, the contrast between ex ante and ex post (before and after the fact) measures of insurer solvency in the United Kingdom for example are highlighted with the conclusion taken that current regulations might gain further insight into the underlying solvency performance of insurance companies if they were to use ex ante solvency measures. Establishing a solvency framework in which capital is based on internal models may result in insurers experiencing difficulty recapitalizing at the expected capital market rates after a severe shock (Reid, 1999).

Financial efficiency measures the intensity with which a business uses its assets to generate gross revenues and the effectiveness of production, purchasing, product pricing and financing decisions. It is measured by asset turnover ratio, operating expense ratio, depreciation expense ratio, interest expense ratio and net farm income ratio. The insurance sector in particular has seen rapid growth in the number of studies applying frontier efficiency methods. Findings around the world regarding efficiency and productivity in insurance industries are obviously mixed; however, nearly all studies note that there are significant levels of inefficiency in most countries with corresponding room for improvement (Luhnen, 2011).

Repayment capacity measures the ability to repay debt from both firm and non-firm income. It evaluates the capacity of the business to service additional debt or to invest in additional capital after meeting all other cash commitments. Measures of repayment capacity are developed around an accrual net income figure (Crane, 2010). Crane further explains that the short-term ability to generate a positive cash flow margin does not guarantee long-term survivability. Long-term survivability requires the firm to be profitable. The only way for an unprofitable firm to survive long-term is for income infusions from non-firm sources to offset firm losses.

### **1.1.3 The Relationship Between Board Diversity and Financial Performance**

Boards are considered a link between the firm and the essential resources that a firm needs from the external environment for superior performance. Appointment of outsiders on the board helps in gaining access to resources critical to firm success (Johnson et al., 1996).

Resource dependency theorists extended the argument by positing that board members with different skills, different cultural background, different gender, among others, will act as strategic resource to the firm which may result to superior performance (Johnson et al., 1996).

It is further argued that diversity promotes the functional ability of the board, particularly its ability to engage in complex problem solving, strategic decision making, and management monitoring (Forbes and Milliken, 1999).

Theoretically, there are a number of arguments in favor of diversity of board members. For example, Carter et al. (2003) identified five positive arguments for board diversity in a principal agent framework. They opine that a more diverse board is able to make decisions based on the evaluation of more alternatives compared to a more homogenous board. A diverse board is seen

to have a better understanding of the market place of the firm, which increases innovation and creativity. Board diversity may also improve the image of the firm if the positive image has positive effects on customers' behavior.

#### **1.1.4 The Insurance Industry in Kenya**

Kenya has 46 insurance companies and 4,576 registered insurance agents, yet a paltry 3 percent of Kenyans have insurance cover. In this industry, an indirect cost of choosing directors mainly for their demographic characteristics is the possibility of neglecting other important characteristics. Take, for example, the case of gender diversity. Because the proportion of women in top executive positions is small but growing, a preference for female directors may lead to a board that is disproportionately young and little-experienced. Furthermore, because qualified minority candidates may be in short supply, minority directors are likely to accumulate more board seats than the average director. Busy directors are possibly less effective than non-busy ones. As the industry handbook puts it, in the simplest terms insurance of any type is all about managing risk. There are several major types of insurance policies. Some companies offer the entire suite of insurance, while others specialize in specific areas. Life insurance for example guarantees a specific sum of money to a designated beneficiary upon the death of the insured, or to the insured if he or she lives beyond a certain age. Health Insurance on the other hand insures against expenses incurred through illness of the insured. Liability insurance (the miscellaneous category) insures property such as automobiles, property and professional/business mishaps, (Ferreira, 2010).

It further explains that ownership of insurance companies can come in two forms: shareholder ownership or policyholder ownership. If the company is owned by shareholders, it is like any other public company. That is, its shares trade on an exchange and it is required to report earnings on a quarterly basis. The other type of ownership is called "mutually owned insurance companies." Here the company is actually owned by the policyholders, so an account called policyholder's surplus, rather than shareholder's equity, appears on the balance sheet. In recent years though, many of the top mutual insurance companies have gone through demutualization to become shareholder-owned. Today, only a small handful of companies are still policyholder-owned, (Martins, 1996).

There are many factors to examine when looking at insurance companies. More than anything, both consumers and investors should concern themselves with the insurer's financial strength and ability to meet ongoing obligations to policyholders. Poor fundamentals not only indicate a poor investment opportunity, but also hinder economic growth. Financial strength in insurance companies is therefore paramount.

## **1.2 Research Problem**

Financial performance is key in any firm, and even more sensitively, the insurance sector. Nothing is worse than insurance customers discovering that their insurance company might not have the financial stability to pay out if it is faced with a large proportion of claims. Insurance companies provide not only crucial, but unique financial services to the growth and development of every economy. Such specialized financial services range from the underwriting of risks inherent in economic entities and the mobilization of large amount of funds through premiums for long term investments (Sacky et al, 2012).

Despite this trend towards sensitivity to different aspects of diversity on corporate boards, their impact on firm performance is still not clear with a number of studies showing mixed results on the contribution of various key elements in board diversity to firm performance. Whereas several studies have credited board diversity for being a key contributor the financial performance of most firms, some have shown contrary realities. In a study conducted by Ujunwa et al. (2012) for example, to investigate the impact of corporate board diversity on the financial performance of Nigerian quoted firms, the results showed that gender diversity was negatively linked with firm performance, while board nationality and board ethnicity were positive in predicting firm performance.

The presence of female board members may enhance firm performance if these female board members bring an additional perception to board decision-making. On the other hand, female board members may have a negative effect if the decision to appoint female board members is made because of societal pressure for greater equality of the sexes (Kenneth and Dittmer, 2009). Mismanagement of insurance underwriting companies is also a notorious factor that hampers insurance industries in Kenya leading to some being placed under statutory management.



As a result of the peculiar characteristics of the insurance industry and the significant contributions that it is making to the development of the economy, there is keen interest to understand how the insurance companies are governed. Board diversity is a key component of good corporate governance and therefore understanding its relationship with firm performance is of great importance.

There has been limited study on the effects of board diversity on firm performance in the insurance industry in Kenya and as a result of the recent collapse in some insurance companies, there is need to understand if board diversity has any impact on this industry's financial performance. This research therefore seeks to address the question: Is there a relationship between board diversity and financial firm performance in the Kenyan insurance underwriters?

### **1.3 Objectives of the Study**

The general objective of the study was to investigate the relationship between board diversity and financial performance in the Kenyan insurance underwriters.

The specific objectives were:

- i. To assess board diversity as regards gender, age and ethnicity in Kenyan insurance underwriters.
- ii. To determine the relationship between board gender, age and ethnic diversity to the financial performance of the Kenyan insurance underwriting companies.

### **1.4 Value of the Study**

Provided in the findings of this study, an understanding of the linkage between board diversity and financial performance in insurance industry is paramount to every insurance company alive to the sensitivity of the insurance sector and the need to have a robust team of decision makers with a broad range of perspectives and abilities, crucial to its financial success and in building trust among its clients. The findings will provide a basis upon which relevant decision and policy makers in the insurance industry may re-evaluate and adjust their board membership to meet the fundamentals of firm management for improved financial performance, sustainability and

longevity of the unique roles the sector plays in providing a sense of calmness amidst vast economic uncertainties.

Future studies may also build on the findings as a source of empirical information as regards the relationship between board diversity and the financial performance in the insurance industry in Kenya.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter reviews literature on the relationship between board diversity and firm financial performance. The relevant theories, potential costs and benefits, board gender, age and ethnic diversity relationship, the empirical literature as well as financial performance indicators in the insurance industry are hereby reviewed.

### **2.2 Theoretical Review**

Just as the subject of study is varied, so are the theoretical frameworks used to explain the effects. There are a range of theories offered either in support of or against board diversity. Whereas some are based on the rationale of simple fairness, especially those in support of, others focus on the effectiveness and efficacy of a patchwork of attributes in the board. In economics, theoretical analyses of corporate boards usually abstract from the process of how board members reach an agreement (Hermalin and Weisbach 1998; Adams and Ferreira 2007). Whenever directors are treated as heterogeneous, this typically occurs because of their status as corporate insiders or outsiders (e.g., Raheja 2005). A number of theories are hereby looked at.

#### **2.2.1 Resource Dependence Theory**

In 1978 Pfeffer and Salancik presented the resource dependence theory, in which a firm is viewed as an open system which depends on contingencies in their external environment (Hillman et al., 2009). According to this theory, the board of directors is seen as a tool “to manage external dependency, reduce environmental uncertainty and reduce transaction costs associated with environmental interdependency by linking the organization with its external environment” (Lynall et al., 2003, p.418). This theory provides us with a more appropriate theoretical framework to study diversity on the board of directors and firm performance (Carter et al., 2010).

According to the resource dependency theory a board provides four primary benefits to the firm which include: Provision of resources such as information and expertise; Creation of channels of communication with constituents of importance of the firm; Provision of commitments of

support from important organizations or groups in the external environment; and Creation of legitimacy for the firm in the external environment.

An important notion of this theory is that directors bring different resources and linkages to the board, and board composition should therefore be adjusted to the specific needs of the firm. The board composition should be adjusted over time when the needs of the firm changes (Hillman et al., 2009). Small firms and firms in early stages of the lifecycle may also better benefit from the resources the board provides in comparison with larger and more mature firms.

### **2.2.2 Human Capital and Social Capital Theories**

Human capital theory derives from the publication “Human Capital” written by Becker in 1964 and includes a person’s education, experience and skills that can be used to add value to an organization. It can be either firm specific or general (Singh, 2007). According to the theory, diversity will affect board performance as a result of a diverse and unique human capital (Carter et al., 2010). The effect on financial performance can, however, be positive as well as negative and the usefulness of an individual’s human capital may be dependent on a firm’s internal and external circumstances. Social capital is created when individuals or organizations interact (Singh, 2007).

An example being the knowledge and information communicated in networks of relationships that facilitate instrumental action. Economic actions are informed, influenced and enabled by the network of social relations (Lynall et al., 2003). In a relationship network the social actors are interconnected to other social actors in a crisscrossing pattern with varying strengths (Singh, 2007). A network that is extensive and with many areas unconnected will provide better access to more and diverse information.

Demographic similarities among directors will reflect the inter-organizational network (Lynall et al., 2003). If directors therefore are demographically different from each other, it is more likely that their networks will be different from each other, which will make the firms total social capital high (Singh, 2007). The board’s social capital therefore becomes important to the functioning of the board (Murphy and McIntyre, 2007). Human capital affects board expertise, which in turn affects board performance, and social capital affects board linkages which also

affects board performance. Board performance affects firm performance (Murphy and McIntyre, 2007).

According to Carter et al. (2010), demographic differences are found to lower the social cohesion between groups. Social barriers reduce the probability that minority viewpoints will influence group decisions and majority status individuals are found to have a disproportionate amount of influence on group decisions. More diversity on the board generates more diverse opinions and critical thinking which results in a more time consuming and less effective decision process. More conflicts and a higher employee turnover could also be an effect of increased diversity.

Carter further states that board effectiveness probably depends significantly on psychological processes and board demographics, and these processes are likely to have many conflicting and complex effects on processes that affect board performance. In contradiction to the negative effects listed above, some of the positive effects are that board performance is positively related to the breadth and speed of top management team strategic action capability.

Research also suggests that minority groups may encourage divergent thinking in the decision making process and produce more creativity and innovation. Carter et al. concludes that theory and evidence on group dynamics suggests that board diversity may affect firm performance both positively and negatively.

### **2.2.3 Similarity-Attraction Theory**

Murphy and McIntyre (2007.) argue that the similarity-attraction theory is relevant to board composition. This theory suggests that when individuals hold similar views on contentious social issues they are more likely to be attracted to each other and less likely to create conflicts. Social identity theory and social categorization theory also suggest that people are drawn to similar others.

Mixed gender and racial groups may divide, and diversity may elicit group conflict that interferes with efficacy. Diversity in race, ethnicity, and, to a lesser extent, sex raises group conflict and lowers communication and performance. Studies show mixed effects of gender diversity on problem solving efficacy Race and ethnic diversity more consistently exacerbate group conflict, reduce communication, and interfere with cooperation (Dobbin, 2010).

#### **2.2.4 Information and Decision Making Theory**

This is another relevant theory. Teams that lack demographic diversity and consist of “like minds” tend to be less effective in comparison with more diverse groups. The degree of diverse experience has also been found to improve the group performance. This in a situation where the circumstances are complex and ambiguous (Carter, 2010). Excessive diversity, however, affects performance negatively because conflict and communication breakdown might occur. Just as Carter et al. (2010) concluded, all dimensions of diversity may have positive or negative effects on group performance depending upon context.

Suggest that when members of minority groups rise in an occupation they face expectations that make it difficult to perform to their potential. When a group has only token representation, members face pressures that may adversely affect their performance

Stereotype threat research suggests that when the status of a minority group is primed, members may underperform because they feel they are being judged as group members rather than as individuals

Majority group members may stigmatize them and underestimate their contributions. The psychological research thus suggests that we may see either positive or negative effects of board diversity on corporate performance. Boards with women may solve problems more effectively because they hold a wider range of perspectives, but diversity may as well thwart problem solving by raising conflict. If diversity is affecting corporate performance by influencing board capacities, we should see effects first on corporate profitability and then on stock returns (Kanter, 1977).

#### **2.2.5 Agency Theory**

This theory points out the fundamental board function of monitoring and controlling managers (Jensen & Meckling, 1976). Basing their argument on the theory, Carter et al, (2003) suggest that a more diverse board may be a better monitor of managers because board diversity increases its independence although they are also of the opinion that the theory does not provide a clear prediction of the link between board diversity and financial performance. In essence, as much as agency theory does not provide as strong support for the financial benefits of board diversity as

does a resource dependence perspective, rule out the possibility that board diversity is beneficial (Carter et al, 2010).

## **2.3 Potential Benefits and Costs of Board Diversity**

Board diversity as will be seen at the empirical review section can have both positive and negative results on the firm performance. Below are some of the potential costs and benefits.

### **2.3.1 Potential Benefits of Board Diversity**

Having members with different life backgrounds and experiences make it possible to have similar problems looked at and approached in different ways. Some evidence indicates that more diverse groups foster creativity and produce a greater range of perspectives and solutions to problems (e.g., Wiersema and Bantel 1992; Watson, Kumar, and Michaelsen 1993). That is, diverse groups are less likely to suffer from groupthink. They may also contribute to group creativity by acquiring information through a more diverse set of sources. For example, minority members' networks may give them access to unique information sources (Granovetter 1973). By selecting directors with different characteristics, firms may gain access to different resources. For example, directors with financial industry experience can help firms gain access to specific investors. Directors with political connections for example may help firms deal with regulators or win government procurement contracts. These reasons however cannot explain a demand for some other demographic characteristics such as gender, age, or ethnicity (Ferreira, 2010).

Diversity in the boardroom may send a message to lower-level employees that the company is committed to the promotion of minority workers or at least that their minority status is not a hindrance to their careers in the company. Because mentoring is likely to be important for career advancement, boardroom diversity may also be beneficial for the careers of minority top executives, although whether outside directors engage in mentoring relationships with executives is not obvious. Because promotions at the highest levels are likely to be discussed in the boardroom, boardroom diversity is also a means of committing to a policy of nondiscrimination against minority managers (Ferreira, 2010).

Some firms may benefit more from conforming to societal expectations than others. For example, consumer goods firms may want to cultivate an image of social responsibility. Firms in

which institutional investors comprise a larger fraction of their shareholder bases may surrender to investors' demands for board diversity. Those types of firms are more likely to pay attention to director demographics, especially gender and ethnicity. For those firms, having a more diverse board can be a means of acquiring legitimacy in the view of the public, the media, and the government (Ferreira, 2010).

### **2.3.2 Potential Costs of Board Diversity**

The social psychology literature provides evidence on the relationship between demographic similarity and attraction (Zander 1979). In the management literature, Lau and Murnighan (1998, 328) develop the concept of group fault lines as "hypothetical dividing lines that may split a group into subgroups based on one or more attributes." Salient demographic characteristics may split groups into implicit subgroups. Demographic dissimilarity may limit communication among subgroups, create conflict, and reduce interpersonal attraction and group cohesiveness.

In the case of corporate boards, perhaps a key problem associated with diversity is the possibility of communication breakdowns between top executives and minority outside directors. Outside directors rely on executives to gain access to firm-specific information. Executives may perceive demographically heterogeneous directors as sharing different values and espousing dissimilar views. The reluctance of executives to share information with minority outside directors could compromise board effectiveness (Adams and Ferreira, 2007).

An indirect cost of choosing directors mainly for their demographic characteristics is the possibility of neglecting other important characteristics. Take, for example, the case of gender diversity. Because the proportion of women in top executive positions is small but growing, a preference for female directors may lead to a board that is disproportionately young and little-experienced. Furthermore, because qualified minority candidates may be in short supply, minority directors are likely to accumulate more board seats than the average director. Busy directors are possibly less effective than non-busy ones (Ferreira, 2010).

Some directors may be more interested in pushing their own personal agenda even at the expense of the company's profits. Perhaps more problematic is the case in which directors also represent the interests of outsiders (for example, directors with financial industry connections). A more



diverse board may be in greater risk of being influenced by directors with distinct personal and professional agendas. The cause of this risk is not diversity per se, but an insufficient alignment with shareholders' interests. An excessive focus on some characteristics (e.g., functional background) as a criterion for selecting directors may have the unintended consequence of appointing directors whose loyalties lie elsewhere (Ferreira, 2010).

## **2.4 Board Diversity and Firm Performance**

The traditional understanding of diversity is through the paradigm of discrimination-and-fairness, both through programs such as affirmative action - attempting to select from under-represented groups - and through a numbers-based approach where statistics are the most important tool (Thomas and Ely, 1996). As looked at earlier in the study however, there are several other aspects that need consideration, in assessing how diverse a board really is.

Board gender, age and ethnic diversity values in firm performance are hereby discussed.

### **2.4.1 Board Gender Diversity and Firm Performance**

Gender diversity in the boardroom and in top executive positions has been the focus of public debate, academic research, government considerations and corporate strategy for more than a decade now, with interesting but mixed results. Previously considered a social issue and an issue of image, gender diversity is increasingly approached as a value-driver in organizational strategy and corporate governance, and as such has become a challenging issue in recent academic research. Positive performance effects of board gender diversity imply that a higher number of women in corporate top positions or on board of directors will relate to increased firm productivity and profitability (Marinova et al, 2010).

Examining the relationship between the percentage of women and minorities on boards of directors and firm value, a significantly positive effect is also found by Carter et al. (2003, 2008). Dwyer, Richard and Chadwick (2003) drew the attention to the moderating role of the firm's strategic orientation and organizational culture. In their study of 535 US banks they found that firms that focused on growth experienced positive performance effects from gender diversity. In addition, a positive association was observed to some extent in a clan culture context which is characterized by core values such as teamwork and participation. However, the performance

effects of gender diversity appeared to be significantly negative within the setting of an adhocracy culture, which is characterized by an external orientation and a focus on individuality and competition. More negative results were seen in a recent panel study of top 1500 public US companies, where Dezsó and Ross (2008) found that having a female CEO had no positive effect on firm performance, while female participation below the CEO level was positively associated with firm performance for companies pursuing an innovation intensive strategy.

Whereas in the US study findings on the value of gender diversity on firm performance are predominantly positive, it is mixed results in Europe. Rose (2007) for instance used a sample of Danish firms listed on the Copenhagen Stock Exchange during 1998-2001, and found that female board representation had no impact on firm performance. Smith et al. (2006) in a panel data study of 2,500 of the biggest Danish firms showed that the share of women among top executives and on boards of directors tended to have a significantly positive effect on firm performance, controlling for firm characteristics, as well as for the direction of causality. Furthermore their results revealed that the positive performance effects were mainly accounted for by female managers with university education, and were also related to female board members elected by the staff.

#### **2.4.2 Board Age Diversity and Firm Performance**

In a study performed by Wegge et al. (2008), the effect of age diversity upon performance was examined. Reviewing previous studies on age and gender diversity, they found the familiar mixed results. A field study was then conducted on work groups amongst some 4000 employees in the public sector. Age heterogeneity improved the ability of groups to solve tasks with high complexity. For groups working on simple tasks, however, age heterogeneity increased the number of self-reported health problems - which in turn indicates that groups of diverse ages should be utilized particularly for innovation or solving complex problems (Dagsson, 2011).

Wegge et al (2008.) further explain some of the positive results of age diversity as being the result of extended job tenure of the participants.

According to Dagsson et al, (2011) the only empirical study of the relationship between age diversity on the board of directors and firm performance is McIntyre et al. (2007). Their review

of relevant literature on the role and function of the board particularly notes the increasing use of organizational behavior theory to predict board function and improve board processes. From this they argue that governance research should concentrate on “creating and testing a theoretically sound model of Board effectiveness, rather than trying to relate team attribute variables to firm performance”

### **2.4.3 Board Ethnic Diversity and Firm Performance**

The phenomenon of the ethnic diversity of corporate boards encompasses at least two significant, and interrelated, propositions. The first viewpoint holds that those competent women and ethnic minorities with the human capital, external networks, information, and other characteristics of importance to the corporation deserve opportunities to serve on corporate boards and in upper management. The second proposition suggests that ethnic diversity of directors results in better governance which causes the business to be more profitable (Carter et al, 2010).

### **2.5 Performance Indicators in the Insurance Industry**

Insurance programs around the world are highly variable and differ with respect to products, modes of distribution, management capacity, and institutional maturity and in numerous other ways. At the same time, the context and environment in which the programs evolved influence a programs development and performance (Garand, 2010). Performance indicators aid in producing a realistic picture of insurance programs’ overall performance in key areas.

Since the perspective is from the program as a whole, the indicators are applicable for all organizational types and models but are not always relevant for all insurance products (Garand, 2010). The key performance indicators in the insurance industry are grouped into four performance areas as Garand, (2010) explains: Product value, product awareness and satisfaction, service quality and financial prudence.

Product value encompasses the Incurred income ratio, Incurred claims ratio and Net income ratio. The product value performance index focuses on how much the insured, on average, receive for their money. A higher incurred claims ratio translates on average, more financial benefits being paid back to the insured in relation to premium cost, implying increased value. On the contrary, high net income and high expenses have the effect of reducing value since less

money is available for benefits. Changes in product value drive the awareness and satisfaction indicators reflected in the increase or decrease in member participation in reaction to the changes in value, as in the case of member-based schemes (Garand, 2010).

Product awareness and satisfaction is determined by the Renewal ratio, Coverage ratio and Growth ratio. The Renewal ratio is the ratio of those clients or members that renew their coverage to those that are eligible to renew. It measures the proportion of insured that stay enrolled in the program after their coverage term expires. The coverage ratio on the other hand is the proportion of the target population participating in the insurance program. Growth ratio is the ratio of increase in the number of clients. It measures how fast the number of clients is increasing or decreasing (Micro insurance handbook, 2013). Generally, the awareness and satisfaction performance indicator focuses on how readily the target market enrolls in the program and retains coverage. Where enrolment is voluntary, performance in this category will be good only if the market is aware of the program, understands the product well, is satisfied with the price-benefits combination, and can afford the premium payment schedule. Where coverage is mandatory in the sense that it is conditional to access credit or is towards some other objective, these factors are still very important determinants but their effect may in some cases be diminished (Garand, 2010).

Service quality on the other hand, involves two indicators, the promptness of claims settlement and claims rejection indicators. The promptness indicator is defined as an analytical breakdown of service times taken to report and process a set of claims. The claims rejection ratio on the other hand is the proportion of claims that has been disqualified for benefit payment (rejected) for whatever reason, for a given period. Both have a direct effect on the satisfaction level of the participants which in turn impacts the three indicators in the awareness and satisfaction category (Gerand, 2010).

Financial prudence: This is concerned with the financial strength and liquidity of the insurance program. It is indicated by the solvency, defined as the ratio of admitted assets to liabilities and liquidity ratio defined as the ratio of cash or cash equivalents to “short-term” liabilities of the program. These are not tracked at product level but rather at the level of the organization that bears the insurance risk. Larger companies may, however, allocate specific assets to cover

reserves and expenses for each product and to maintain a good asset-liability match; doing this enables them to track solvency and liquidity by product. Those companies may, however, have some additional assets to fall back on if solvency or liquidity of the product were threatened (Garand, 2010).

## **2.6 Empirical Review**

With a short history of perhaps only 30 years, research on the link between the diversity of corporate boards and the financial performance of the firm has attracted the attention of scholars around the world. Management scholars with backgrounds in sociology and social psychology were among the first to conduct statistical studies of board composition. Thus far, there is no clear theoretical position suggesting either overall positive or negative effects of diversity on performance. This subsection gives an overview of previous diversity studies and their findings.

Westphal and Milton (2000) found in a study that minority directors have more influence on board decisions if they have prior experience in a minority position on other boards and if they have social network ties to majority directors through common memberships on other boards. In another study, Westphal and Bednar (2005) explain that demographic uniformity among board members in terms of gender, functional background, education, and industry experience increases the likelihood that directors will express their concerns in board meetings.

Kroszner and Strahan (2001) assess the potential conflicts of interests associated with the presence of directors with financial expertise such as bankers on boards. Meanwhile, Guner, et al (2008) argues with evidence that firms with financially experienced directors tend to borrow too much with respect to their investment opportunities and to engage too frequently in value-destroying M&As. They claim that directors with financial expertise may distort their advice towards excessive borrowing and M&A activities in order to benefit commercial and investment banks rather than the firms in which they serve as directors (Ferreira, 2010). Knyazeva et al, (2009) in their study on the diversity in directors' characteristics as regards the number of board appointments, experience in other firms and industries, and their equity ownership in the firm, found substantial variation in board heterogeneity that is explained by industry- and firm-level variables. Ferreira, (2010) argues that once more, this evidence provides support for the resource dependence view. He further asserts that Westphal et al, (1995) have produced some of the most

original research on board diversity to date, using data from surveys of directors in large U.S. companies. They argue that CEOs prefer to work with demographically similar directors. Thus, CEOs who can influence the director nomination process will try to hire directors who are demographically similar to themselves. They also find evidence that CEO compensation is higher when CEOs and directors are demographically similar (Ferreira, 2010).

Farrell and Hersch (2005) with the aid of Poisson regressions and an event study to investigate the addition of female directors to US boards. Found no evidence that affected return on assets or market returns to shareholders. Shrader et al, (1997) found no significant relationship between the percentage of female directors on the board and profit margin, return on assets, or return on equity for a sample of US companies. As Ferreira, (2010) notes, Pfeffer's (1972) idea that the board is an instrument for dealing with the firm's external environment underlies much of the research in board diversity. He argues that Agrawal and Knoeber's (2001) investigation of the appointment of directors with political connections is motivated by this idea. They found that firms in industries that are more dependent on the government have more directors with political connections.

Smith et al, (2006) findings were more complicated, with the results showing a negative relationship between gender diversity of the board and gross profits to sales across a sample of Danish firms but no statistically significant relationship between board gender diversity and several other accounting measures of financial performance. On the contrary, Rose (2007) studying a different sample of Danish firms came to the conclusion that there was no significant relationship between board gender diversity and Tobin's Q.

A significant number of diversity studies have been conducted in the United States mostly on gender diversity, with the results predominantly positive. Popular in economic studies, Adams and Ferreira (2009) for instance found that Tobin's Q is positively related to the percentage of women in the TMT. They used a sample of 638 *Fortune 1000* firms for the year 1997. Dezsó and Ross (2008) found similar results based on panel data (1992 – 2006) of *Fortune 1500* companies. Campbell and Minguez-Vera (2008) sought to determine the linkage between the gender diversity of the board and financial performance for a sample of companies from Spain and found that board gender diversity has a positive effect on firm value as measured by Tobin's Q.

Carter et al. (2003) undertook a similar study on a sample of US firms and came to the same findings, as measured Tobin's Q.

Goldman et al, (2009) in a study whose findings backed the hypothesis that the appointment of politically connected directors affects shareholder value established that a portfolio of firms with Republican directors outperforms a similar portfolio of Democratic firms after the 2000 presidential election (Ferreira, 2010).

Mboya et al (2010) sought to analyze the relationship between board gender diversity and financial performance in commercial banks in Kenya, with a conclusion that board gender diversity has no significant effect on the performance of banks.

## **2.7 Summary of Literature Review**

Six main theories have been used to contextualize board diversity: Resource dependence theory, where the board of directors is seen as a tool manage external dependency, reduce environmental uncertainty and reduce transaction costs associated with environmental interdependency by linking the organization with its external environment; similarity-attraction theory which suggests that when individuals hold similar views on contentious social issues they are more likely to be attracted to each other and less likely to create conflicts; information and decision making theory agency theory which suggests that teams that lack demographic diversity and consist of "like minds" tend to be less effective in comparison with more diverse groups; human capital and social capital theories, where human capital includes a person's education, experience and skills that can be used to add value to an organization and that diversity will affect board performance as a result of a diverse and unique human capital and social capital where knowledge and information are said to be communicated in networks of relationships that facilitate instrumental action and compositional theories of tokenism and stereotype threat, suggesting that when members of minority groups rise in an occupation they face expectations that make it difficult to perform to their potential.

Besides looking at the potential costs and benefits, the chapter also contains a look at board gender, age and ethnic diversity in relation to firm performance discourse where in all cases mixed results have been witnessed. Numerous related studies have been conducted mainly in the United States and Europe with a limited number in Africa. A similar study was conducted by

Mboya et al (2010) who sought to analyze the relationship between board gender diversity and financial performance in commercial banks in Kenya.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the methods that were used in collecting and analyzing data, which aided in achieving the study objectives.

#### **3.2 Research Design**

This study seeks to establish if there is a relationship between board diversity (in reference to age, gender and ethnic diversity) in combination with other controlled variables and financial performance of Insurance underwriters, using secondary data obtained from the target insurance firms. Hence a correlation research design was the most appropriate to establish the relationship. This methodology is appropriate when a researcher attempts to determine if a relationship exists between two or more quantifiable variables.

#### **3.3 Population**

The target population of the study consisted of all the 46 registered insurance companies in Kenya (see appendix 1). The study was therefore conducted through a census on all the insurance underwriters in Kenya.

#### **3.4 Data Collection**

Secondary financial data sources were used for the study, where annual financial and survey reports on individual insurance firm financial performance were used over the twelve year period where profitability was extracted and used as a measure of financial performance. Information about the composition of the boards in relation to gender, age and ethnicity was also extracted.

### 3.5 Data Analysis

In order to establish the relationship between board diversity and financial performance of insurance underwriters as the main objective, the study used regression analysis. Board characteristics are analysed using descriptive statistics of dependent and independent variables particularly the mean, median, standard deviation etc and inferential statistics; correlation and multiple regression. Chi Square Test was also used to establish if board diversity variables are significantly different from that of financial performance.

#### 3.5.1 Analytical Model

The study used multiple linear regression model. The multiple linear regression model sought to establish the relationship between board diversity and financial performance of insurance companies through regressing factors such as gender, age and ethnicity within the test period. The regression model to be employed is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where,

Y = insurance firm performance as determined by return on assets (ROA);

$\beta_0$  = constant or intercept;

$\beta_1 - \beta_4$  = regression coefficients

$X_1$  = gender of the board of directors;

$X_2$  = age of the board members;

$X_3$  = ethnicity of the board of directors;

$\varepsilon$  = error term

A regression analysis was used to analyse the data using statistical package for the social sciences (SPSS) version 17, to determine the nature and strength of the relationship between board diversity and financial performance of the insurance underwriter.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND FINDINGS**

#### **4.1 Introduction**

In this chapter, the study provided two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helps the study to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. For the inferential analysis, the study used the Pearson correlation and the panel data regression analysis statistics. While the Pearson correlation measures the degree of association between variables under consideration, the panel data regression estimates the relationship between board diversity and financial performance. Furthermore, in examining if board diversity variables are significantly different from that of financial performance, the Chi-Square was used.

#### **4.2 Descriptive Statistics**

The descriptive statistics of the variables used in the analysis of the sample was very crucial for the study. Table 1.1 shows the mean, median, minimum and maximum value, standard deviation, asymmetry, and kurtosis of the board diversity variables and financial performance. This was to ascertain the significance of the distribution of the variables associated with board diversity and financial performance.

**Table 4.1 The Overall Performance of Board Diversity and Financial Performance Variables from 2000-2012**

<b>Variable</b>	<b>Mean</b>	<b>Median</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Std.Dev.</b>	<b>Asymmetry</b>	<b>Kurtosis</b>
<b>FEM_COM</b>	0.080	0.000	0.000	1.000	0.272	3.087	7.529
<b>FEM_BOARD</b>	5.22%	0.00%	0.00%	50.00%	0.075	1.775	4.389
<b>FEM_IND</b>	0.95%	0.00%	0.00%	25.00%	0.031	3.538	13.300
<b>MIN_BOARD</b>	4.06%	0.00%	0.00%	57.14%	0.092	2.693	7.295
<b>AGE</b>	6.158	5.915	3.463	11.520	1.659	0.826	0.453
<b>ETHNICITY</b>	31.58%	29.02%	10.71%	153.82%	0.139	2.059	10.493
<b>ROA</b>	7.30%	5.99%	-100.00%	100.00%	0.145	1.018	20.128

*Source: Research Findings*

Table 4.1 presents the descriptive statistics of the variables used in the analysis: the number of women in the audit committee (FEM\_COM), percentage of women on the board of directors (FEM\_BOARD), percentage of independent women on the board of directors (FEM\_IND), percentage of foreign directors on the board (MIN\_BOARD), natural logarithm of age distribution (AGE), standard deviation of ethnicity and return on asset ratio (ROA). The findings show that board diversity is significantly associated with financial performance as indicated by the positive mean values and their respective standard deviations. From skewness, the study observed that gender and age are positively skewed while ethnicity is negatively skewed which clarified that the variables are asymmetrical. Skewness value of gender is very near to zero so it is relatively symmetrical. Kurtosis values indicated that all variables have platy-kurtic distribution and it is concluded that variables are not normally distributed.

## 4.3 Correlation and Regression Analysis

### 4.3.1 Correlation Coefficients of the Board Diversity Variables and Financial Performance Indicators

The study further determined the correlation between the independent variables used in the study i.e. board diversity variables and financial performance indicators. For this analysis Pearson correlation was used to determine the degree of association within the independent variables and also between independent variables and the dependent variable. The analysis of these correlations seems to support the hypothesis that each independent variable in board diversity has its own particular informative value in the ability to explain financial performance (Table 4.2).

**Table 4.2 Correlation Coefficients of the Board Diversity Variables and Financial Performance Indicators**

VARIABLE	FEM_COM	FEM_BOARD	FEM_IND	MIN_BOARD	AGE	ETHNICITY	ROA
FEM_COM	1						
FEM_BOARD	0.3707	1					
FEM_IND	0.5193	0.2755	1				
MIN_BOARD	0.0582	-0.0693	0.1228	1			
AGE	-0.010	-0.1484	0.0956	0.2385	1		
ETHNICITY	0.0157	-0.0074	-0.0133	-0.0078	-0.3207	1	
ROA	0.0005	0.0321	-0.0514	0.0346	0.1840	0.0143	1

*Source: Research Findings*

Table 4.2 shows the correlations between the independent variables considered in the regressions: number of women in the audit committee (FEM\_COM), percentage of women on the board of directors (FEM\_BOARD), percentage of independent women on the board of directors (FEM\_IND), percentage of foreign directors on the board (MIN\_BOARD), natural logarithm of age distribution (AGE), standard deviation of ethnicity and return on asset ratio (ROA). The study findings indicate that board diversity variables i.e. gender and age are

statistically significance to firms' financial performance indicators as indicated by the positive and strong Pearson correlation coefficients whereas ethnicity is statistically insignificant with financial performance indicators as indicated by their weak and negative Pearson correlation coefficients. This implies that gender distribution and age may positively influence financial performance of insurance underwriters but ethnicity does not influence the financial performance of insurance underwriters. This implies that financial performance is influenced by the management ability, skills and professionalism and also young and energetic managers are in position to perform better as compared to older managers. However ethnicity plays insignificant role in influencing financial performance of insurance underwriters.

### 4.3.2 Regression Analysis

**Table 4.3: Regression Coefficients of the Board Diversity Variables and Financial Performance Indicators**

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	10.13	0.442		2.411	0.034
<b>GENDER_BOARD</b>	0.432	0.255	0.023	0.452	0.092
<b>AGE</b>	0.838	0.263	0.032	1.511	0.042
<b>ETHNICITY</b>	0.562	0.371	0.028	1.324	0.031

*Source: Research Findings*

The regression model  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Becomes  $Y = 10.13 + 0.432 X_1 + 0.838 X_2 + 0.562 X_3$

According to the regression equation established, taking all factors into account (gender, age and ethnicity financial performance measured by ROA will be 10.13. The Standardized Beta Coefficients give a measure of the contribution of each variable to the model. A large value indicates that a unit change in this predictor variable has a large effect on the criterion variable. The t and Sig (p) values give a rough indication of the impact of each predictor variable – a big

absolute t value and small p value suggests that a predictor variable is having a large impact on the criterion variable.

**Table 4.4: Chi-Square Test: Two-sample Assuming Equal Variances Insurance Underwriters With Poor Financial Performance and Insurance Underwriters With Good Financial Performance**

	<b>(Insurance underwriters with good financial performance)</b>	<b>(Insurance underwriters with Poor financial performance)</b>
Mean	0.073177643	0.034739
Variance	0.002413563	1.36285E-05
Observations	36	10
Hypothesized Mean Difference	0	
Df	44	
t Stat	2.858540189	
P(T<=t) one-tail	0.00454419	
t Critical one-tail	1.870933383	
P(T<=t) two-tail	0.01108838	
t Critical two-tail	2.160368652	
Mean	0.062177643	0.023739

*Source: Research Findings*

From the Chi-square results, companies with good financial performance recorded a mean of 0.0732 while the poor financial performance companies recorded a mean of 0.0347. However, the variance for the good financial performance companies and poor financial performance companies are 0.002413563 and 1.36285E-05 respectively. Furthermore, at two-tailed, the t-calculated of 2.858540189 is seen to be greater than the t-tabulated of 2.160368652.

Further the study carried out the hypothesis testing between board diversity and financial performance. The study findings are as shown below.

**Table 4.5 Board Diversity Vs Financial Performance**

	Financial performance
Board diversity variables Pearson Correlation	0.780
Sig. (2-tailed)	0.000
N	46

*Source: Research Findings*

A Pearson coefficient of 0.780 and p-value of 0.000 shows a strong, significant, positive relationship between board diversity and financial performance of insurance underwriters in Kenya. Therefore basing on these findings the study rejects the null hypothesis that there is no relationship between board diversity and financial performance of insurance underwriters in Kenya and accepts the alternative hypothesis that there exists a relationship between board diversity and financial performance of insurance underwriters in Kenya.

#### **4.4 Interpretation of Findings**

The descriptive statistics of the variables used in the analysis of the sample involved the mean, median, minimum and maximum value, standard deviation, asymmetry, and kurtosis of the board diversity variables and financial performance. This was to ascertain the significance of the distribution of the variables associated with board diversity and financial performance. The findings show that board diversity is significantly associated with financial performance as indicated by the positive mean values and their respective standard deviations. From skewness, the study observed that gender and age are positively skewed while ethnicity is negatively skewed which clarified that the variables are asymmetrical.

The study further determined the correlation between the independent variables used in the study i.e. board diversity variables and financial performance indicators. For this analysis Pearson correlation was used to determine the degree of association within the independent variables and also between independent variables and the dependent variable. The analysis of these correlations seems to support the hypothesis that each independent variable in board diversity has its own particular informative value in the ability to explain financial performance. The significance of the coefficients was calculated at the level of 95%.



The study findings indicate that board diversity variables i.e. gender and age are statistically significant to firms' financial performance indicators as indicated by the positive and strong Pearson correlation coefficients whereas ethnicity is statistically insignificant with financial performance indicators as indicated by their weak and negative Pearson correlation coefficients. This implies that gender distribution and age may positively influence financial performance of insurance underwriters but ethnicity does not influence the financial performance of insurance underwriters. This implies that financial performance is influenced by the management ability, skills and professionalism and also young and energetic managers are in position to perform better as compared to older managers. However ethnicity plays insignificant role in influencing financial performance of insurance underwriters.

From the Chi-square results, companies with good financial performance recorded a higher mean than that of poor financial performance companies. However, the variance for the good financial performance companies and the poor financial performance were 0.002413563 and 1.36285E-05 respectively. Furthermore, at two-tailed, the t-calculated of 2.858540189 is seen to be greater than the t-tabulated of 2.160368652. Further the study carried out the hypothesis testing between board diversity and financial performance. A Pearson coefficient of 0.780 and p-value of 0.000 shows a strong, significant, positive relationship between board diversity and financial performance of insurance underwriters in Kenya. Therefore basing on these findings the study rejected the null hypothesis that there is no relationship between board diversity and financial performance of insurance underwriters in Kenya and accepted the alternative hypothesis that there exists a relationship between board diversity and financial performance of insurance underwriters in Kenya.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter summarizes the study and makes conclusion based on the results. The implications from the findings and areas for further research are also presented. This section presents the findings from the study in comparison to what other scholars have said as noted under literature review.

#### 5.2 Summary of Findings

The study provided two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helps the study to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. For the inferential analysis, the study used the Pearson correlation and the panel data regression analysis statistics. While the Pearson correlation measures the degree of association between variables under consideration, the panel data regression estimates the relationship between board diversity and financial performance. Furthermore, in examining if board diversity variables are significantly different from that of financial performance, the Chi-Square Test statistics was used.

The descriptive statistics of the variables used in the analysis of the sample involved the mean, median, minimum and maximum value, standard deviation, asymmetry, and kurtosis of the board diversity variables and financial performance. This was to ascertain the significance of the distribution of the variables associated with board diversity and financial performance. The descriptive statistics of the variables used in the analysis: the number of women in the audit committee (FEM\_COM), percentage of women on the board of directors (FEM\_BOARD), percentage of independent women on the board of directors (FEM\_IND), percentage of foreign directors on the board (MIN\_BOARD), natural logarithm of age distribution (AGE), standard deviation of ethnicity and return on equity ratio (ROE).

The findings show that board diversity is significantly associated with financial performance as indicated by the positive mean values and their respective standard deviations. From skewness, the study observed that gender and age are positively skewed while ethnicity is negatively skewed which clarified that the variables are asymmetrical. Skewness value of gender is very near to zero so it is relatively symmetrical. Kurtosis values indicated that all variables have platykurtic distribution and it is concluded that variables are not normally distributed.

The study further determined the correlation between the independent variables used in the study i.e. board diversity variables and financial performance indicators. For this analysis Pearson correlation was used to determine the degree of association within the independent variables and also between independent variables and the dependent variable number of women in the audit committee (FEM\_COM), percentage of women on the board of directors (FEM\_BOARD), percentage of independent women on the board of directors (FEM\_IND), percentage of foreign directors on the board (MIN\_BOARD) and return on asset ratio (ROA). The analysis of these correlations seems to support the hypothesis that each independent variable in board diversity has its own particular informative value in the ability to explain financial performance. The significance of the coefficients was calculated at the level of 95%.

The study findings indicate that board diversity variables i.e. gender and age are statistically significant to firms' financial performance indicators as indicated by the positive and strong Pearson correlation coefficients whereas ethnicity is statistically insignificant with financial performance indicators as indicated by their weak and negative Pearson correlation coefficients. This implies that gender distribution and age may positively influence financial performance of insurance underwriters but ethnicity does not influence the financial performance of insurance underwriters. This implies that financial performance is influenced by the management ability, skills and professionalism and also young and energetic managers are in position to perform better as compared to older managers. However ethnicity plays insignificant role in influencing financial performance of insurance underwriters.

From the Chi-square results, companies with good financial performance recorded a higher mean than that of poor financial performance companies. However, the variance for the good financial performance companies and the poor financial performance were 0.002413563 and 1.36285E-05

respectively. Furthermore, at two- tailed, the t- calculated of 2.858540189 is seen to be greater than the t-tabulated of 2.160368652.

Further the study carried out the hypothesis testing between board diversity and financial performance. A Pearson coefficient of 0.780 and p-value of 0.000 shows a strong, significant, positive relationship between board diversity and financial performance of insurance underwriters in Kenya. Therefore basing on these findings the study rejected the null hypothesis that there is no relationship between board diversity and financial performance of insurance underwriters in Kenya and accepted the alternative hypothesis that there exists a relationship between board diversity and financial performance of insurance underwriters in Kenya.

### **5.3 Conclusion**

The findings conclude that board diversity is significantly associated with financial performance as indicated by the positive mean values and their respective standard deviations. From skewness, the study observed that gender and age are positively skewed while ethnicity is negatively skewed which clarified that the variables are asymmetrical. Skewness value of gender is very near to zero so it is relatively symmetrical. Kurtosis values indicated that all variables have platy-kurtic distribution and it is concluded that variables are not normally distributed.

The study findings further concludes that board diversity variables i.e. gender and age are statistically significance to firms' financial performance indicators as indicated by the positive and strong Pearson correlation coefficients whereas ethnicity is statistically insignificant with financial performance indicators as indicated by their weak and negative Pearson correlation coefficients. This implies that gender distribution and age may positively influence financial performance of insurance underwriters but ethnicity does not influence the financial performance of insurance underwriters. Further the study concludes that there exists a relationship between board diversity and financial performance of insurance underwriters in Kenya.

#### **5.4 Policy Recommendations**

The study recommends that insurance underwriters' directorship management should be based on skills, experience and professional qualifications to steer managerial functions as opposed to ethnicity.

The study further recommends that female gender should be considered in directorship positions since they are proved statistically to perform better in such positions. Insurance underwriters should actually ensure that appointments for board members should be in line with the one third gender rule as per the current constitution.

In addition study recommends that stakeholders in insurance underwriters should take in to account the body diversity issues i.e. gender, ethnicity and age when electing board of directors. That is the body should have equal distribution in terms of age, ethnicity and gender to minimize stakeholders conflicts and improve on overall firm performance. Requirements for one to be elected to the board of directors should be well stipulated in terms of age, gender and ethnicity balance. This will facilitate satisfaction in management and therefore improved management of the insurance underwriters in Kenya.

#### **5.5 Limitations of the Study**

Since the main purpose of this study is to identify the relationship between board diversity and financial performance of insurance underwriters in Kenya, NSE and the unlisted underwriters considered some information sensitive and confidential and thus the researcher had to convince them that the purpose of information is for academic research only and may not be used for any other intentions.

The findings of this study may not also be generalized to all listed firms but can be used as a reference to listed firms in developing countries since they face almost the same challenges due to the same prevailing economic situations as opposed to listed firms in developed countries.

Board diversity keep on changing from period to period depending on prevailing economic situations and demand on the capital market. The findings therefore may not reflect the true effect of board diversity across the underwriting companies for a period of 10 years since some companies are delisted and listed again depending on their performance on the stock market.

## **5.6 Suggestions for Further Research**

There is need for further studies to carry out similar study for a longer time period. A similar study should also be carried out on relationship between firms' financial performance, and board diversity in Kenya incorporating more corporate governance variables as opposed to the current study which took into consideration only three board diversity variables.

In addition, a similar study should also be carried out to establish whether there is any relationship between firms' financial performance and board diversity in other sectors of the Kenyan economy. This is because previous studies have only been done on the banking and insurance industry.

Furthermore, the performance of a company is influenced by more factors than just board diversity. Issues of social, legal, economic and the political environment are equally important. It is therefore suggested that future research should consider some of these factors in exploring the impact of board diversity on financial performance.

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## APPENDICES

### Appendix I–List of Insurance Underwriters in Kenya as 31<sup>st</sup> December 2012

1. African Merchant Assurance Company (AMACO)
2. APA Insurance Company
3. Apollo Life Assurance Company
4. Blue Shield Insurance Company
5. British American Insurance Company (Listed in NSE)
6. Cannon Assurance Company
7. Capex Life Assurance Company Limited
8. CFC Life Assurance Company
9. Chartis Kenya Insurance Company
10. Concord Insurance Company
11. Co-operative Insurance Company (Listed in NSE)
12. Corporate Insurance Company
13. Directline Assurance Company Ltd
14. Fidelity Shield Insurance Company
15. First Assurance Company
16. Gateway Insurance Co. Ltd
17. Geminia Insurance Company
18. GA Insurance Company
19. Heritage Insurance Company
20. Insurance Company of East Africa (ICEA)
21. Intra Africa Assurance Company
22. Jubilee Insurance Company (Listed in NSE)
23. Kenindia Assurance Company
24. Kenyan Alliance Insurance Company
25. Kenya Orient Insurance Company
26. Lion of Kenya Insurance Company
27. Madison Insurance Company
28. Mayfair Insurance Company

29. Mercantile Insurance Company
30. Metropolitan Life Insurance Kenya Ltd.
31. Monarch Insurance Company
32. Occidental Insurance Company
33. Old Mutual Life Assurance Company
34. Pan Africa Life Assurance Company (Listed in NSE)
35. Pacis Insurance Company Ltd
36. Phoenix of East Africa Assurance Company
37. Pioneer Life Assurance Company
38. Real Insurance Company
39. Shield Assurance Company
40. UAP Insurance Company
41. UAP Life Insurance Company
42. Concord Insurance Company Limited
43. Corporate Insurance Company Limited
44. East Africa Reinsurance Company Limited
45. Fidelity Shield Insurance Company Limited
46. First Assurance Company Limited

*Source: Insurance Regulatory Authority*

## Appendix 2

### DATA COLLECTION SHEET FOR THE RELATIONSHIP BETWEEN BOARD DIVERSITY AND FINANCIAL PERFORMANCE OF INSURANCE UNDERWRITERS IN KENYA

Insurance underwriters	The number of women in the audit committee	Percentage of independent women on the board of directors	Age distribution (Average)	Percentage of women directors on the board	Percentage of women on the board of directors	Standard deviation of ethnicity	Return on Assets (ROA)
African Merchant Assurance Company (AMACO)	3	33.56	45	39.84	20.16	0.581	1.277
APA Insurance Company	4	37.37	46	34.86	25.14	1.876	1.561
Apollo Life Assurance Company	3	40.72	47	44.09	45.91	1.674	1.868
Blue Shield Insurance Company	4	23.82	48	32.62	37.38	1.732	1.636
British American Insurance Company	4	21.09	54	30.98	39.02	1.223	1.112
Cannon Assurance Company	4	20.09	47	44.25	35.65	1.578	0.017
Capex Life Assurance Company Limited	5	25.24	45	49.10	40.90	1.587	1.597
CFC Life Assurance Company	6	26.67	40	30.94	40.06	1.726	1.716

Concord Insurance Company	2	36.00	49	37.90	22.06	0.171	1.655
Co-operative Insurance Company	5	2.23	53	31.99	48.11	1.4067	0.118
Corporate Insurance Company	3	27.00	51	32.025	47.98	0.285	0.948
Directline Assurance Company Ltd	5	36.09	48	38.69	31.31	0.458	0.981
Fidelity Shield Insurance Company	3	32.09	49	34.05	35.95	1.3013	1.371
First Assurance Company	6	39.36	47	34.05	35.95	0.926	1.286
Gateway	5	29.09	45	39.85	30.15	1.313	1.808
Gemina Insurance Company	3	42.87	46	34.94	35.06	1.235	1.624
GA Insurance Company	3	27.01	52	32.23	37.67	0.464	1.902
Heritage Insurance Company	2	26.28	51	38.01	21.19	1.034	0.706
Insurance Company of East Africa (ICEA)	2	24.05	49	43.32	36.68	0.844	1.354

Intra Africa Assurance Company	5	36.09	48	39.04	20.96	0.300	1.543
Jubilee Insurance Company	5	33.29	50	32.29	21.71	1.159	1.104
Kenindia Assurance Company	5	35.53	44	31.97	48.03	0.586	0.865
Kenyan Alliance Insurance Company	4	36.04	47	32.77	28.23	1.511	0.818
Kenya Orient Insurance Company	2	12.95	49	36.35	33.65	0.076	1.392
Lion of Kenya Insurance Company	5	19.65	54	34.40	25.60	1.064	1.796
Madison Insurance Company	2	17.02	52	40.74	29.26	1.267	0.753
Mayfair Insurance Company	4	15.53	46	43.60	26.40	0.813	1.400
Mercantile Insurance Company	5	15.62	49	39.02	40.98	1.038	0.932
Metropolitan Life Insurance Kenya Ltd.	3	17.54	56	35.46	34.54	1.057	1.404
Monarch Insurance Company	3	31.51	48	37.54	32.46	0.307	1.097

Occidental Insurance Company	4	42.84	49	38.65	41.35	0.661	1.323
Old Mutual Life Assurance Company	4	37.04	53	32.58	47.42	0.595	0.532
Pan Africa Life Assurance Company	6	50.58	54	36.67	33.33	0.625	1.431
Pacis Insurance Company Ltd	5	52.19	50	41.10	54	1.740	1.471
Phoenix of East Africa Assurance Company	2	43.38	55	43.82	46.18	0.701	0.533
Pioneer Life Assurance Company	5	42.36	45	41.77	38.23	0.485	1.371
Real Insurance Company	4	48.86	46	38.83	41.17	0.560	1.332
Shield Assurance Company	5	40.02	47	38.51	21.49	1.460	1.195
UAP Insurance Company	4	26.85	48	37.02	32.92	0.491	0.994
UAP Life Insurance Company	3	11.36	49	34.25	35.75	1.393	1.095
Concord Insurance Company Limited	6	42.60	51	30.64	49.36	0.234	1.079

Corporate Insurance Company Limited	6	42.47	50	31.72	48.28	1.205	0.963
East Africa Reinsurance Company Limited	2,	15.22	52	43.02	36.98	1.112	1.107
Fidelity Shield Insurance Company Limited	4	20.09	47	44.25	35.65	1.578	0.017
First Assurance Company Limited	5	25.24	45	49.10	40.90	1.587	1,597

**Source:** Annual Financial Reports