BALANCED SCORE CARD AS A PERFORMANCE MEASUREMENT TOOL
IN THE INSURANCE FIRMS IN KENYA

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Declaration
This project is my original work and has not been submitted for a degree in any other university.

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

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Dedication

This work is dedicated to my family
Acknowledgements

I thank God for giving me the wisdom and courage and for guiding me throughout my life for without Him I would not have come this far. I would also like to acknowledge the following for their contributions which facilitated the completion of this project.

Secondly, special thanks go to my supervisor Dr. John Yabs for providing unlimited, invaluable and active guidance throughout the study. His immense command and knowledge of the subject matter enabled me to shape this research project to the product that it is now.

Thirdly, I also thank my family for letting me steal their valuable time to work on this project. It is my hope that their sacrifice has finally paid off.

Finally, I owe my gratitude to a number of people who in one way or another contributed towards completion of this project especially my fellow colleagues at work and students.
Abstract

The concept of the Balance Scorecard is premised on the need for lagging and leading indicators that enable a holistic measurement of performance of the organization. The Insurance Industry is currently experiencing disruptive change driven by regulation and competition. Although there are many studies on the Balance Scorecard in Kenya, there is a gap in the study of the Kenyan insurance industry. The objective of this study was to determine the use and effectiveness of the Balance Scorecard as a performance measurement tool for Insurance companies in Kenya. This study was designed as a cross-sectional survey of the Kenyan insurance industry. The population was 50 insurance firms in Kenya from which all were included in the sample but only 40 took part in the survey. Primary data was collected using questionnaires which were administered to supervisors and managers in the firms. Data was analysed using descriptive analysis and presented in tables and charts. The study found that the current performance measurement tool was comprehensive and effective in measuring performance. The study also found that the customer perspective element of balance scorecard adequately measured customer satisfaction in their firms. It was found that the business process element of balance scorecard adequately measured the performance of internal process in their firms. The study also revealed that the innovation and learning element of balance scorecard adequately measures the ability of your firm to innovate and adopt the environment. The study found that the financial performance measure of the balance scorecard adequately measures the success of the operations in meeting the strategic objects. The study concludes that the balance scorecard is widely used and is an effective tool for measuring performance in the organizations. The study recommends that insurance firms that seek to measure their performance should adopt the use of balance scorecard as it is a very effective tool in measuring performance in organisations.
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## Abbreviations and Acronyms

<table>
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<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>BSC</td>
<td>Balance Scorecard</td>
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<td>Service Level Agreement</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Strategic management primary objective is to ensure alignment between the organization’s operations and the demands of its competitive environment. Central to this alignment is the ability to measure performance using both lagging and leading measures. This study shall evaluate the effectiveness of the Balance Score Card as a tool of performance measurement within an industry.

The balanced scorecard (BSC) has received much literary acclaim from its originating protagonists, Professor Robert Kaplan and David Norton. Traditional performance measures have been one-dimensional with a focus on financial measures that largely indicate past performance. BSC is multi-dimensional as it incorporates both financial and non-financial measures enabling its results have both reporting and predictive value. The singular success of BSC is its ability to align current action to strategic outcomes through a blend of leading and lagging measures. The chosen operating activities and strategic outcomes are dependent on an organization’s mission, vision and stage of organization development.

Karl Ludwig von Bertalanffy (1988) defined an open system as a “system in exchange of matter with its environment, presenting import and export, building-up and breaking-down of its material components”. Open systems theory has varied applications in various disciplines such as social science, anthropology, history to mention a few. In management the theory states that as organizations and communities conduct their business they influence and change their external
environments, while at the same time being influenced by external changes in local and global environments.

Mahoney, J.T.; Pandian, J.R. (1992 ) states a resource-based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier. Barney JB (1991) summarizes the criteria for evaluating resources as VRIN i.e. Valuable, Rare, In-imitable and Non Substitutable.

Teece, (1997) defines dynamic capability as the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. Organizations and their employees need the capability to learn quickly and to build strategic assets. New strategic assets such as capability, technology and customer feedback have to be integrated within the company. Existing strategic assets have to be transformed or reconfigured.

The Insurance industry in Kenya is comprised of Fifty (50) insurance companies in Kenya in 2013. Other players in this sector included one hundred and seventy four (174) licensed insurance brokers, twenty-six (26) medical insurance providers, four thousand and eight hundred and three (4,803) insurance agents, one hundred and twenty nine (129) investigators, ninety-six (96) motor assessors, twenty (20) loss adjusters, one (1) claims settling agent eight (8) risk managers, and twenty-six (26) insurance surveyors. Therefore the total number of players in the insurance industry according to the insurance regulatory authority was five thousand three hundred and thirty eight (5,338) by end of 2013. According to the Association of Kenya Insurers insurance penetration as at 2011 stood at 3.02% with non-life premium at 2.0%. This was represented by total Gross written premium of Kes 91.6 Billion with non-life
premium at Kes 60.7 Billion. The industry’s profitability stood at Kes 7.78 Billion with underwriting profits contributing Kes 2.49 Billion. The industry is experiencing an average annual growth of 18% in total premiums further underpinning the growth potential the industry presents.

Despite the high growth potential the industry is currently experiencing disruptive change driven by regulation and competition. The Insurance Regulatory Authority (IRA) introduced Risk Based Supervision in 2011. Risk Based Supervision entails evaluating each insurance company’s purely on the basis of the quantum of risk borne and to demand that the insurance company set aside sufficient capital to sufficiently cater for these risks. The paradigm shift that this approach brings is that it shifts from a “one size fits all” capital requirement to “Tailor made” capital premised on the quantum of risk borne. Ultimately what the regulator has done is to convert risk management into a sustainable competitive advantage. Among the manifold implications of this event include the fact that performance monitoring has become a strategic tool critical to enhancing business performance.

1.1.1 The Strategic Management Concept

The essence of formulating competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm’s environment is the industry or industries in which it competes. (Poter, 1980) has observed that, industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm.
Firms exist within a dynamic environmental context that demands constant engagement to ensure adequate adaptation by the firm. The strategies a firm adopts have to be cognizant of the ever changing environment and seek to align business practices to environmental demands through relevant strategies. He further asserts that the goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against these competitive forces or can influence them in its favour. The information age environment for both manufacturing and service organizations requires new capabilities for competitive success. According to (Robert S. Kaplan, 1996) the ability of a company to mobilize and exploit its intangible or invisible assets has become far more decisive than investing and managing physical, tangible assets.

Porter (1985) has further suggested the five force model and in this model he provides emphasis on all the relevant factors that an organization should consider. He says that for an organization to succeed it needs to take into account the firm, its competitors, its suppliers, its customers and also its substitutes. If all these are not monitored properly and the linkages not understood correctly, then it can impede the performance of an organization.

1.1.2 Balanced Score Card as Performance Measurement Tool

The balanced scorecard was developed in the USA in the beginning of the 1990s by Kaplan and Norton (1992) having criticized the existing methods for assessing business performance for being too narrow and looking back instead of looking forward. From this starting point, they created a method which they named the “balanced scorecard”. This method aims at making the business strategy more measurable and concrete. Additionally, it forces the business managers to think about
what the strategy and vision are really about and what are the actions that lead to fulfilling the ideas named in the strategy and vision? The key differentiator of the Balance Score Card in performance measurement is its ability to combine both lagging indicators (financial perspective) with leading indicators (Customer and Innovation perspectives). The Balance Score Card is context specific because the performance objectives between firms vary and are dictated by the priorities of the firm at the moment.

1.1.3 Insurance Firms in Kenya

There were Fifty (50) insurance companies in Kenya in 2013. Other players in this sector included one hundred and seventy four (174) licensed insurance brokers, twenty-six (26) medical insurance providers, four thousand and eight hundred and three (4,803) insurance agents, one hundred and twenty nine (129) investigators, ninety-six (96) motor assessors, twenty (20) loss adjusters, one (1) claims settling agent eight (8) risk managers, and twenty-six (26) insurance surveyors. Therefore the total number of players in the insurance industry according to the insurance regulatory authority was five thousand three hundred and thirty eight (5,338) by end of 2013.

With 50 players and a penetration rate of 3% the industry is currently experiencing intensified competition to sustain premium growth. This has necessitated a search for non-conventional distribution channels to deepen penetration. Traditional insurance distribution channels of brokers and agents are gradually being overshadowed by institutional aggregators i.e. Bancassurance (Banks selling Insurance), Telcassurance (Telecommunication Companies selling Insurance) and Retail supermarkets. UAP one of the significant players in the Kenyan industry partnered with Uchumi supermarkets in 2013 to distribute low premium insurance packages. This illustrates the level and
scale of competition for non-conventional distribution channels. These aggregators’ key strengths include; wide distribution networks and access to well defined populations in their subscriber/consumer base that they can target with appropriate insurance products.

Engagement of aggregators by Insurance companies has given new meaning to the concept of Service Level Agreement (SLA). These aggregators are especially demanding to the Insurance companies necessitating underwriters to continuously review their operations to ensure they deliver on the SLAs. Critical to delivering on the SLA’s, and hence securing the business from these channels, is the ability to continuously measure performance against set standards from an SLA and to continuously grow and innovate and hence exceed expectations that translates into a growth of market share.

1.2 Research Problem

The concept of the Balance Scorecard is premised on the need for lagging (Financial Indicators) and leading indicators that enable a holistic measurement of performance of the organization. The performance measurement principles of this tool are premised on the Open System Theory of management, the Resource Base Perspective theory of the firm and the Dynamic capability theory of the firm. Traditional performance measurement systems appear not to be providing managers with the information they need to measure and manage the all-important competencies that drive competitive advantage. This has been observed by Kaplan and Norton, 1992 & Eccles, 1991. Therefore, performance measurement incorporating non-financial measures has been a topic of great interest throughout most of the 1990s. The Balance Score Card approach using a combination of financial and non-financial indicators in
performance measurements addresses the shortcomings of traditional measurement systems.

The context of the study is the Kenyan Insurance industry comprised of Fifty (50) insurance companies in Kenya in 2013. Other players in this sector include one hundred and seventy four (174) licensed insurance brokers, twenty-six (26) medical insurance providers, four thousand and eight hundred and three (4,803) insurance agents, one hundred and twenty nine (129) /investigators, ninety-six (96) motor assessors, twenty (20) loss adjusters, one (1) claims settling agent eight (8) risk managers, and twenty-six (26) insurance surveyors. Therefore the total number of players in the insurance industry according to the insurance regulatory authority was five thousand three hundred and thirty eight (5,338) by end of 2013. According to the Association of Kenya Insurers insurance penetration as at 2011 stood at 3.02% with non-life premium at 2.0%. This was represented by total Gross written premium of Kenya Shillings 91.6 Billion with non-life premium at Kenya Shillings 60.7 Billion. The industry’s profitability stood at Kenya Shillings 7.78 Billion with underwriting profits contributing Kenya Shillings 2.49 Billion. The industry is experiencing an average annual growth of 18% in total premiums further underpinning the growth potential the industry presents.

The Insurance Industry is currently experiencing disruptive change driven by regulation and competition. The Insurance Regulatory Authority (IRA) introduced Risk Based Supervision in 2011. Risk Based Supervision entails evaluating each insurance company purely on the basis of the quantum of risk borne and to demand that the insurance company set aside sufficient capital to sufficiently cater for these risks. The paradigm shift that this approach brings is that it moves away from a “one
“size fits all” capital requirement to “Tailor made” capital premised on the quantum of risk borne. Ultimately what the regulator has done is to convert risk management into a sustainable competitive advantage. Among the manifold implications of this event include the fact that the method of performance monitoring is in itself a subject of interest by both operators and the regulator of the Insurance industry.

Ronay Ak (2009) in his study of the insurance industry in Turkey using the Balance Score Card in which he quantified the results of the Balance Score Card outputs, using an Analytical framework process. The results of the study highlighted the importance of the Internal Business Process perspective of the Balance Score Card as a key driver of performance.

Pravena, (2011) while conducting a study of the performance measurement capability of the Balance Score Card in a Malaysian Insurance company identified its ability to measure non tangible people aspects of performance that financial measures are unable to quantify. She noted that the Balance Score Card as a measurement tool enables synchronization between strategic objectives and daily operations of staff and hence provides a basis for the measurement of non-tangible aspects of staff behavior by evaluating the learning and growth dimension of the Balance Score Card.

Kaplan & Norton (1996) also in their review of a North American Insurance Company namely National Insurance Company identified the challenge of lagging indicators in the Balance Score Card as a measurement tool of performance for an insurance company and determined appropriate lead indicators that compensate for the lagging effect and so empower the Balance Score Card as performance measurement tool.
Opiyo R.M. (2010) in her study on the application of balanced scorecard on employee job satisfaction at Cooperative Bank of Kenya Ltd focused on the benefits of BSC aligning the operations to strategy by effecting performance measurement. Though the emphasis was strategic alignment the component of performance measurement was highlighted, as key driver of the alignment.

A survey of Insurance firms in Kenya done by Abwao, V (2002) highlights empowerment of staff arising from embracing information technology as a key element in the learning and growth perspective of the Balance Score Card. This research will explore the performance measurement dimensions of the BSC at an industry level.

A study by Mucheru, (2008) in the application of balance score card in performance management among commercial banks is the only industrial study of financial services conducted on the application of BSC as a performance management tool. This research will undertake a study of a financial service industry such as an insurance company in Kenya with a focus on appraising Balance Score Card as a performance measurement tool.

Although there are many studies on the Balance Score Card in Kenya, there is clearly a big gap in the study of the Kenyan insurance industry. The effectiveness of the Balance Score Card as a performance measurement tool in the Kenyan insurance industry is yet to be studied. The research question therefore is: Is the Balance Score Card an effective tool for measuring performance of an Insurance company in Kenya?
1.3 Research Objectives

The objective of this study was to determine the use and effectiveness of the Balance Scorecard as a performance measurement tool for Insurance companies in Kenya.

1.4 Value of the Study

The study will be useful to academics, regulators and Industry players by enriching the theory of balance score card application, informing policy and assisting Insurance practice.

Theory: It will also enrich the Theory of the Balance Score Card as a performance measurement tool by providing insights on the underlying principles once evaluated by an industry in application. In addition to obtaining insights on the four perspectives of the Balance Score Card the concepts providing a theoretical basis for this research will also be evaluated and the insights obtained will enrich the theories of Open System, Resource Based View and Dynamic Capability Theory.

Policy: It will further inform regulatory policy for the Insurance industry as it will provide the regulator with tools to appraise firm’s capability to measure their own performance that is critical in the Risk Based Supervisory framework. In Kenya the regulators of financial services are contemplating consolidation. This performance measurement tool is widely used in other financial service sectors such as banks, cooperatives. This study will provide input to policy formulation on performance measurement when drafting the framework for consolidated regulation.

Practice: Finally it will assist the practice of Insurance in Kenya by identifying best practice with respect to performance measurement for adoption. This study will
primarily focus on Insurance firms however the results will be of value to the other
insurance players who are critical service providers of the Insurance industry.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter elaborates the concept of balance score card (BSC) by reviewing various literal works from the authors of BSC i.e. Kaplan and Norton as well as other commentators of the same.

2.2 The Theoretical Foundation

Karl Ludwig von Bertalanffy (1988) defined an open system as a “system in exchange of matter with its environment, presenting import and export, building-up and breaking-down of its material components”. Open systems theory has varied applications in various disciplines such as social science, anthropology, history to mention a few. In management the theory states that as organizations and communities conduct their business they influence and change their external environments, while at the same time being influenced by external changes in local and global environments. This two-way influential change is known as active adaptive change.

Open System theory of management states that, as organizations and communities conduct their business, they influence and change their external environments, while at the same time being influenced by external changes in local and global environments (Chaharbaghi and Lynch, 1999). This two-way influential change is known as Change Active Adaptive. Organizations and communities are open systems
i.e. changing and influencing each other over time. To be able to study an organization under this feature the following terms and definitions are outlined:

The boundary which refers to an arbitrary line that outlines the area to be studied in the organization. The environment which includes all the identified aspects and influences to the area under study that are outside the system. Inputs in this context will refer to anything that comes into the identified system from the environment. These will include customers’ orders, power supplies, technological equipment, raw material, and labour/Human resource. Processes here will refer to the whole cycle that converts inputs into outputs. This encompasses production and planning processes as well as marketing the organization’s products and completing the sales process (Chaharbaghi and Lynch, 1999).

Outputs will refer to anything that leaves the identified system and is transferred to the environment. They will include products and services but the systems approach also considers waste and losses as outputs. This systems approach identified the negative feedback control loop as the most common adaptive mechanism for open systems. The Negative Feedback Control Loop, as its name implies, attempts to eliminate those differences that are identified between the desired results and the actual results.

Mahoney, J.T.; Pandian, J.R. (1992) states a resource-based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier. Barney JB (1991) summarizes the criteria for evaluating resources as VRIN i.e. Valuable, Rare, In-imitable and Non Substitutable.
Chaharbaghi and Lynch (1999) Resource Based view provides the understanding that certain unique existing resources will result in superior performance and ultimately build a competitive advantage. Sustainability of such an advantage will be determined by the ability of competitors to imitate such resources. However, the existing resources of a firm may not be adequate to facilitate the future market requirement, due to volatility of the contemporary markets. There is a vital need to modify and develop resources in order to encounter the future market competition.

Makadok (2001) emphasizes the distinction between capabilities and resources by defining capabilities as a special type of resource, specifically an organizationally embedded non-transferable firm-specific resource whose sole purpose is to improve the productivity of the other resources possessed by the firm.

The resource based view has been a common interest for management researchers and numerous writings could be found for same. A resource-based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Mahoney & Pandian 1992).

Teece, (1997) defines dynamic capability as the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. Organizations and their employees need the capability to learn quickly and to build strategic assets. New strategic assets such as capability, technology and customer feedback have to be integrated within the company. Existing strategic assets have to be transformed or reconfigured. Dynamic capability is essentially the learning of an organization, development of new assets and the transformation of existing assets.
Teece, (2009) over time a firm's assets may become co-specialized, meaning that they are uniquely valuable in combination. An example is where the physical assets (e.g. the plants), human resources (e.g. the researchers) and the intellectual property (e.g. patents and tacit knowledge) of a company provide a synergistic combination of complementary assets. Such co-specialized assets are therefore more valuable in combination than in isolation. The combination gives a firm a more sustainable competitive advantage.

Dynamic capability framework considers the ability of a firm to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. This framework or theory refers to the resources in the resource base theory as proposed by Barney, (1986) & Wernerfelt (1984). They are those specific physical (specialized equipment, geographic location) human (expertise in chemistry) and organizational (superior sales force) assets that can be used to implement value creating strategies.

Grant, (1996) & Pisano (1994) while observing dynamic capabilities are the antecedent organizational and strategic routines by which managers alter their resource base-acquire and shed resources, integrate them together and recombine them to generate new value creating strategies. They say that dynamic capabilities consist of identifiable and specific routines with some integrating resources for example product development routines by which managers combine their varied skills and functional backgrounds to create revenue producing products and services.

Hansen, (1999) also indicates that other dynamic capabilities focus on reconfiguration of resources within firms. Transfer processes including routines for replication and brokering are used by managers to copy, transfer and recombine resources, especially
knowledge based ones, within the firm. ‘IDEO’ a premier product design firm routinely creates new products by knowledge brokering from a variety of previous design projects in many industries and from many clients.

2.2.1 The Concept of the Balanced Score-Card

The Balanced Score-Card was developed in the USA in the beginning of the 1990s by Kaplan and Norton (1992). Kaplan & Norton (1992) criticized the existing methods for assessing business performance for being too narrow and looking back instead of looking forward. From this starting point, they created a method which they named the “Balanced Scorecard”. This is a method aims at making the business strategy more measurable and concrete. Additionally, it forces the business managers to think about what the strategy and vision are really about and what are the actions that lead to fulfilling the ideas named in the strategy and vision?

Creating a balanced scorecard starts by naming the viewpoints of the work. Most commonly, the balanced scorecard work is carried out from the four viewpoints suggested initially Kaplan & Norton (1992), financial viewpoint, customer viewpoint, viewpoint of the internal processes and viewpoint of learning and growth. Other possible viewpoints that are used in the literature are linked to, among others, human resources, the environment, sub-contractors and social impacts. The viewpoints utilized here are the four suggested initially by Kaplan and Norton.

After selecting the viewpoints, it is necessary to contemplate what are the most common goals associated with these viewpoints. The aim is to find concrete ways to fulfill these goals. And these concrete ways are then transformed into (preferably) numerical measures. One potential problem is that this process leads to a huge number
of measures. Another potential problem with this is that the measures remain loose and their relationships with each other are not understood (Malmi et al., 2005).

A balanced scorecard typically includes from eight to 26 measures, and it is important to keep the viewpoints balanced, so that there are approximately the same numbers of measures for each viewpoint. Some of the measures should look back and some forward into the future. It is also important to find a balance to the financial and non-financial measures (Malmi et al., 2005).

It is also important to note that it is not enough to create the measures. It is also necessary to collect the data, and update the data and the measures. The measures are useless in the long run if they are not used in evaluating the business actions and, when necessary, in correcting the procedures according to the measures. In order to take full advantage of the measures, they must also be improved constantly and their reliability, validity and internal relationships must be surveyed. If the measures measure the wrong things or distort the picture of the organization, it is wise to correct the measures so that they fit the reality and theirs (Malmi et al., 2005).

2.2.2 Perspectives of the Balanced Score-Card

The Balance Score Card is comprised of four dimensions namely; Customer perspective, internal business process perspective, Innovation and learning perspective and financial perspective. The first three dimensions, enable the tool provide leading measures of performance while the last dimension provides a lagging measure of performance.

This Customer perspective captures the ability of the organization to provide quality goods and services, the effectiveness of their delivery, and overall customer service
and satisfaction. To this effect, many organizations today have a mission, focused on the customer and measuring how an organization is performing from its customers’ perspective has become a priority for top management (Kaplan & Norton, 1992). The BSC demands that managers translate their general mission statement on customer service into specific measures that also reflect the factors that really matter to customers. In a public organization model, the principal driver of performance is different from in the strictly commercial environment; namely, customer and stakeholder interests take prominence over financial results. In general, many public organizations have a different, perhaps greater, stewardship responsibility and focus than private sector entities. This is according to the Procurement Executives Association, 1998.

The business processes perspective is primarily an analysis of the organization’s internal processes. Internal business processes are the mechanisms through which organizational performance expectations are achieved. Customer-based measures are important, but they must be translated into measures of what the organization must do internally to meet its customers’ expectations. This perspective focuses on the internal business results that lead to financial success and satisfied customers. Therefore, managers need to focus on those critical internal operations that enable them to satisfy customer needs (Kaplan & Norton, 1992). Organizations should decide at what processes and competencies they must excel and specify measures for each. Key internal processes are monitored to ensure that outcomes will be satisfactory. The measures should also link top management’s judgment about key internal processes and competencies to the action taken by individuals that affect overall corporate objectives. Further (Kaplan & Norton, 1996) notes that these linkage ensures that employees at lower levels in the organization have clear targets for actions, decisions
and improvement activities that will contribute to the organization’s overall mission.

Customer and internal business process measures identify the parameters that the organization considers most important for competitive success.

Financial performance measures indicate whether the organization’s strategy, implementation and execution are contributing to bottom-line improvement. It shows the results of the strategic choices made in the other perspectives. By making fundamental improvements in their operations, the financial numbers will take care of themselves, according to Kaplan & Norton (1992). In the public arena, the “financial” perspective differs from that of the traditional private sector. Private sector financial objectives generally represent clear long-range targets for profit-seeking organizations, operating in a purely commercial environment PEA (1998). Financial considerations for public organizations should be measured by how effectively and efficiently they meet the needs of their constituencies. Therefore for the government the financial perspective emphasizes cost-efficiency, i.e. the ability to deliver maximum value to the customer.

2.2.3 Performance Measurement

Performance measurement is a topic which is often discussed but rarely defined (Neely et al., 1995). Performance measurement systems were developed as a means of monitoring and maintaining organizational control (Nani et al., 1990). This is the process of ensuring that an organization pursues strategies that lead to the achievement of overall goals and objective. Sink, (1991) also suggests that performance measurement is a ‘mystery’ complex, frustrating, important, abused and misused function.
The level of performance a business attains is a function of the efficiency and effectiveness of the actions it undertakes, and thus performance measurement can be defined as the process of quantifying the efficiency and effectiveness of an action. Zairi (1994) in his study identified that performance measurement has been the systematic assignment of a number of activities. He further indicated that the function of measurement is to develop a method for generating a class of information that will be useful in a wide variety of problems and situations.

2.3 Empirical Studies

This concept of BSC has been applied successfully across many diverse industries and within the public sector in the USA. The public sector applicability of the concept has been discussed and numerous examples of successful public sector applications have been documented. These were all reported in a positive manner, no failures of the concept were identified, but many pitfalls and problems involving application of the concept were highlighted by (Kaplan & Norton, 1996). It was further emphasized that the application of the BSC is far from simple and requires a comprehensive understanding of the principle involved and significant commitment towards accepting the new philosophy and implementing the necessary change. The question, however, still remains; why is so much theory widely available yet the concept remains untouched?

The body of evidence supports the theory that the BSC offers a medium to deliver strategic vision while providing an evaluation system. The many case studies provide physical proof to support this theory. In addition, the concept has been approached from many different management discipline perspectives. The accountancy aspect of the BSC’s utility has been considered widely by (Booth, 1996 & Corrigan, 1995),
(Hussein, 1996). (Birchard, 1995 & Brown, 1994) has observed that the BSC’s performance measurement capability has received much interest and attention. One consideration of this measurement utility was enhanced by linking it into the concept of quality management (Cortada, 1994).

The BSC’s performance measurement capability has been considered from a number of unique but valid perspectives by various scholars (Davis, 1996 & Feurer, 1995). Bainbridge provides a comprehensive overview of the same, considering all key aspects of the concept, albeit very briefly. His contribution offers the best executive summary from which a sound overview of the BSC can be obtained (Bainbridge, 1996).

Finally, I summarize our study by some concluding remarks in Suwingjo et al. (2000) presented a quantitative based performance measurement (PM) approach (QMPMS) with four steps to describe works at the Centre for Strategic Manufacturing, University of Strathclyde.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design that was adopted, the study population, the sampling the methods of collecting data, the research procedures, method of analyzing and presenting data.

3.2 Research Design

Research design constitutes the blue print for collection, measurement, and analysis of data (Cooper & Schindler, 2001). This research study was a cross-sectional survey of the Kenyan Insurance Industry. The cross-sectional survey measured the effectiveness of the Balance Scorecard as a performance measurement tool across all respondents.

The selection of a cross-sectional survey was informed by the research objective of measuring the effectiveness of the Balance Scorecard as a performance measurement tool. This could best be evaluated by conducting a survey on the use of the tool and the outcomes of measurement. The survey engaged a likert scale format to enable quantification of use and outcomes of the measurement tool.

3.3 Population of the Study

Cooper & Schindler (2001), defined population as the total collection of elements about which we wish to make some inferences. The proposed study population comprised of all the 50 insurance firms in Kenya and hence a census was conducted of the entire industry when administering the cross-sectional survey.
The selection of the 50 firms to the exclusion of other insurance players was informed by the fact that the insurance companies were the ultimate risk bearers in the industry and the other players provided support services to enable the 50 firms assume insurance risk. The performance of these 50 firms is ultimately the performance of the Kenyan Insurance Industry. Some of the elements shared common directors and possibly management. These firms were considered individually for purposes of the survey of the industry.

3.4 Data Collection

The research used the data from the cross sectional survey collected after conducting a census of the Industry. The research study also used some secondary data. This is data collected by someone other than the user. Common sources of secondary data for social science include censuses, surveys, organizational records and data collected through qualitative methodologies or qualitative research. Primary data, by contrast, are collected by the investigator conducting the research. Questionnaires were used to collect primary data and the respondents were the general managers in each of the firms. The questionnaires were administered using drop and pick later method.

Secondary data analysis saves time that would otherwise be spent collecting data and, particularly in the case of quantitative data, provides larger and higher-quality databases than would be unfeasible for any individual researcher to collect on their own. In addition to that, analysts of social and economic change consider secondary data essential, since it is impossible to conduct a new survey that can adequately capture past change and/or developments (Corti & Bishop 2005).
3.5 Data Analysis

The results of the survey were analysed using descriptive statistics of mean and standard deviation to interpret the 5-point likert scale type responses. Each element of the four elements of the balance scorecard were analysed using frequencies and percentages to enable independent assessment of the effectiveness of each element as well as appraise the overall effectiveness of the tool in the industry. Reliability of the measures was analysed using the Cronbach’s apha where the value was found as 0.75 suggesting that the measures used were reliable. Validity had been checked through the fact that the questionnaire was checked by the supervisor to ensure that all questions were geared towards achievement of the objectives of this paper.
CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results of the analysis of data collected through questionnaires. This chapter is organised as follows. The first section presents the results of demographic analysis. The second section presents the descriptive results on the application of balance scorecard in insurance firms. The last section is the discussion of findings.

4.2 Demographic Results

The respondents were asked to state their positions in the organisation. The results are shown in Figure 1.

Figure 1: Positions of Respondents

- Branch manager: 43%
- Credit manager: 14%
- Senior human resource executive: 14%
- Supervisor: 14%
- Credit control executive: 15%
The study found that 43% of the respondents were branch managers, 15% were credit control executives, 14% were credit managers, 14% were senior human resource executives, and 14% were supervisors. The composition of respondents in terms of their positions confirms that these were respondents with the correct information on the activities of their insurance companies.

![Figure 2: Number of Years Worked in the Company](image)

The respondents were asked to state the number of years they had worked in the companies. The results are shown in Figure 2. As shown, the study found that half of the respondents had worked in their organisations for 1 – 3 years, 37% for 4 – 6 years and 13% for over 7 years. Therefore, the respondents were very experienced employees in their organisations and were therefore vastly experienced in the activities of their organisations.
The respondents were also asked to state the number of employees they supervised. The results shown in Figure 3 reveal that 25% of the respondents supervised 1 – 4 employees, 62% supervised 5 – 7 employees while the remaining 13% supervised 8 employees or more. Thus, most of the respondents supervised more than 4 employees in the organisation and therefore gives them more authenticity as those who can respond to questions regarding performance measurement.

### 4.3 Application of Balance Scorecard

The respondents were asked to state if they were familiar with the use of balance score card to measure their performance. The results showed that all of them agreed that they were aware of the same. This suggests that there was a high level of awareness among the respondents and therefore the entire insurance industry on the existence of the balance scorecard as a tool to measure performance.
Table 1: Methods of Performance Measurement

<table>
<thead>
<tr>
<th>Statements</th>
<th>%</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>You are sufficiently engaged in performance measurement setting</td>
<td>87.5</td>
<td>4.375</td>
<td>.70484</td>
</tr>
<tr>
<td>Your current performance measurement tool is comprehensive with respect to measurement of performance</td>
<td>100.0</td>
<td>4.125</td>
<td>.33493</td>
</tr>
<tr>
<td>Your current performance measurement tool is effective</td>
<td>87.5</td>
<td>4.000</td>
<td>.87706</td>
</tr>
</tbody>
</table>

Source: Research Data

Table 1 shows the results on the methods of performance measurement used by the insurance firms. As shown, 87.5% of the respondents agreed that they were sufficiently engaged in performance measurement setting. The mean of 4.37 also confirms that there was high level of agreement on this. This high number can be attributed to the fact that most of the respondents were either managers or employees at supervisory level and therefore had interacted with performance measurement settings in their organisations.

The results show that all the respondents agreed that their current performance measurement tool was comprehensive with respect to measurement of performance. The mean of 4.12 suggests that most of the respondents were in agreement with this statement. This fact can be attributed to the fact that most of these firms were using balance scorecard method to measure performance and therefore felt that the measure was very comprehensive in addressing all parameters of performance measurement.

The results further reveal that 87.5% of the respondents agreed that their current performance measurement tool was effective. The mean of 4.0 also suggests that indeed most of the respondents were in agreement with this statement. This can also be attributed to the fact that balance scorecard had been in use in these organisation
and therefore the respondents felt that it was a very effective tool to measure performance in the insurance firms.

<table>
<thead>
<tr>
<th>Statement</th>
<th>%</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>The customer perspective element of BSC adequately measures customer</td>
<td>75.0</td>
<td>3.3750</td>
<td>.86787</td>
</tr>
<tr>
<td>satisfaction in your firm</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The business process element of BSC adequately measures the performance</td>
<td>87.5</td>
<td>4.2500</td>
<td>.66986</td>
</tr>
<tr>
<td>of internal process in your firm</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The innovation and learning element of BSC adequately measures the</td>
<td>62.5</td>
<td>4.0000</td>
<td>.87706</td>
</tr>
<tr>
<td>ability of your firm to innovate and adopt the environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The financial performance measures of the BSC adequately measures the</td>
<td>75.0</td>
<td>3.6250</td>
<td>1.00480</td>
</tr>
<tr>
<td>success of the operations in meeting the strategic objects</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data

Table 2 shows the results on the balance scorecard appraisal as applied among the insurance firms in Kenya. As the results show, the study found that 75% of the respondents agreed that the customer perspective element of balance scorecard adequately measured customer satisfaction in their firms. The mean of 3.37 also shows that most of the respondents were in agreement with the same.

The study found that 87.5% of the respondents agreed that the business process element of balance scorecard adequately measured the performance of internal process in their firms. This is strongly corroborated with the mean value of 4.25 which also suggests that indeed the agreement among the respondents was high on this issue.
The study also revealed that 62.5% of the respondents agreed that the innovation and learning element of balance scorecard adequately measures the ability of your firm to innovate and adopt the environment. The mean score of 4.0 also confirms that indeed most of the respondents agreed with this statement.

The study found that 75% of the respondents agreed that the financial performance measure of the balance scorecard adequately measures the success of the operations in meeting the strategic objects. This is strongly corroborated with the mean value of 3.62 which suggests that most of the respondents were in agreement with this statement.

4.4 Discussion of Findings

The balanced scorecard (BSC) is a strategic planning and management system that has wide applications in manufacturing and service industries. The main goals of BSC are to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.

This paper presents an analysis for the practical implementation of a tool using the Balanced Scorecard method (BSC) in insurance companies in Kenya. The main result of this work is to design a set of performance indicators, as well as a strategic map in order to support the implementation of the BSC methodology based tool capable of measuring strategic alignment by identifying and communicating the strategy, developing action plans to enable monitor, manage and use data to improve company performance.
The study found that most of the respondents were in agreement that they were sufficiently engaged in performance measurement setting. The results showed that the current performance measurement tool was comprehensive with respect to measurement of performance. The results further revealed that the current performance measurement tool was effective. This is consistent with a number of prior studies such as Birchard (1995) which concluded that the balance scorecard was a valuable tool for measuring performance.

The study found that the customer perspective element of balance scorecard adequately measured customer satisfaction in their firms. The study found that the business process element of balance scorecard adequately measured the performance of internal process in their firms. The study also revealed that the innovation and learning element of balance scorecard adequately measures the ability of your firm to innovate and adopt the environment. The study found that the financial performance measure of the balance scorecard adequately measures the success of the operations in meeting the strategic objects. These results are therefore consistent with Davis (1996) who noted that Balance scorecard measured adequately performance of organizations.

The balanced scorecard has proved to be an effective tool for measuring business performance. Maintaining a business-wide balanced scorecard measurement system over a longer period implies, however, many risks. An example of such a risk is the excessive growth of scorecards as well as scorecard metrics, resulting in massive data warehouses and difficulties with the interpretation of data. This is particularly the case in large organisations.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions of the study, limitations of the study, recommendations, and suggestions for further research.

5.2 Summary

The study found that 43% of the respondents were branch managers, 15% were credit control executives, 14% were credit managers, 14% were senior human resource executives, and 14% were supervisors. The results showed that half of the respondents had worked in their organisations for 1 – 3 years, 37% for 4 – 6 years and 13% for over 7 years. The study also revealed that 25% of the respondents supervised 1 – 4 employees, 62% supervised 5 – 7 employees while the remaining 13% supervised 8 employees or more.

The study found that 87.5% of the respondents agreed that they were sufficiently engaged in performance measurement setting. The results showed that all the respondents agreed that their current performance measurement tool was comprehensive with respect to measurement of performance. The results further revealed that 87.5% of the respondents agreed that their current performance measurement tool was effective.

The study found that 75% of the respondents agreed that the customer perspective element of balance scorecard adequately measured customer satisfaction in their firms. The study found that 87.5% of the respondents agreed that the business process element of balance scorecard adequately measured the performance of internal
process in their firms. The study also revealed that 62.5% of the respondents agreed that the innovation and learning element of balance scorecard adequately measures the ability of your firm to innovate and adopt the environment. The study found that 75% of the respondents agreed that the financial performance measure of the balance scorecard adequately measures the success of the operations in meeting the strategic objects.

5.3 Conclusion

The objective of this study was to determine the use and effectiveness of the Balance Scorecard as a performance measurement tool for Insurance companies in Kenya. The results showed that the balance scorecard as a tool for measuring performance was widely used by the insurance firms. It is therefore concluded that the balance scorecard is widely used and is an effective tool for measuring performance in the organizations.

5.4 Limitations of the Study

The study focused on insurance firms in Kenya. Therefore, the results herein may just be applicable to the insurance firms and not to other corporate organizations. Attempts to interpret these results in other organizations should therefore be approached with care.

The study also used primary data which was collected through questionnaires. This is only one method among others which may have been used in this study. Reliance on one data source for a study does not allow for triangulation and therefore this was one of the major limitations of the study.
5.5 Recommendations and Implications

The results in this study have implications for both theory and practice. The results imply that the insurance sector in Kenya has been applying BSC as a method to measure performance and therefore adds to the growing body knowledge of balance score card application in the insurance sector.

The study recommends that insurance firms that seek to measure their performance should adopt the use of balance scorecard as it is a very effective tool in measuring performance in organisations.

The study also recommends that insurance firms should the managers need to engage more in the management of performance in their organisations by using tools such as balance scorecard which measure both their internal processes as well as the customer aspect of performance.

5.6 Areas for Further Research

The study suggests that this study be replicated to other firms other than insurance firms to examine whether the results found here still hold for other corporate organizations. This will aid in enhancing comparability of findings.

The study also suggests that further studies in this area need to expand the sources of information. Instead of relying on questionnaires as the only source of data, there is need to use other methods such as focus group discussions and interviews in order to triangulate results.
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Ronay, A.K. (2009), Performance Measurement of Insurance Companies by


APPENDICES

Appendix 1: Questionnaire

I am MBA student of the University of Nairobi. I am conducting a survey on the effectiveness of the balance score-card as a performance measurement tool in the insurance industry of Kenya.

Part A: Background Information

1. Name of Company…………………………………………………………………………..
2. Job Title…………………………………………………………………………………
3. Years worked with Company…………………………………………………………
4. Employees under your supervision……………………………………………………
5. Which performance measurement tool/technique do you use at your company
6. Are you familiar with the use of the Balance Score card to measure performance
   YES [ ]  NO [ ]

Part B: Method of Performance Measurement

1. You are sufficiently engaged/consulted in performance measurement setting
   a. Strongly disagree [ ]
   b. Disagree [ ]
   c. Neither agree/disagree [ ]
   d. Agree
   e. Strongly Agree [ ]
2. Your current performance measurement tool is comprehensive/holistic with respect to measurement of performance
   a. Strongly disagree [ ]
   b. Disagree [ ]
   c. Neither agree/disagree [ ]
   d. Agree [ ]
   e. Strongly Agree [ ]
3. Your current performance measurement tool is effective (ability to communicate the results & the drivers of performance
   a. Strongly disagree [ ]
   b. Disagree [ ]
c. Neither agree/disagree [   ]
d. Agree [   ]
e. Strongly Agree [   ]

**Part C: Balance Score Card Appraisal**

1. The customer perspective element of BSC adequately measures customer satisfaction in your firm
   a. Strongly disagree [   ]
   b. Disagree [   ]
   c. Neither agree/disagree [   ]
   d. Agree [   ]
   e. Strongly Agree [   ]

2. The business process element of BSC adequately measures the performance of internal processes in your firm
   a. Strongly disagree [   ]
   b. Disagree [   ]
   c. Neither agree/disagree [   ]
   d. Agree [   ]
   e. Strongly Agree [   ]

3. The innovation and learning element of BSC adequately measures the ability of your firm to innovate and adapt to the environment
   a. Strongly disagree [   ]
   b. Disagree [   ]
   c. Neither agree/disagree [   ]
   d. Agree [   ]
   e. Strongly Agree [   ]

4. The financial performance measures of the BSC adequately measure the success of the operations in meeting the strategic objectives
   a. Strongly disagree [   ]
   b. Disagree [   ]
   c. Neither agree/disagree [   ]
   d. Agree [   ]
   e. Strongly Agree [   ]
5. What are the major benefits accruing from using the Balance Score Card to measure performance
   a. ____________________________________________________
   b. ____________________________________________________
   c. ____________________________________________________
   d. ____________________________________________________
   e. ____________________________________________________

6. What are the limitations of using the Balance Score Card to measure performance
   a. ____________________________________________________
   b. ____________________________________________________
   c. ____________________________________________________
   d. ____________________________________________________
   e. ____________________________________________________

7. What solutions would you propose to the challenges encountered as a result of using the Balance Score Card in performance measurement.
   a. ____________________________________________________
   b. ____________________________________________________
   c. ____________________________________________________
   d. ____________________________________________________
   e. ____________________________________________________
Appendix 2: List of Insurance Firms in Kenya

1. A P A Insurance Limited
2. AAR Insurance Kenya Limited
3. Africa Merchant Assurance Company Limited
4. AIG Kenya Insurance Company Limited
5. Apollo Life Assurance Limited
7. Cannon Assurance Limited
8. Capex Life Assurance Company Limited
9. CFC Life Assurance
10. CFC Life Assurance Limited
11. CIC General Insurance Limited
12. CIC Life Assurance Limited
13. Continental Reinsurance Limited
14. Corporate Insurance Company Limited
15. Directline Assurance Company Limited
16. East Africa Reinsurance Company Limited
17. Fidelity Shield Insurance Company Limited
18. First Assurance Company Limited
19. G A Insurance Limited
20. Gateway Insurance Company Limited
21. Geminia Insurance Company Limited
22. ICEA LION General Insurance Company Limited
23. ICEA LION Life Assurance Company Limited
24. Intra Africa Assurance Company Limited
25. Invesco Assurance Company Limited
26. Kenindia Assurance Company Limited
27. Kenya Orient Insurance Limited
28. Kenya Reinsurance Corporation Limited
29. Madison Insurance Company Kenya Limited
30. Mayfair Insurance Company Limited
31. Mercantile Insurance Company Limited
32. Metropolitan Life Insurance Kenya Limited
<table>
<thead>
<tr>
<th>No.</th>
<th>Insurance Company Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>33</td>
<td>Occidental Insurance Company Limited</td>
</tr>
<tr>
<td>34</td>
<td>Old Mutual Life Assurance Company Limited</td>
</tr>
<tr>
<td>35</td>
<td>Pacis Insurance Company Limited</td>
</tr>
<tr>
<td>36</td>
<td>Pan Africa Life Assurance Limited</td>
</tr>
<tr>
<td>37</td>
<td>Phoenix of East Africa Assurance Company Limited</td>
</tr>
<tr>
<td>38</td>
<td>Pioneer Assurance Company Limited</td>
</tr>
<tr>
<td>39</td>
<td>Real Insurance Company Limited</td>
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<tr>
<td>40</td>
<td>Resolution Insurance Company Limited</td>
</tr>
<tr>
<td>41</td>
<td>Shield Assurance Company Limited</td>
</tr>
<tr>
<td>42</td>
<td>Takaful Insurance of Africa Limited</td>
</tr>
<tr>
<td>43</td>
<td>Tausi Assurance Company Limited</td>
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<tr>
<td>44</td>
<td>The Heritage Insurance Company Limited</td>
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<td>45</td>
<td>The Jubilee Insurance Company of Kenya Limited</td>
</tr>
<tr>
<td>46</td>
<td>The Monarch Insurance Company Limited</td>
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<tr>
<td>47</td>
<td>Trident Insurance Company Limited</td>
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<tr>
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<td>UAP Insurance Company Limited</td>
</tr>
<tr>
<td>49</td>
<td>UAP Life Assurance Limited</td>
</tr>
<tr>
<td>50</td>
<td>Xplico Insurance Company Limited</td>
</tr>
</tbody>
</table>

*Source: Insurance Regulatory Authority (IRA 2013)*