THE RELATIONSHIP BETWEEN TRANSPARENCY, DISCLOSURE AND FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN KENYA

BY

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DECLARATION

I declare that this Research Project is my original work and has not been presented anywhere else in any University

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D63/73446/2012

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Sign…………………………………..Date……………………………………………..

University supervisor

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First I would like to thank God for bringing me this far in my level of education and for guiding me throughout the period.

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DEDICATION

To my parents, Mr. and Mrs. Ndungu, I wish to thank you for your tireless effort throughout my life, continuous encouragement and support during my academic endeavors. To my siblings Wacuka and Njoki I thank the Lord for your unwavering support.

ABSTRACT

There has been increased public and academic discussion of issues related to corporate governance in most countries with active capital markets. Corporate boards worldwide have been attracting a great deal of attention in the past decade because of corporate failures and concerns about the performance of corporations and the way they are governed. Both firms and regulators are considering how best to ensure good corporate governance. The purpose of this research was to find out the relationship between corporate transparency, disclosure and company performance. The empirical research is based on insurance companies in Kenya.

The corporate transparency database for this study is created on a yearly basis for the period of 2008 to 2012. In accordance with the attributes defined by Standard & Poor's in the Corporate Governance Forum, transparency and disclosure attributes, which are 105 in total for each company, are extracted from annual reports of the publicly held firms, afterwards converted into percentages in three different subcategories, which are ownership structure & investor relations information disclosure financial information transparency & board management structure information disclosure. This study summarized the attributes to 30 which are not stipulated in the corporate governance guidelines. Transparency attributes consist of 5 years (2008-2012) and 40 companies.

The study found that return on assets and financial information disclosure and ownership and investor relationship were positively correlated and that the model used was significant since the significant values were less than 0.0l at 95% confidence levels. In light of this research, the researcher concluded that transparency and disclosure has positive effects on the financial performance of insurance companies and this can be explained because improving the level of disclosure reduces information asymmetry and cost of capital therefore regulators should promote the level of transparency and disclosure .

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ABBREVIATIONS

CACG	Common Wealth Association for Corporate Governance
CBK	Central Bank of Kenya
CCG	Centre for Corporate Governance
CG	Corporate Governance
CMA	Capital Markets Authority
OECD	Organization for Economic Corporation and Development
NSE	Nairobi Securities Exchange
S&P	Standard and Poor
ROA	Return on Assets

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate governance has in recent years been a much-discussed topic in economics, management, business ethics, company law and other disciplines. Wider public concern over fraud and corporate collapse, executive overpay, abuses of management power and corporate social irresponsibility in the last two decades resulted in a series of formal reports and proposals put forward in many developed as well as developing countries. In the UK, for example, there have been four important and influential reports produced within eight years (Cadbury 1992; Greenbury 1995; Hampel 1998; and Turnbull 1999).

Larner (1996) defines corporate governance as the organization of the relationship between the owners and the managers in the control of a corporation. He goes on to add that a good corporate governance system will be able to tackle the conflicts of interest between managers and owners of a corporation, and resolve them. Although other stakeholders, such as the workforce, government agencies, banks, suppliers and customers, or the public at large, have an interest in corporate control, ultimately, it is the shareholder manager relationship which is the most essential in corporate governance and which best lends itself to international comparison.

Corporate governance as defined by the Organization for Economic Corporation and Development (OECD) as the processes by which corporate entities, particularly public liability companies, are directed and controlled has become a topical issue in many countries. The debate on the role and control of corporations has moved to the top of many national agendas as a result of the spread of US-style shareholder activism, privatizations and the opening-up of markets in the developing countries, financial crises and market crashes, as well as the growing incidence of bad corporate management and outright fraud.

Corporate governance has been receiving increasing attention from the academic and corporate communities, focusing on topics such as the power and responsibility of boards of directors, institutional investors' participation in company management, and remuneration policies for senior managers and directors, and the structure and composition of the board of directors among others. Academic researchers, practitioners, and regulators have come to recognize the importance of good corporate governance a vigilant board of directors, timely and adequate disclosure of financial information, and meaningful disclosure about the corporation, and transparent ownership in enhancing the well-being of the corporate sector. At the national level, promotion of good corporate governance practice improves the ability of domestic firms to attract more investment from the international investment community (Saito and Dutra, 2006).

Internationally, the Asian financial crisis of 1997, and the more recent the Enron and Parmalatt crises underscored the importance of structural reforms in the governance of the business sector. Since then, various initiatives have been undertaken to promote such reforms (Suchada, 2007).The international investment community has developed several indices to measure the state of corporate governance. For example, Standard and Poor's Transparency and Disclosure Index assesses the transparency and disclosure practices of corporations around the world, while the Crédit Lyonnais Corporate Governance Index applies some major corporate governance factors - including discipline, transparency, independence, accountability, responsibility, fairness, and social awareness - to rate corporations in different markets (Sinan 2008).

More relevantly, in Kenya, The Centre for Corporate Governance defines corporate governance as the manner in which the power of and over a corporation is exercised in the stewardship of its assets and resources so as to increase and sustain shareholder value as well as satisfying the needs and interests of all stakeholders. The governance of a successful corporation typically includes an effective board of directors that carries out its responsibilities with integrity and competence. An effective board must put in place systems to ensure that the organization obligations to its shareholders are met. They must ensure full and timely disclosure of performance of the business to its owners and the investments community at large (Demsertz and Lehn, 1985). Finally, the globalization of economies and the growth of financial and investment markets in the 1990s has presented an opportunity for institutional investors to deploy their massive funds internationally. As they seek to do so, they are insisting on high

standards of corporate governance in the companies in which they must invest. (CACG; 1999). Investor confidence can only be enhanced with good corporate practices where there is accountability and transparency. After all, an investor can only trust management once the objectives and the return on their equity has been stated hence the demand for accountability from the directors.

1.1.1Transparency and Disclosure

Transparency describes the increased flow of timely and reliable economic, social, and political information about investors' use of loans, creditworthiness of borrowers, monetary and fiscal policy, and the activities of international institutions. Alternatively, a lack of transparency may exist if access to information is denied, if the information given is irrelevant to the issue at hand; or if the information is misrepresented, inaccurate, or untimely. Thus, a working understanding of transparency should encompass such attributes as access, comprehensiveness, relevance, quality, and reliability (Vishwanath & Kaufmann, 2001). Disclosure can be defined as a sharing of information and acting in an open manner. In economics and finance, disclosure is defined very broadly as “a process by which information about existing conditions, decisions and actions is made accessible, visible and understandable

Transparency and disclosure are integral to corporate governance. Higher transparency and better disclosure reduce the information asymmetry between a firm’s management and financial stakeholder’s equity and bond holders, mitigating

the agency problem in corporate governance. The financial literature has analyzed the agency problems arising from the asymmetric information between a firm's management and financial stakeholders for well over 75 years, with an increasing focus over the last 25 years. The practitioners, large institutional equity investors in particular, have also demonstrated increasingly active participation in creating a level playing ground between the management and financial stakeholders. The focus on transparency and disclosure has increased in the wake of recent events beginning with the Asian crisis in the latter half of 1997 and continuing with the recent discussions in the USA equity markets (Patel et al., 2002).

The OECD emphasizes that a strong disclosure regime promoting real transparency is a pivotal feature of market-based monitoring of companies and is central to shareholders' ability to exercise their ownership rights on an informed basis. Shareholders and potential investors require access to regular, reliable and comparable information in sufficient detail for them to assess the stewardship of management and make informed decisions about the valuation, ownership and voting of shares. Insufficient or unclear information could hamper the ability of markets to function, increase the cost of capital and result in a poor allocation of resources (OECD, 2006). Beeks and Brown (2005) found that firms with higher CG quality make more informative disclosures. Sadka (2004) provides both empirical and theoretical evidence that the public sharing of financial and market transparency has enhanced factor productivity and economic growth in 30 countries.

The OECD's assessment of transparency and disclosure involves a consideration of the extent to which the corporate governance framework effectively provides for disclosure of material information about: companies financial and operating results, their non-commercial objectives relevant to investors and others, major share ownership and voting rights, remuneration policies and information about board members, related party transactions, foreseeable risk factors, issues relating to employees and other stakeholders; and governance structures and policies.

1.1.2 Financial Performance and its Determinants

Good financial performance rewards the shareholders for their investment. This, in turn, encourages additional investment and brings about economic growth. On the other hand, poor performance can lead to failure and crisis which have negative repercussions on the economic growth.

In the classic strategy model, a firm's competitive advantage is gained from a combination of external and internal factors, known as opportunities and strengths applied against threats and weaknesses. The early literature was developed around broad principles, reflecting an orientation toward prescriptions for practitioners and the 'recognition, indeed the preoccupation, with the fact that competition was complex and highly situation specific' (Porter, 1991). It is implicitly assumed that managers' perceptions and choices largely accounts for the variance in companies' performance. The emphasis on taking a general manager's perspective led to a largely process-oriented, as opposed to a content-oriented stream of research (Porter, 1981).

According to the ‘efficiency’ hypothesis, a positive concentration– profitability relationship may reflect a positive relationship between size and efficiency. It states that efficient companies in the market lead to increase in the firms’ size and market share due to the aggressive behavior. This behavior of efficiency allowed such firms to concentrate and earn higher profits with further enhancing their market share. Those firms can maximize profits either by maintaining the present level of product price or service charge and firms’ size or by reducing the service charge and expanding the firm size Smirlock (1985). The Efficient structure hypothesis also states that the positive relationship between profit and concentration results from the lower cost achieved through superior management and efficient production process (Goldberg et al., 1996).

Beeks &Brown (2005) provide evidence that firms with better corporate governance make informative disclosures. Their findings show that better governed firms make price sensitive disclosures. They also found that disclosure on ranking of the board and management structure and process could explain the implied cost of capital. Chiang (2005) also provide evidence on the relationship between Standards and Poor’s scores of transparency and disclosure and operating performance that companies in Taiwan that are the technology industry revealed that scores of financial transparency and information disclosure had a positive significance for firm performance.

1.1.3 Transparency, Disclosure and Financial Performance

A number of prior academic studies have focused on the link between corporate governance and corporate performance. The establishment of such a link is not straightforward. There are some divergences among findings which could be attributable to the fact that different regulations, country legal environment differences, market conditions, government policies, different measures of corporate governance and corporate performance were used in different studies (Zahra & Pearce, 1989).

From a theoretical perspective, Diamond and Verrecchia (1991) argued that revealing public information to reduce information asymmetry can reduce a firm's cost of capital, the major reason being that disclosure of information reduces information asymmetries and therefore attracts increased demand from large investors. This line of argument is in line with the Healy and Palepu (2001) 'increased information intermediation'. Bhushan (1989) and Lang and Lundholm (1996) argued that voluntary disclosure lowers the cost of information acquisition for analysts and hence increases their supply of information. Expanded disclosure enables financial analysts to create valuable new information such as superior forecasts, thereby increasing demand for their services.

There are more economic reasons to hypothesize the value-increasing influence of financial disclosure through a lower capital cost. For example, increased disclosure reduces the estimation risk regarding the distributions of returns (Clarkson et al., 1996). Vander and Willekens (2008) found for European Union countries that the

level of disclosure is lower for companies with a higher ownership concentration and higher for companies in common law countries. Core (2001) presented a review of the empirical disclosure literature and discussed the relation between disclosure quality, disclosure credibility and management incentives. Yet another similar empirical result is that the level of corporate transparency is highly dependent on the legal regime of the home country (Healy & Palepu, 2001). An alternative explanation for firms disclosing information is that it is the 'socially responsible thing to do' (Gelb & Strawser, 2001).

1.1.4 The Insurance Industry in Kenya and Corporate Governance

The insurance industry in Kenya has for almost three decades seen a number of changes being introduced and adopted. It is however, worrying to note that eight insurance firms have either collapsed or have been placed under statutory management; representing an average of one insurance company after every four years. In response to this trend, the government of Kenya responded by establishing the Insurance Regulatory Authority (IRA) which is the prudential regulator of the insurance industry in Kenya. IRA became autonomous in 2007 through an Act of Parliament. IRA is also responsible for supervising and developing the insurance industry in collaboration with other stakeholders such as agents and brokers.

Metrick and Ishi (2002) define corporate governance from the perspective of investment of both to repay a fair return on capital invested and commitment to operate the firm efficiently given investments. Given the following definition it shows

that corporate governance has an impact on the investment and thus the ultimate the dividend policy. Corporate governance is a system by which business operations are directed and controlled. The corporate governance structures specifies distribution of rights and responsibilities among different participants it also provides the structures through which company objectives are set the means of attaining those objectives and monitoring and performance OECD,(1990) and Cadbury committee,(1992).

In Kenya, the institutions that have been at the forefront in sensitizing the corporate sector in Kenya on corporate governance are The Capital Markets Authority (CMA), the Nairobi Stock Exchange (NSE), the Center for Corporate Governance (CCG) and Central Bank of Kenya (CBK) which regulates the banking industry. The CMA created a major impact in the development of corporate governance guidelines in Kenya when it issued in 2002 the Capital Market guidelines on Corporate Governance Practices and disclosures. The stated objective of the CMA guidelines on Corporate Governance is to strengthen and promote the standards of self-regulation and bring the level of governance practices in line with international trend.

The Insurance Regulatory Authority has also come up with guidelines to ensure that the structure, responsibilities and functions of Board of Directors and the senior management of the Insurer fully recognize the expectations of all stakeholders as well as those of the Authority. These guidelines therefore amplify on issues which are covered in the Insurance Act, CAP 487 and the Regulations framed there under and include measures which are additionally considered essential by Authority for adoption by insurers. The guidelines also require that the insurance companies

disclose their financial position, financial performance and the risk which the insurance company is subject regardless of whether the company is traded or not. It also requires the insurance company to disclose qualitative information and description on the basis of the assumption upon which information is prepared, the risk exposures and how they are managed.

Another important player in developing corporate governance framework in Kenya is the Centre for Corporate Governance (CCG) Kenya, an affiliate of the Commonwealth Association for Corporate Governance (CACG). In November 1999, the Centre for Corporate Governance developed principles for Corporate Governance in Kenya to be adopted voluntarily by companies. This document substantially constituted the draft Corporate Governance Practice s for Listed Companies in Kenya (2000) issued by the CMA, which subsequently in 2002 became a mandatory guideline for all listed companies in Kenya. The guideline and the sample code mainly deal with issues of the Board (for example, composition, role of audit committee, separation of the role of the board chair and CEO) and the rights of shareholders.

In 2005, in line with the emphasis on the need to improve the quality of financial reporting and governance by Kenyan companies, the Centre for Corporate Governance issued a draft Corporate Governance Guidelines on Reporting and Disclosures in Kenya. The emphasis of the draft guidelines is on non-financial disclosures, such as ownership, board (composition, qualifications, committees, meetings) auditor independence and corporate social responsibility.

1.2 Research Problem

Transparency and disclosure are integral to corporate governance. Higher transparency and better disclosure reduce the information asymmetry between a firm's management and financial stakeholders mitigating the agency problem in corporate governance. Klapper and love (2004) provide that CG has effect on firm performance since it encompasses mechanisms which are intended to increase monitoring and management action and reduce information risk borne by shareholders.

From a theoretical perspective, Diamond and Verrecchia (1991) argued that revealing public information to reduce information asymmetry can reduce a firm's cost of capital, the major reason being that disclosure of information reduces information asymmetries and therefore attracts increased demand from large investors. Expanded disclosure enables financial analysts to create valuable new information such as superior forecasts, thereby increasing demand for their services. From the agency theory perspective asymmetry of information arises due information differences between principal and the agent and this can be minimized by putting in place tight corporate governance mechanism especially those relating to disclosure of information (Healy and palepu, 2001).

Balic (2007), from S&P, conducted a study on Turkish transparency and disclosure, which analyzed the disclosure practices of 52 Turkish companies. He found that financial transparency and disclosure had positive implications on the financial performance of companies since investor confidence was improved. Suchada (2007)

investigated the performance effects of transparency, disclosure and board of directors. In her study she found that financial transparency and information disclosure board composition and the existence of nominating compensation committees have positive effects on the performance of companies in Thailand.

Locally research by Murage (2010) on the relationship between corporate governance and the financial performance of parastatals in Kenya in the period between 2005 to 2009 he concluded that there was a positive relationship between corporate governance and financial performance. A study by Nyokabi (2009) in Kenya on transparency and disclosure of risk information in Kenyan banking industry during the period between 2004 and 2008 concluded that banks disclose information on risk in their annual audit accounts irrespective of the size or ownership structure. The benefits on transparency include improved management and board credibility and improved investor confidence thus welcoming more investments and consequently improved financial performance.

In Kenya Despite tight regulatory framework, Corporate Governance continues to weaken in Kenya (Mang'unyi, 2011). Indeed, the Insurance Regulatory Authority identified poor Corporate Governance in insurance Companies as one of the threats to achieving its strategic plan 2008-2012. This is worrying especially since the industry has witnessed in the past, the collapse of several insurance firms. It is possible to attribute their collapse to Corporate Governance practices in the insurance industry. Ombayo (2011), Matengo (2008) and Musenda (2011) all reviewed the effect of corporate governance on the financial performance of financial institutions in Kenya all this studies studied corporate governance in totality, this study researched one

aspect of corporate governance that is transparency and disclosure in relation to financial performance of Insurance companies in Kenya.

1.3 Research Objective

The objective of the study was to investigate the relationship between transparency, disclosure and financial performance of insurance companies in Kenya.

1.4 Value of the Study

For policy makers, the study will go a long way in helping them gain a deeper understanding on the role of corporate governance and performance of insurance companies and hence come up with policies that will help firms improve their performance and in turn the performance of the economy at large.

To the management of the insurance companies, it will give them an in depth understanding of corporate governance issues, the role of boards, audit reports and other relevant laws and, institutions in the proper management of their corporations to enhance performance and to minimize waste.

The study will be of great benefit to the oversight board senior managers and investors of financial institutions. The directors in the financial institutions will understand the importance of full disclosure and transparency to the investors as it creates a positive image to the public.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will cover the literature review on corporate governance- board transparency and disclosure. It encompasses the theoretical framework on corporate governance; review of what other researchers have written on corporate governance at large and also on board transparency and disclosure. The chapter also highlights on the variables that will be used as a measure of board transparency and disclosure. It concludes with clearly outlining the knowledge gap.

2.2 Theoretical review

Corporate Governance is defined as the process and structure used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholder long term value while taking into account the interest of other stakeholders (CMA Act, 2002). Strong governance has long been considered crucial for enhancing the long-term value of stakeholders in the business environment. In the new technology-driven information age, strong corporate governance is more than good business practice it is an indispensable component of market discipline (Levitt, 2000).

Recent demands of investors and others for greater accountability from corporate boards and audit committees will likely further enhance the quality of managerial stewardship and eventually lead to more efficient capital markets (Cohen et al., 2002). Various theories have been put forward to help us understand the concept of Corporate Governance. Neuman (2006) defines a theory as a system of interconnected ideas that condense and organize knowledge about the world.

2.2.1 Agency Theory

In Agency theory the central issue of corporate governance is equal to the problem of agents' self-interest behavior in a universal principal-agent relationship everywhere. Where the principal (shareholder) delegates work to the agent (director and manager) who performs that work on behalf of the principal (Eisenhardt, 1989). Based on the assumption of individuals maximizing their own utility, the theory asserts that managers as agents will not always act in the best interests of the shareholders and may pursue their own interest at the expense of the shareholders.

Agency theory concerns two problems occurring in the principal-agent relationship. The first is the difficulty or expense involved in the principal monitoring the agent's behavior and routine actions. Secondly are the different preferences concerning interactions between the principal and the agent because of their different attitudes toward risk (Eisenhardt, 1989). Those problems lead to a particular type of management cost 'agency cost' incurred as principals/owners attempt to ensure that agents/managers act in principals' interests (Jensen and Meckling, 1976).

The agency theory then focuses on solving the above problems by determining the most efficient contract governing the principal-agent relationship. Agency theory posits that the firm is not a reality, but a legal fiction created by a 'nexus of contracts' of the principal-agent variety (Jensen & Meckling, 1976). Contractual relations are the essence of the firm, not only between shareholders, but also with employees, suppliers, customers, creditors, and other stakeholders. As the agency problem exists for all of the contracts, thus, writing a contract must provide safeguards for both the principal and the agent to align their interests.

When the agent's behavior is not fully observable, the principal has two options: to purchase information about the agent's behaviors' and reward those behaviors' and to reward the agent on the basis on outcomes (e.g., profitability). Thus, the most efficient contract is the trade-off between the cost of measuring behavior and the cost of measuring outcomes and transferring risk to the agent (Eisenhardt, 1989). In conclusion corporate governance mechanisms are designed to cope with agency problems. Firms with better corporate governance mechanisms have higher performance. Do to the principal agent relation where all have different interests the agent may not feel obligated to disclose valuable information to the principal making the principal make his decisions based on the little information he has.

2.2.2 Stewardship Theory

The stewardship theory takes a different view on the nature of human beings from the agency theory and others (Marris, 1964; Nichols, 1969; Etizioni, 1975). While the

agency theory is built on the assumption of self-interest human behavior to assert that managers as agents cannot be trusted and should be fully monitored, the stewardship theory criticizes it as a false premise and claims instead that managers are good stewards of the corporation. Based on a traditional legal view of the corporation as a legal entity in which directors have a fiduciary duty to the shareholders, the stewardship theory argues that managers are actually behaving just like stewards to serve the shareholders' interests and diligently work to attain a high level of corporate profit and shareholder returns.

Managers have a wide range of motives beyond a simple self-interest, such as achievement, recognition and responsibility needs, the intrinsic satisfaction and pleasure of successful performance, respect for authority, social status, and work ethics. Thus, the separation of ownership from control does not inherently lead to a goal and interest conflict between shareholders and managers. The separation actually promotes the development of managerial profession, which is certainly beneficial for corporate performance and shareholder wealth. In this regard, empowering managers to exercise unencumbered authority and responsibility is necessary for the maximization of corporate profits and shareholders' value (Marris, 1964).

The theory argues that managers are actually behaving just like stewards to serve the shareholders' interests and diligently work to attain a high level of corporate profit and shareholder returns and thus the managers would feel obligated to disclose information to all the stakeholders if the information was to improve corporate

performance Shareholders and potential investors require access to regular, reliable and comparable information in sufficient detail for them to assess the stewardship of management and make informed decisions about the valuation, ownership and voting of shares. Insufficient or unclear information could hamper the ability of markets to function, increase the cost of capital and result in a poor allocation of resources (OECD, 2006).

2.2.3 Resource Dependence Theory

The resource dependence theory by (Pfeffer 1972) asserts that organisations attempt to exert control over their environment by co-opting the resources needed to survive. The concept of co-optation has important implications for the role of the board and its structure. Boards are important boundary spanners. They can be used as a mechanism to form links with the external environment. Inter-organizational linkages, such as the appointment of outside directors and board interlocks, can be used to manage environmental contingencies. Directors who are prestigious in their professions and communities can be a source of timely information for executives. They become involved in helping the organization by influencing their other constituencies on behalf of the local organization (Keasy and Wright, 1993.

According to Pfeffer (1973), when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will favorably present it to others, and will try to aid it.'. This assistance is believed to raise organizational performance, and increase returns to

shareholders. Pfeffer (1972) has made the case that the board's co-optation role, in which he includes establishing contacts and raising funds, best explains board composition. His evidence shows that board size and type of outside director are related to an organization's needs for capital and the degree of regulation in its environment. In conclusion the resource dependency theory believes that directors can be source of timely information for the executives and in this case would expect them to disclose most of the company information that would have an effect on the performance of the firm at large.

2.2.4 Stakeholders' Theory

Stakeholder theory identifies and models the groups which are stakeholders of a corporation, and both describes and recommends methods by which management can give due regard to the interests of those groups Freeman, (1984). In short, it attempts to address the "Principle of Who or What Really Counts." In the traditional view of the firm, the shareholders view the shareholders or stockholders are the owners of the company, and the firm has a binding fiduciary duty to put their needs first, to increase value for them.

The stakeholder view of strategy is an instrumental theory of the corporation, integrating both the resource-based view as well as the market-based view, and adding a sociopolitical level. (Blattberg, 2000) has criticized stakeholder theory for assuming that the interests of the various stakeholders can be, at best, compromised or balanced against each other. He argues that this is a product of its emphasis on

negotiation as the chief mode of dialogue for dealing with conflicts between stakeholder interests.

In the input-output models of the corporation, the firm converts the inputs of investors, employees, and suppliers into usable outputs which customers buy, thereby returning some capital benefit to the firm. By this model, firms only address the needs and wishes of those four parties: investors, employees, suppliers, and customers. However, stakeholder theory argues that there are other parties involved, including governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees, prospective customers, and the public at large. Sometimes even competitors are counted as stakeholders. Therefore the model makes it's a responsibility of the board members to disclose all information that will have an effect on the decision making of all stakeholders.

2.3 Transparency and Disclosure

Transparency can be defined as a sharing of information and acting in an open manner. In economics and finance, transparency is defined very broadly as "a process by which information about existing conditions, decisions and actions is made accessible, visible and understandable" Bacon (1993,). Shareholders and potential investors require access to regular, reliable and comparable information in sufficient detail for them to assess the stewardship of management and make informed decisions about the valuation, ownership and voting of shares. Insufficient or unclear

information could hamper the ability of markets to function, increase the cost of capital and result in a poor allocation of resources (OECD, 2006).

Financial transparency is the extent to which investors have ready access to information about company financial information Barako (2007). A positive relationship between good corporate governance has long been linked with good firm performance. Financial transparency includes the board to disclose about their dividend policy its accounting policies if inline with the generally accepted principles and also any information regarding company's share transactions.

Financial Transparency and disclosure are integral to corporate governance. Higher transparency and better disclosure reduce the information asymmetry between a firm's management and financial stakeholder's equity and bond holders, mitigating the agency problem in corporate governance.

Agency theory suggests that in a modern corporation, due to the separation of ownership and control, there is a likelihood of agency conflicts (Jensen and Meckling, 1976), with the potential for conflict to be greater where shares are widely held than when it is in the hands of a few (Fama and Jensen, 1983). Thus, discretionary disclosure provides managers with an avenue to demonstrate that they act in the best interests of the owners (Craswell and Taylor, 1992). Managers may therefore, voluntarily disclose information as a means to reduce agency conflicts with the owners.

Due to ownership diffusion, shareholders may not be a formidable force to influence a company's reporting practices. Hossain et al. (1994) in Malaysia found a negative relationship, whereas and Cooke (1989) noted a positive relationship. McKinnon and Dalimunthe (1993) observed a weak relationship between ownership structure and voluntary disclosure of segment information, whilst Craswell and Taylor (1992) found no relationship between ownership structure and voluntary corporate disclosure

Boards mostly compose of executive and non-executive directors. Executive directors refer to dependent directors and non-Executive directors to independent directors (Najjar 2012). At least one third of independent directors are preferred in board, for effective working of board and for unbiased monitoring. Dependent directors are also important because they have insider knowledge of the organization which is not available to outside directors, but they can misuse this knowledge by transferring wealth of other stockholders to themselves.

2.4 Empirical Studies

Empirical work on corporate governance has undergone a remarkable growth in recent times, especially in advanced countries where data are available. Various theorists of corporate governance have tried to examine the link between corporate governance and the general well being of a firm. Studies have indicated that corporate governance impacts on firm performance.

For instance, a study by Sinan (2008) in Turkey where he carried out a research on the effects of board characteristics, information technology maturity and transparency on financial performance companies His target sample was 89 companies listed at the Istanbul stock exchange between the periods of 2000 to 2008. With a 70% return of questionnaire he concluded that corporate transparency does have significant positive relationship with operating performance. Companies with good corporate governance also have a significant positive relationship with operating performance. As such, a company may devote resources to improving corporate structure in order to improve performance, and outsiders can rely on the information provided by the company to make their decisions.

Suchada (2007) carried out a study on the performance effects of transparency and disclosure and board of directors. He used a sample population of 100 companies that were listed at the Thailand stock exchange in the periods between 2004 and 2007. In his study he divided transparency in to three levels: - total transparency, three categories of transparency and disclosure and finally the twelve categories of transparency and disclosure. He used ROA and Tobin Q as performance indicators he concludes that in the first level total transparency and disclosure is not related to any of the performance measures since there was a 10% significant level. In the second level transparency and disclosure affect firms' value in terms of investment opportunity since there was 5% significant level. This is because the higher the transparency and disclosure in financial information the lower the asymmetry of information between management and shareholders and thus lower cost of capital. In

the third level of transparency and disclosure accounting policy review and accounting policy details are positively related to operating financial performance and firm value.

Beiner (2003) studied the Corporate Governance and firm valuation by using a broad Corporate Governance index and additional variables related to ownership structure, board characteristics, and leverage to provide a comprehensive description of firm-level Corporate Governance for a broad sample of Swiss firms. The study used Tobin’s Q for growth and found a positive relationship between Corporate Governance and growth. An increase in Corporate Governance index by one point caused an increase of the market capitalization by roughly 8.6%, on average, of a company’s book asset value.

In 2007, Balic (2007), from S&P, conducted S&P's third phase of the Turkish transparency and disclosure study, which analyzed the disclosure practices of 52 Turkish companies quoted on the Istanbul Stock Exchange. Standard & Poor's Governance Services and the Corporate Governance Forum of Turkey (CGFT) monitored and assessed corporate response to regulation and market circumstances by conducting the survey over three successive years with the objective of providing a comparative insight into the disclosure practices of Turkish companies. According to this study, laws and regulations concerning corporate governance and their enforcement have been drastically improved in recent years. The new legal and regulatory framework includes corporate governance Guidelines issued in 2003,

directives related to audit and accounting standards and practices issued in and after 2003 by the Capital Markets Board of Turkey and directives issued by the Banking Regulatory and Supervisory Agency.

Wanyonyi & Olweny (2011) carried out a research on the effects of corporate governance on the financial performance of listed insurance firms in Kenya during the periods 2007 to 2011. The objective of the study was to find out the effects of board size and the board composition on the financial performance of listed insurance companies. With a population of 45 companies as per the Insurance Regulatory Authority listing they settled on a sample of six companies.

The study found that a strong relationship existed between the Corporate Governance practices under study and the firm's financial performance. Board size was found to negatively affect the financial performance of insurance companies listed at the NSE. There was a positive relationship between board composition and firm financial performance. However, the most critical aspect of board composition was the experience, skills and expertise of the board members as opposed to whether they were executive or non executive directors. Similarly, leverage was found to positively affect financial performance of insurance firms listed at the NSE. On CEO duality, the study found that separation of the role of CEO and Chair positively influenced the financial performance of listed insurance firms.

Murage (2010) in Kenya studied the relationship between corporate governance and the financial performance of parastatals. The study adopted a causal design with the total population of interest in his study consisting of all the parastatals in Kenya which totaled to 158 Parastatals as obtained from the Inspectorate of State Corporations - Office of the President as at March 2009. The study proposed to investigate a total of 79 state corporations. Where he sampled nine companies out of the total population of 158 parastatals in the periods between 2005 to 2009. In his study he concluded that there was a positive relationship between corporate governance and financial performance.

From the study, parastatals that employed effective appointment, selection, induction, training, development of board members, had operative board structures and efficient Chairpersons were linked to good financial performance. The study further concludes that efficiency and effectiveness in service delivery, prevailing corporate culture, the stipulation by the code of best practice, and the strategic direction that the corporation has are the main factors that lead to corporate governance practices in the state corporations.

Nyokabi (2009) carried out a study on transparency and disclosure of risk information in Kenyan banking industry during the period between 2004 and 2008. She carried out a census with only 22 respondents and concluded that banks disclose information on risk in their annual audit accounts irrespective of the size or ownership structure. The benefits on transparency include improved management and

board credibility and improved investor confidence thus welcoming more investments and consequently improved financial performance.

Mang'unyi (2011) carried out a study to explore the ownership structure and Corporate Governance and its effects on performance of firms. His study focused on selected banks in Kenya. His study revealed that there was significant different between Corporate Governance and financial performance of banks. The study recommended that corporate entities should promote Corporate Governance to send positive signals to potential investors and that regulatory agency including the government should promote and socialize Corporate Governance and its relationship to firm performance across industries.

2.5 Summary of Literature Review

Corporate Governance is important in all organizations regardless of their industry, size or level of growth. Good Corporate Governance has a positive economic impact on the Institution in question as it saves the organization from various losses such as those occasioned by frauds, corruption and similar irregularities. The main Corporate Governance themes that are currently receiving attention are adequately separating management from the board to ensure that the board is directing and supervising management, including separating the chairperson and chief executive roles; ensuring that the board has an effective mix of independent and non-independent directors; and establishing the independence of the auditor and therefore the integrity of financial reporting, including establishing an audit committee of the board. Thus, the main

tasks of Corporate Governance refer to: assuring corporate efficiency and mitigating arising conflicts providing for transparency and legitimacy of corporate activity, lowering risk for investments and providing high returns for investors and delivering framework for managerial accountability.

Previous studies in Kenya have considered corporate governance in its totality for instance Wanyonyi & Olweny (2011) who studied the effects of corporate governance on the financial performance of insurance companies and found that a positive relationship existed between the two variables. Also Murage (2010) studied the effect of corporate governance on the financial performance of parastatals in Kenya and conclude that the there was positive correlation between the two variables. In their studies corporate governance is reviewed as whole this study seeks to research on an aspect of corporate governance which is board transparency and disclosure and the impact it has on financial performance of insurance companies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the procedure that was followed in carrying out the study. It contains the research design, the population, data collection and data analysis techniques.

3.2 Research Design

Descriptive research design was used in the study. Descriptive research design Describes data and characteristics about the phenomena as they exist. Descriptive studies generally take data and summarize it in a useable form. The method enabled the researcher to analyze the objectives tentatively and also the validity and reliability of the results was increased. The study used dependent and independent variables. The Independent part is that which the researcher used for experimentation, these changes or enacts in order to do the experiment. The dependent variable is that which will change when the independent variable changes - the dependent variable will depend on the outcome of the independent variable.

3.3 Population

A population refers to an entire group of individuals, events or objects having common observable characteristics (Mugenda and Mugenda, 2003). For this study, the population consisted of all 47 insurance Companies registered under the Insurance

Act Chapter 487 Laws of Kenya as per the listing available on the Insurance Regulatory Authority (IRA) website in 2012 (Appendix I).The study used census research design that included all insurance companies as per the Insurance regulatory Association for the period 2008- 2012.

3.4 Data Collection

The study used secondary data sources in gathering data for analysis. A content analysis was conducted on the financial reports of the 40 insurance companies which data was available to identify the level of disclosure for each company.

3.5 Data Analysis

The variables that were used for the study are

Dependent variable: ROA (Return on Assets) which was used as the proxy for determining financial performance. ROA indicates how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing

$$\frac{\textbf{Earnings before Interest and Tax}}{\textbf{Book value of Assets}} \times 100$$

Independent variables- which indicate the measure for board transparency and disclosure

In order to test whether transparency and disclosure affects firm performance the study used transparency and disclosure attributes as defined by standard and poor's

disclosure criteria. The S&P criteria classifies the transparency and disclosure attributes into three categories which are the proxies for measuring transparency and disclosure

1. Financial Transparency and Information Disclosure. - (FTID)

2. Ownership Structure and Investor Relations - (OWST)

3. Board and Management and Process Disclosures – (BMD)

The study will examine whether:

1. Transparency and disclosure in Ownership structure and investor relations is related to financial performance

2. Financial transparency and information disclosure is related to firm financial performance

3. Transparency and disclosure in Board and Management structures is related to firm financial performance.

Transparency attributes are for 5 years (2008-2012) were extracted from the annual reports of the 40 licensed insurance companies. The transparency and disclosure attributes were measured using 30 questions each question weighing same. (see Appendix II).Where an item is disclosed the company is awarded a score of 1 and no disclosure no score is awarded afterwards converted into percentages.

3.6 Regression Model

The determinants of board transparency and disclosure were examined with the help of Statistical Package for Social Science (SPSS) and specific statistical method: Multiple Linear regression analysis. The following is the multiple regression model

Firm performance = $\beta 0 + \beta 1$ FTID+$\beta 2$OWST+βBMD+ε

Firm performance measure used was ROA

FTID: Financial Transparency and Information Disclosure

OWST: Ownership Structure and Investor Relations

SBD: Board and Management structure and Processes Disclosures

This model is line with what Barako (2007) used in his study of determinants of voluntary disclosures in Kenyan companies annual reports.

Multiple regressions helped to establish how a set of independent variables explains a proportion of the variance of a dependent variable to a significant level through significance test of R-squared. Statistical test of significance will be carried out.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 INTRODUCTION

This chapter presents analysis of data. The data was analyzed using SPSS and the results are presented below. This section covers data analysis results and discussions. The research objective was to carry out a census of all the insurance companies and how their financial performance relates to their level of transparency and disclosure. The researcher was able to gather information on 40 insurance companies out a possible 47 insurance companies licensed in 2012 as per the insurance regulatory website.

4.2 Data Presentation

4.2.1 Descriptive statistics

Table 4.1 Descriptive statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Return on assets	40	2.67	20.57	10.1535	5.09920
Financial disclosure	40	46.00	76.00	57.7000	7.79941
Ownership disclosure	40	32.00	74.00	45.9000	12.84184
Social and Board disclosure	40	28.00	74.00	42.4000	11.11432
Valid N (listwise)	40				

Source: Research Findings

From the table above we can conclude that the mean averages of the variables are on return on assets in the industry is 10.1535% while the deviations from the highest company has an ROA of 20.57 and the minimum in the industry has a mean of 2.67. The deviations from the mean for ROA are 5.099, with a mean of 57.70% in the financial information disclosure means that most companies have a high disclosure rate, unlike the disclosure values in ownership structure and social and board disclosure information which stands at 45.99% and 42.4% respectively

4.2.2 Correlation Analysis

Table 4.2 summary of correlation analysis

Correlations					
		Return on assets	Financial disclosure	Ownership structure disclosure	Board information Disclosure
Return on assets	Pearson Correlation	1	.634**	.668**	.482**
	Sig. (2-tailed)		.000	.000	.002
	N	40	40	40	40
Financial disclosure	Pearson Correlation	.634**	1	.847**	.722**
	Sig. (2-tailed)	.000		.000	.000
	N	40	40	40	40
Ownership structure disclosure	Pearson Correlation	.668**	.847**	1	.718**
	Sig. (2-tailed)	.000	.000		.000
	N	40	40	40	40
Social and Board	Pearson Correlation	.482**	.722**	.718**	1

	Sig. (2-tailed)	.002	.000	.000	
	N	40	40	40	40
**. Correlation is significant at the 0.01 level (2-tailed).					

Source: Research findings

This table shows that the ROA which is the dependent variable has positive correlation with financial disclosure of 0.634 and also has a positive correlation with ownership structure and investor relation at 0.668 It also shows that ROA has positive correlation with board management information disclosure. With the positive correlations it means that there exists relationship with between the independent variables and the dependent variable.

The table also shows that financial information disclosure has a positive correlation with ownership structure and board management information disclosure.

4.2.3 T test summary

Table 4.3 summary of T- test results

Paired samples tests

	Std deviation	t values	95% confidence interval		Sign two tailed
			Upper	lower	

Pair 1- return on asset and financial information disclosure	6.03075	-49.863	-49.475	-45.6517	.000
Pair 2- Return on assets and ownership structure	10.1726	-22.227	-38.999	-32.4357	.000
Pair 3- Return on assets and Board management information disclosure	9.74356	-20.31	-35.3634	-29.13036	.000

Source: Research findings

The table it shows that the p values for all the paired variables are 0.00 represented as <.001 which is less than .05 or .01 and therefore significant. Explaining that the positive correlation explained earlier is actually true that a relationship exists between the dependent variable and the independent variables.

Table 4.4 Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.681[a]	.464	.420	3.88449

a. Predictors: (Constant) Board information disclosure, Ownership structure disclosure, Financial information disclosure

Source: Research findings

In conducting the regression analysis the independent variables used were the proxy's for transparency and disclosure as outlined by standard and poor's measure of transparency and disclosure that is financial information disclosure, ownership structure disclosure and investor relations and board management information disclosure characteristics. While the dependent variable used was ROA which is the acceptable measure of financial performance.

The model summary indicates that the R square and the adjusted R values are 0.464 and 0.681 respectively these two measures indicate 46.4% of the independent variables contributed to the variations in the dependent variable ROA. The model also shows the goodness of fit measure of the variable used in the constructing the model.

4.2.5 Regression Coefficients

Using SPSS the analysis of 40 insurance companies was conducted in a population of 47 insurance companies not all the 47 were included due to the unavailability of data. The periods under review was 5years where an average of the independent and dependent variables for the five year period under review was obtained and regressed to give the regression coefficients

Table 4.5 Regression Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-7.607	5.626		-1.352	.185

	Financial disclosure	.175	.157	.267	1.110	.274
	Ownership structure disclosure	.192	.095	.484	2.019	.051
	Social and Board disclosure	-.027	.085	-.059	-.319	.752
a. Dependent Variable: Return on assets						

Source: Research findings

The research results indicated in table 4.4 shows that the constant is -7.067 while the betas for the independent variables financial disclosure, ownership structure and investor relations disclosure and board management information disclosure are 0.267 ,0.484 and -0.539 respectively. The betas help to explain the positive correlation between the variables and the dependent variable.

4.3 Summary and Interpretation of Findings

From the descriptive statistics its evidence that companies have higher disclosure of financial information unlike in Ownership structure and board management information. The return on assets which means the investors appreciate disclosure of more information as it gives them a basis for forming their decisions in where to invest and also higher asymmetry of information reduces company's cost of capital.

Using the Pearson's correlation analysis the Return on assets is perfectly correlated to itself. The results also show that the Return on assets is positively correlated to financial disclosure information and ownership structure and investor relation disclosure. This is an indication that financial information disclosure and ownership and investor relation

disclosure contribute to the financial performance of a company in that investor May be attracted to invest in one such company due to high transparency levels.

The results in the correlation table also show that financial information disclosure and ownership structure and investor relations information disclosure are positively correlated and that financial information disclosure is positively correlated to board management information disclosure. The positive correlation indicates the existence of a direct relationship where by an increase in the level of disclosure gives a increase in the financial performance of the insurance company.

As shown in Appendix IV companies with higher disclosure levels have shown high ROA which means that the disclosure and transparency levels have contributed to the high company performance.

In the model summary the R shows the correlation coefficient which is positive correlation while the R square is the coefficient of determination which shows how well the regression equation fit in that data presented. Numbers close to one indicate lines of best fit. The standard error in the model summary indicates the accuracy levels. By looking at the coefficients table it explains that 46.4% of the dependent variable variations can be explained by the independent variables

The table 4.4 indicates model coefficients where the model has a constant of -7.607 the explanatory variables as follows 0.175, 0.192 and -0.027 which finally form the equation

$$Y= -7.607+0.175FDI+0.192ST-0.027BMD+€$$

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter entails a summary of the findings, conclusions, the recommendations limitations and suggestions for further research. The chapter will also explain exclusively what the project set out to do and how and finally present the findings.

5.2 Summary

The objective of the study was to find out the relationship between transparency, disclosure and financial performance of insurance companies in Kenya. The researcher undertook a content analysis research method and also took up a census where all companies in the industry are studied. Financial performance was the dependent variable and was to be measured using return on assets while transparency and disclosure were the independent variables and was to be determined using proxies for transparency and disclosure provided by standards and poor's. The proxies for transparency and disclosure are

1. Transparency and disclosure of financial information

2. Transparency and disclosure of Ownership structure and investor relation information

3. Transparency and disclosure of Board management structure information

In all this categories the researcher came up with a disclosure checklist that contained 30 items that were to be investigated on.

5.3 Conclusions

Corporate governance in Kenya has attracted a great deal of attention in the last decade. The Center for corporate governance and the regulators within the insurance industry have made a number of regulatory amendments in accounting standards, independent auditing, rating agencies, disclosure of material events, and minority rights. In addition to these regulations, following current practices worldwide, the regulators have established the "Corporate Governance Principles" in which a "comply or explain" approach is adopted.

The study found that financial performance was positively correlated to financial information disclosure and ownership structure and investor relations which means that the level of financial information disclosed by a company had an impact on how the investor identify a company they want to invest in. the study also revealed that financial performance is positively correlated to ownership structure and investor information disclosed by a company which means that the company should aim to disclose more of their ownership information and how they relate to the investors and their financiers because this is an indication of higher degrees of transparency which the public and the potential investors will be attracted and helps them form basis on which company to invest in. Higher transparency and disclosure levels reduce asymmetry of information between shareholders and managers. With higher transparency and disclosure it serves to keep management in check and helps to discipline managers and improve performance.

The coefficients table also shows that companies that have high financial disclosure of information have better performance compared to those not transparent enough in financial matters. The model also shows that company's disclosure of social and board structure characteristics structure does not correlate to financial performance thus the disclosure does not influence the performance of companies. This study adds up to the literature of knowledge and also up hold previous findings by Sinan (2008) who looked at effects of corporate transparency in turkey Istanbul where she conclude that corporate transparency had an impact on the financial performance of companies since how transparency a company is perceived to be that how attractive it becomes t potential clients and investors. The finding in this study are also consistent with chiang (2005) which found that for higher technological companies listed in Taiwan, financial transparency is the only part of transparency that affects the performance firm performance. This may be because higher financial transparency and information disclosure is important for fundraising in Taiwan and Thailand.

5.4 Recommendations

From the findings of the study, it is evident that corporate reporting by insurance companies in the country is of a satisfactory level. But we need to take cognizance of several challenges.

1. Disclosure alone in the annual reports shall not be enough. Practice of good corporate governance must also be emphasized. Practice together with disclosure can facilitate and stimulate the performance of companies, limit the insiders' abuse of power over corporate resources and provide a means to monitor managers' opportunistic behavior.

2. Within the current type of analysis, scope may be widened by covering the corporate governance disclosure practice by Kenyan public limited companies over a number of years to find out the extent of importance the organizations are emphasizing on this issue.

3. The study could be conducted by using different company performance measures and different set of company groups. For example, the study could be repeated in other industries too

4. Corporate governance should not be practiced just because of regulations. The opportunity it provides for growth and survival in the market place should also be considered. Moreover, this study shows that CG practices have practical outcomes with respect to company performance. This will give investors a chance to invest their money in companies having better CG practices. The McKinsey Quarterly surveys suggest that institutional investors will pay as much as 28% more for the shares of well-governed companies in emerging markets.

5.5 Limitations of the Study

First, the whole population of the 47 insurance companies could not be studied because of inaccessibility of their annual reports. Some companies did not post all their annual reports in their websites making it hard to access the data for research purposes.

The study focuses solely on board structure and transparency and disclosure of corporate governance issues the model could be extended to take board process, accountability and social responsibility which could be more informative.

The scores in this study are based on a yes or no according to the S&P disclosure and transparency scoring system. Firms get yes if they disclose information relating to the question and a no if no disclosure. However questions can be raised in relation to ownership structure where companies do not have foreign ownership and are solely locally owned and in that case a company will get a zero which is not realistic since it does not have anything to disclose in relation to that question.

S&P is one of the most popular indices used in which investor evaluate corporate governance. It's an unweighted score and therefore more appropriate since it's less subjective and it's easier for interpretation. However it assumes that each question weighs the same and the questions are equally important this can obviate the necessity to make judgments as to the relative importance of each question.

5.6 Suggestions for Further Research

For the future research, it is recommended that the research may be extended to other industries and different time periods. The study may also include disclosure in other areas for example company's websites and any other additional information provided by the company.

In addition future research might consider using not applicable (N/A) for some of the questions where the company has no information to disclose by using the S&P scoring system. Furthermore research using S&P scores could consider the implications of some scores measuring positive effects and some measuring negative effects.

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APPENDIX I- List of Insurance Companies

1. APA Insurance Company
2. Apollo Life Assurance Company
3. Blue Shield Insurance Company
4. British American Insurance Company
5. Cannon Assurance Company –Kenya
6. Capex insurance company
7. CFC Life Assurance Company
8. Chartis Kenya Insurance Company
9. CIC Insurance Company limited
10. Corporate Insurance Company Limited
11. Direct line Assurance Company
12. East African Re Insurance of company limited
13. Fidelity Shield Insurance Company
14. First Assurance Company
15. Gateway Insurance company limited
16. Geminia Insurance Company
17. General Accident Insurance Company

18. Heritage Insurance Company

19. ICEA LION General Insurance Company Limited

20. ICEA LION Life Assurance Company Limited

21. Intra assurance ltd company

22. Invesco assurance company ltd

23. Jubilee Insurance Company

24. Kenindia Assurance Company

25. Kenya Orient Insurance Company

26. Madison Insurance Company

27. Mayfair Insurance Company

28. Mercantile Insurance Company

29. Metropolitan Life Insurance Kenya Ltd.

30. Monarch Insurance Company

31. Occidental Insurance Company

32. Old Mutual Life Assurance Company

33. Pan Africa Life Assurance Company

34. Pacis Insurance Company Ltd

35. Phoenix of East Africa Assurance Company

36. Pioneer Life Assurance Company
37. Real Insurance Company Limited
38. Resolution Insurance Company Limited
39. Shield assurance company ltd
40. Tausi Assurance Company Limited
41. Takaful Insurance of Africa Limited
42. Trident Insurance Company
43. Trinity Life Assurance Company
44. UAP Insurance Company
45. UAP Life Assurance Limited
46. Trident Insurance Company Limited
47. Xplico insurance company ltd

APPENDIX II-TRANSPARENCY AND DISCLOSURE CHECKLIST

		2008	2009	2010	2011	2012
	A Financial transparency and information disclosure					
	Whether the company in its annual report, has disclosed the following details					
1	Separate Statement concerning wealth created e.g. value added statement					
2	Does the company disclose its current business strategy?					
3	Has the company disclosed any information relating to competition in the industry?					
4	Has the company included inflation adjusted forecasts?					
5	An overview of investment plans in the coming years?					
6	Has the company provided information on its dividend policy?					
7	Disclosure on the Risk and Estimates in preparing the financial statements?					
8	A list/ register of related party transactions?					
9	A detailed earnings forecast?					
10	Disclosure on the Amount of audit fees?					
	TOTAL SUB INDEX – FINANCIAL TRANSPARENCY					
11	**B. Ownership Structure and Investor Relations**					
12	Has the company disclosed information on the voting and meetings procedure?					
13	Details about the articles of Association?					
14	Whether the company has published a code of best practice?					
15	How directors are nominated to the Board and which shareholders Dominate?					
16	Information on whether senior managers hold shares in the company?					
17	Whether the Ultimate shareholders have been disclosed in the case of institutional or cross ownership?					
18	The number of shares in the company held by directors?					
19	The number of shares held by managers in other affiliated companies?					
20	A review of last shareholders meetings?					
	TOTAL SUB INDEX –OWNERSHIP STRUCTURE					
	C. Board Management structure Disclosure					
21	The specifics of performance-related pay for directors?					
22	Disclosure on Division between the Chairman and the CEO?					
23	Has the company provided information on directors training?					
24	The Details on the CEO's Contract?					
25	Information about an independent director?					
26	The decision-making process for directors' pay?					
27	Whether any group policies exist regarding the nature of the relationship between the parent affiliates?					
28	Does the company issue a separate corporate Social Responsibility Report?					
29	Statement on Directors responsibility?					
30	Information on work place safety measures and health measures?					
	TOTAL SUB INDEX-SOCIAL AND BOARD DISCLOSURES					
	GRAND TOTAL					

APPENDIX III ROA ANALYSIS FOR INSURANCE COMPANIES

RETURN ON ASSETS ANALYSIS	2008	2009	2010	2011	2012	TOTALS	AVERAGE
APOLLO LIFE INSURANCE	6.29%	6.20%	7.50%	8.96%	9.60%	38.55%	7.71%
APA INSURANCE COMPANY	8.50%	9.90%	10.20%	10.80%	11.80%	51.20%	10.24%
AMACO INSURANCE COMPANY	11.35%	9.21%	5.41%	4.54%	4.23%	34.73%	6.95%
AIG INSURANCE	10.22%	11.81%	14.93%	16.06%	11.41%	64.44%	12.89%
BRITAK	22.27%	2.78%	20.01%	18.32%	23.78%	87.16%	17.43%
CANNON INSURANCE COMPANY	1.28%	7.95%	14.06%	4.16%	11.52%	38.96%	7.79%
CFC INSURANCE COMPANY	13.10%	13.20%	13.03%	12.90%	12.85%	65.08%	13.02%
CIC INSURANCE COMPANY	9.21%	9.52%	9.89%	10.25%	11.71%	50.58%	10.12%
CORPORATE INSURANCE COMPANY	4.47%	4.36%	5.59%	5.95%	6.02%	26.39%	5.28%
DIRECT LINE INSURANCE COMPANY	5.51%	6.05%	5.58%	5.21%	5.84%	28.19%	5.64%
EAST AFRICA RE INSURANCE COMPANY	5.37%	6.60%	6.62%	4.94%	8.62%	32.16%	6.43%
FIDELITY SHIELD INSURANCE COMPANY	3.98%	4.25%	5.55%	4.55%	6.21%	24.53%	4.91%
FIRST ASSURANCE COMPANY	7.47%	6.33%	7.19%	8.46%	8.56%	38.01%	7.60%
GA INSURANCE COMPANY	6.68%	5.04%	5.63%	4.41%	6.52%	28.28%	5.66%
GATEWAY INSURANCE COMPANY	5.26%	5.84%	5.28%	6.21%	6.51%	29.10%	5.82%
GEMINIA INSURANCE COMPANY	3.61%	3.51%	4.62%	5.95%	6.81%	24.50%	4.90%
HERITAGE INSURANCE COMPANY	2.25%	2.77%	3.52%	4.82%	5.01%	18.37%	3.67%
ICEA LION INSURANCE COMPANY	5.20%	5.80%	6.80%	7.01%	8.56%	33.37%	6.67%
INTRA INSURANCE COMPANY	4.76%	5.65%	6.65%	5.63%	5.58%	28.27%	5.65%
KENINDIA ASSURANCE COMPANY	1.80%	2.63%	3.37%	3.56%	4.02%	15.38%	3.08%
KENYA ALLIANCE INSURANCE COMPANY	2.80%	3.01%	3.56%	3.85%	4.01%	17.23%	3.45%
KENYA ORIENT INSURANCE COMPANY	9.55%	9.14%	0.66%	5.10%	7.84%	32.28%	6.46%
KENYA RE INSURANCE COMPANY LTD	12.84%	9.76%	9.63%	10.78%	11.96%	54.97%	10.99%
MADISON INSURANCE COMPANY	2.82%	2.53%	3.92%	3.89%	4.05%	17.21%	3.44%
MAY FAIR INSURANCE COMPANY	4.26%	1.53%	2.94%	2.58%	2.07%	13.37%	2.67%
MERCENTILE INSURANCE COMPANY	1.95%	2.05%	2.42%	2.85%	3.14%	12.41%	2.48%
METROPOLITAN INSURANCE COMPANY	4.37%	4.38%	4.25%	4.26%	4.12%	21.38%	4.28%
OCCIDENTAL INSURANCE COMPANY	3.05%	3.15%	3.56%	3.89%	3.84%	17.49%	3.50%
OLD MUTUAL ASSURANCE COMPANY	5.68%	5.89%	5.41%	6.02%	6.41%	29.41%	5.88%
PACIS INSURANCE COMPANY	6.15%	6.18%	6.56%	7.00%	7.06%	32.95%	6.59%
PHOENIX INSURANCE COMPANY	3.20%	4.06%	5.02%	5.12%	5.21%	22.61%	4.52%
PAN AFRICA INSURANCE COMPANY	4.19%	5.51%	6.05%	6.15%	6.82%	28.72%	5.74%
PIONEER INSURANCE COMPANY	3.34%	4.12%	5.12%	5.18%	4.11%	21.87%	4.37%
REAL INSURANCE COMPANY	3.53%	5.68%	5.96%	7.32%	7.44%	29.94%	5.99%
RESOLUTION HEALTH INSURANCE C-LTD	4.32%	4.51%	4.32%	4.80%	5.56%	23.51%	4.70%
TAUSI INSURANCE COMPANY	1.13%	2.05%	2.12%	2.78%	2.89%	10.97%	2.19%
JUBILEE INSURANCE COMPANY	7.86%	7.76%	7.82%	8.02%	8.56%	40.02%	8.00%
MONARCH INSURANCE COMPANY	3.21%	3.25%	3.41%	3.56%	5.48%	18.91%	3.78%
UAP INSURANCE COMPANY	5.05%	5.15%	5.56%	6.01%	6.18%	27.96%	5.59%
TRIDENT	2.88%	4.02%	4.48%	3.05%	4.80%	19.23%	3.85%

APPENDIX IV-FINANCIAL INFORMATION DISCLOSURE MEASURES

FINANCIAL INFORMATION TRANSPARENCY	2008	2009	2010	2011	2012	Totals	Average
APOLLO LIFE INSURANCE	70%	60%	70%	80%	70%	350%	70%
APA INSURANCE COMPANY	70%	50%	60%	80%	80%	340%	68%
AMACO INSURANCE COMPANY	40%	60%	60%	60%	70%	290%	58%
AIG INSURANCE	40%	60%	50%	80%	70%	300%	60%
BRITAK	70%	60%	60%	70%	80%	340%	68%
CANNON INSURANCE COMPANY	50%	60%	50%	70%	60%	290%	58%
CFC INSURANCE COMPANY	70%	60%	70%	80%	80%	360%	72%
CIC INSURANCE COMPANY	60%	70%	80%	80%	80%	370%	74%
CORPORATE INSURANCE COMPANY	50%	50%	60%	70%	70%	300%	60%
DIRECT LINE INSURANCE COMPANY	50%	40%	50%	60%	70%	270%	54%
EAST AFRICA RE INSURANCE COMPANY	60%	50%	70%	60%	60%	300%	60%
FIDELITY SHIELD INSURANCE COMPANY	60%	40%	50%	60%	70%	280%	56%
FIRST ASSURANCE COMPANY	50%	40%	40%	60%	60%	250%	50%
GA INSURANCE COMPANY	50%	40%	50%	60%	70%	270%	54%
GATEWAY INSURANCE COMPANY	40%	30%	50%	70%	70%	260%	52%
GEMINIA INSURANCE COMPANY	60%	50%	40%	50%	60%	260%	52%
HERITAGE INSURANCE COMPANY	60%	60%	60%	70%	70%	320%	64%
ICEA LION INSURANCE COMPANY	60%	50%	60%	60%	80%	310%	62%
INTRA INSURANCE COMPANY	40%	60%	50%	70%	70%	290%	58%
KENINDIA ASSURANCE COMPANY	50%	50%	60%	70%	60%	290%	58%
KENYA ALLIANCE INSURANCE COMPANY	50%	60%	60%	60%	60%	290%	58%
KENYA ORIENT INSURANCE COMPANY	50%	60%	50%	60%	70%	290%	58%
KENYA RE INSURANCE COMPANY LTD	50%	50%	60%	70%	70%	300%	60%
MADISON INSURANCE COMPANY	50%	50%	60%	50%	70%	280%	56%
MAY FAIR INSURANCE COMPANY	30%	30%	50%	60%	70%	240%	48%
MERCENTILE INSURANCE COMPANY	40%	50%	40%	60%	70%	260%	52%
METROPOLITAN INSURANCE COMPANY	40%	50%	40%	50%	60%	240%	48%
OCCIDENTAL INSURANCE COMPANY	50%	30%	40%	60%	60%	240%	48%
OLD MUTUAL ASSURANCE	50%	50%	50%	50%	60%	260%	52%
PACIS INSURANCE COMPANY	50%	70%	70%	50%	70%	310%	62%
PHOENIX INSURANCE COMPANY	70%	60%	60%	50%	60%	300%	60%
PAN AFRICA INSURANCE COMPANY	40%	50%	70%	80%	80%	320%	64%
PIONEER INSURANCE COMPANY	40%	50%	50%	60%	70%	270%	54%
REAL INSURANCE COMPANY	60%	60%	60%	70%	70%	320%	64%
RESOLUTION HEALTH INSURANCE COMPANY	50%	50%	50%	50%	50%	250%	50%
TAUSI INSURANCE COMPANY	40%	30%	40%	50%	60%	220%	44%
JUBILEE INSURANCE COMPANY	60%	60%	60%	70%	80%	330%	66%
MONARCH INSURANCE COMPANY	30%	50%	50%	60%	70%	260%	52%
UAP INSURANCE COMPANY	80%	80%	80%	80%	80%	400%	80%
TRIDENT	50%	50%	60%	50%	70%	280%	56%

APPENDIX V- OWNERSHIP STRUCTURE AND INVESTOR RELATIONS DISCLOSURES

OWNERSHIP STRUCTURE AND INVESTOR RELATIONS	2008	2009	2010	2011	2012	TOTALS	AVERAGE
APOLLO LIFE INSURANCE	60%	60%	70%	70%	70%	330%	66%
APA INSURANCE COMPANY	60%	60%	60%	70%	80%	330%	66%
AMACO INSURANCE COMPANY	40%	60%	40%	50%	50%	240%	48%
AIG INSURANCE	40%	60%	50%	50%	50%	250%	50%
BRITAK	50%	50%	60%	60%	70%	290%	58%
CANNON INSURANCE COMPANY	30%	40%	40%	50%	60%	220%	44%
CFC INSURANCE COMPANY	70%	60%	70%	70%	80%	350%	70%
CIC INSURANCE COMPANY	60%	70%	70%	60%	80%	340%	68%
CORPORATE INSURANCE COMPANY	30%	40%	40%	40%	40%	190%	38%
DIRECT LINE INSURANCE COMPANY	20%	50%	50%	50%	50%	220%	44%
EAST AFRICA RE INSURANCE COMPANY	20%	40%	40%	40%	40%	180%	36%
FIDELITY SHIELD INSURANCE COMPANY	30%	40%	40%	60%	50%	220%	44%
FIRST ASSURANCE COMPANY	20%	40%	40%	40%	40%	180%	36%
GA INSURANCE COMPANY	50%	40%	40%	40%	40%	210%	42%
GATEWAY INSURANCE COMPANY	30%	30%	40%	40%	40%	180%	36%
GEMINIA INSURANCE COMPANY	20%	30%	30%	40%	40%	160%	32%
HERITAGE INSURANCE COMPANY	30%	60%	60%	50%	60%	260%	52%
ICEA LION INSURANCE COMPANY	40%	50%	20%	50%	50%	210%	42%
INTRA INSURANCE COMPANY	30%	30%	30%	40%	40%	170%	34%
KENINDIA ASSURANCE COMPANY	30%	50%	30%	40%	40%	190%	38%
KENYA ALLIANCE INSURANCE COMPANY	30%	30%	40%	40%	50%	190%	38%
KENYA ORIENT INSURANCE COMPANY	30%	30%	30%	40%	50%	180%	36%
KENYA RE INSURANCE COMPANY LTD	50%	50%	40%	50%	50%	240%	48%
MADISON INSURANCE COMPANY	50%	50%	50%	50%	50%	250%	50%
MAY FAIR INSURANCE COMPANY	30%	30%	30%	40%	40%	170%	34%
MERCENTILE INSURANCE COMPANY	30%	30%	30%	40%	50%	180%	36%
METROPOLITAN INSURANCE COMPANY	40%	40%	40%	50%	50%	220%	44%
OCCIDENTAL INSURANCE COMPANY	40%	40%	40%	40%	50%	210%	42%
OLD MUTUAL ASSURANCE COMPANY	50%	50%	50%	50%	60%	260%	52%
PACIS INSURANCE COMPANY	50%	40%	40%	50%	50%	230%	46%
PHOENIX INSURANCE COMPANY	30%	30%	40%	50%	50%	200%	40%
PAN AFRICA INSURANCE COMPANY	70%	70%	70%	70%	80%	360%	72%
PIONEER INSURANCE COMPANY	40%	30%	30%	30%	40%	170%	34%
REAL INSURANCE COMPANY	60%	40%	40%	40%	40%	220%	44%
RESOLUTION HEALTH INSURANCE CO	30%	30%	30%	40%	40%	170%	34%
TAUSI INSURANCE COMPANY	30%	20%	40%	30%	40%	160%	32%
JUBILEE INSURANCE COMPANY	70%	70%	80%	70%	80%	370%	74%
MONARCH INSURANCE COMPANY	30%	40%	40%	40%	40%	190%	38%
UAP INSURANCE COMPANY	80%	70%	70%	80%	80%	380%	76%
TRIDENT	30%	40%	40%	40%	40%	190%	38%

APPENDIX VI-BOARD MANAGEMENT DISCLOSURE CHECKLIST

BOARD STRUCTURE DISCLOSURE	2008	2009	2010	2011	2012	Totals	Average
APOLLO LIFE INSURANCE	50%	50%	50%	50%	60%	260%	52%
APA INSURANCE COMPANY	50%	50%	50%	50%	70%	270%	54%
AMACO INSURANCE COMPANY	30%	30%	30%	30%	40%	160%	32%
AIG INSURANCE	40%	40%	40%	50%	50%	220%	44%
BRITAK	50%	50%	60%	60%	60%	280%	56%
CANNON INSURANCE COMPANY	20%	30%	40%	50%	50%	190%	38%
CFC INSURANCE COMPANY	40%	40%	50%	50%	50%	230%	46%
CIC INSURANCE COMPANY	30%	40%	40%	50%	60%	220%	44%
CORPORATE INSURANCE COMPANY	30%	30%	30%	30%	40%	160%	32%
DIRECT LINE INSURANCE COMPANY	30%	30%	30%	30%	40%	160%	32%
EAST AFRICA RE INSURANCE COMPANY	60%	50%	70%	60%	60%	300%	60%
FIDELITY SHIELD INSURANCE COMPANY	40%	40%	40%	40%	40%	200%	40%
FIRST ASSURANCE COMPANY	40%	40%	40%	40%	40%	200%	40%
GA INSURANCE COMPANY	30%	40%	40%	40%	50%	200%	40%
GATEWAY INSURANCE COMPANY	30%	30%	30%	30%	30%	150%	30%
GEMINIA INSURANCE COMPANY	30%	30%	30%	30%	40%	160%	32%
HERITAGE INSURANCE COMPANY	40%	40%	40%	40%	50%	210%	42%
ICEA LION INSURANCE COMPANY	40%	40%	40%	50%	50%	220%	44%
INTRA INSURANCE COMPANY	30%	30%	30%	30%	40%	160%	32%
KENINDIA ASSURANCE COMPANY	30%	50%	30%	30%	40%	180%	36%
KENY ALLIANCE INSURANCE COMPANY	30%	30%	30%	30%	40%	160%	32%
KENYA ORIENT INSURANCE COMPANY	30%	30%	40%	40%	40%	180%	36%
KENYA RE INSURANCE COMPANY LTD	40%	40%	40%	40%	50%	210%	42%
MADISON INSURANCE COMPANY	40%	40%	40%	50%	50%	220%	44%
MAY FAIR INSURANCE COMPANY	20%	30%	30%	30%	30%	140%	28%
MERCENTILE INSURANCE COMPANY	30%	30%	30%	30%	30%	150%	30%
METROPOLITAN INSURANCE COMPANY	30%	30%	30%	40%	40%	170%	34%
OCCIDENTAL INSURANCE COMPANY	20%	30%	30%	30%	40%	150%	30%
OLD MUTUAL ASSURANCE	40%	40%	40%	40%	50%	210%	42%
PACIS INSURANCE COMPANY	50%	70%	70%	50%	70%	310%	62%
PHOENIX INSURANCE COMPANY	40%	40%	40%	40%	50%	210%	42%
PAN AFRICA INSURANCE COMPANY	50%	50%	70%	80%	80%	330%	66%
PIONEER INSURANCE COMPANY	40%	40%	40%	40%	60%	220%	44%
REAL INSURANCE COMPANY	40%	40%	40%	40%	50%	210%	42%
RESOLUTIN HEALTH INSURANCE CO	40%	40%	40%	40%	40%	200%	40%
TAUSI INSURANCE COMPANY	40%	40%	40%	40%	50%	210%	42%
JUBILEE INSURANCE COMPANY	60%	60%	60%	70%	80%	330%	66%
MONARCH INSURANCE COMPANY	30%	40%	40%	40%	40%	190%	38%
UAP INSURANCE COMPANY	70%	70%	70%	80%	80%	370%	74%
TRIDENT	30%	30%	30%	40%	50%	180%	36%