THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN KENYA

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DECLARATION

This research project is my original work and has not been submitted for examination in any other university.

Signature …………………………..Date…………………………….

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This research project has been submitted for examination with my approval as the University supervisor

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DEDICATION

I dedicate this project to my family and friends. A special feeling of gratitude to my loving Mum and Dad who believed in the pursuit of academic excellence and who taught me that even the largest task can be accomplished if it is done one step at a time .

ABSTRACT

The Study attempted to address the question whether Corporate Social Responsibility (CSR) can be linked to financial performance of Insurance companies in Kenya .Using descriptive research design and inferential analysis; the study tested the sign of the relationship between Corporate Social Responsibility and financial performance in insurance companies. The analysis also factored in other determinants of financial performance including; rate of inflation, 91 Day Treasury bill, and interest on Deposit. The study used data covering a five year period from 2009 to 2013. The target population consisted of all the 51 registered insurance companies in Kenya as at December 2013. Companies that ceased operation in between or were registered in between the 5 year period were omitted from the study. Also omitted from the study were companies who were not consistent in their CSR for all the 5 years. To be considered for the study, a company had to engage in CSR for all each of the five year period. Therefore only 20 companies were finally considered as shown in appendix five. Analysis was based on descriptive statistics using secondary data that was obtained from Insurance Regulatory Authority and from the financial statements of the individual companies. Regression analysis was used to find   out whether there is a relationship between the Variables. Regression model was used to find out whether the relationship between the variables to be measured was significant or not. For Corporate social responsibility investment, the study concludes it was negatively correlated with financial performance of insurance companies. This study also concludes that there is a negative relationship between financial performance of insurance companies as measured by ROA and the rate of inflation. The study further concludes that the 91 Day Treasury bill was however significant in explaining the changes in the financial performance of insurance companies. The study also concludes that there was also a negative relationship between financial performance of insurance companies and Interest on deposit. The study recommends that insurance companies diversify their investment portfolios in order to diversity these risks. The study further recommends that insurance companies increase their allocations for investments in CSR. This is because there is no single organization that exists in a vacuum but instead, they all exist in a society.

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LIST OF ABBREVIATIONS

AKI   Association of Kenya Insurers

BSR   Business Social Responsibility

C.E.O   Chief Executive Officer

CAMEL   Capital Adequacy, Asset Quality, Management Efficiency, Earnings
                ability and Liquidity

CSP   Corporate Social Performance

CSR   Corporate Social Responsibility

FP   Financial Performance

GDP   Gross Domestic Product

GDP   Gross Domestic Product

IRA   Insurance Regulatory Authority

NSE   Nairobi Securities Exchange

ROA   Return on Asset

ROE   Return on Equity

SR   Social Responsibility

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Many businesses today engage in Corporate Social Responsibility (CSR).Many organizations have incorporated the concept of CSR in their strategy and are focusing on supporting the community, environment in a positive manner so as to make a difference to their stakeholders. It is no longer acceptable for a corporation to experience economic prosperity in isolation from those agents impacted by its actions. A firm must now focus its attention on both increasing its bottom line and being a good corporate citizen. Keeping abreast of global trends and remaining committed to financial obligations to deliver both private and public benefits have forced organizations to reshape their frameworks, rules, and business models.

The relationship between corporations and society as well as the natural environment has since been developed. The most commonly used term in the literature is Corporate Social Responsibility (CSR) (Montiel, 2008; Carroll & Shabana, 2010) followed by many alternative themes and terms such as Social Responsibility (SR), Corporate Citizenship, Corporate Sustainability and Corporate Social Performance (CSP) as well as Business Ethics and Stakeholder Management. One of the more notable debates regarding CSR is whether it is expedient for companies to value and act upon social demands.

1.1.1 Corporate Social Responsibility

CSR refers to a company's obligations to be accountable to all of its stakeholders in all its operations and activities. Social responsible companies consider the full scope of their impact on communities and the environment when they are making decisions, balancing the needs of stakeholders with their need to make profit (Nicolau, 2008).

McWilliams and Siegel (2001) describe CSR as "actions that appear to further some social good, beyond the interest of the firm and that which is required by law." CSR is more than just following the law (McWilliams & Siegel, 2001). Alternatively, according to Frooman (1997), the definition of what would exemplify CSR is an action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholder's welfare. Frooman (1997) views CSR as a comprehensive set of policies, practices, and programs that are integrated into business operations, supply chains, and decision-making processes throughout the company and usually include issues related to business ethics, community investment, environmental concerns, governance, human rights, the marketplace as well as the workplace.

1.1.2 Financial Performance

Firm size, return on assets (ROA), return on equity (ROE), asset age, and return on sales are the frequently used Financial Performance measures. Particularly, ROA is consistently claimed to be an authentic measure of Financial Performance (Berman et al., 1999).Unlike other accounting measures such as return on equity or return on sales, ROA is not affected by the differential degree of leverage present in firms. Because ROA is

positively correlated with the stock price, a higher ROA implies higher value creation for shareholders. Moreover, in asset-heavy firms such as the manufacturing firms, ROA is a better indicator of firm performance.

The ROA measures not only profit aspect but also that related to assets employed to generate the profit. If the ROA is broken down, there will be important two measures: profitability ratio (profit margin) and asset turnover ratio. It determines whether the company is able to generate an adequate return on its assets rather than simply showing robust return on sales. For ROE (return on equity), it doesn't say much about how well a company uses its financing from borrowing and bonds and such a company may deliver impressive ROE without actually being effective at using shareholders equity to grow the company.

Accounting-based indicators, such as the firm's return on assets (ROA), return on equity (ROE), or earnings per share (EPS), capture a firm's internal efficiency in some way (Cochran and Wood 1984). Accounting returns are subject to managers' discretionary allocations of funds to different projects and policy choices, and thus reflect internal decision-making capabilities and managerial performance rather than external market responses to organizational (non-market) actions.

Waddock and Graves (1997) measured financial performance using three accounting variables: return on assets, return on equity, and return on sales, providing a range of measures used to assess corporate financial performance by the investment community. Accounting based indicators such as firms ROA; ROE capture a firm's internal

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efficiency. ROA is used to measure the efficiency of assets in producing income while ROE measures the performance of the firm relative to shareholder investment. Cochran and Wood (1984), observe that market-based performance measures reflect the notion that shareholders are primary stakeholder group whose satisfaction determines the firms' fate. They further noted that the bidding and asking process of stock market participants who rely on their perception of past, present and future stock returns and risk determine the firm stock price and thus market value.

1.1.3 Corporate Social Responsibility and Financial Performance

Companies perceived to have a strong CSR commitment often have an increased ability to attract and to retain employees (Turban & Greening, 1997), which leads to reduced turnover, recruitment, and training costs. Research into the relationship between corporate social responsibility and financial performance has been based on several theoretical arguments. Those who have suggested a negative relation between social responsibility and financial performance have argued that high responsibility results in additional costs that put a firm at an economic disadvantage compared to other, less socially responsible firms (Bragdon& Marlin, 1985; Vance, 1975). These added costs may stem from actions like making widespread charitable contributions, sponsoring community development plans, keeping plants in economically depressed locations, and establishing environmental safeguard procedures.

In contrast, other scholars studying corporate social responsibility and performance have argued for a positive association. Several authors have mentioned improved employee

and customer goodwill as a vital outcome of social responsibility (Davis, 1975; Soloman & Hansen, 1985). For example, a firm perceived as high in social responsibility may encounter relatively few labor problems, and customers may be positively inclined to its products. Socially responsible activities may also improve a firm's standing with such important constituencies as, investors, and government officials. Enhanced relationships with these constituencies may bring about economic benefits. High corporate social responsibility may therefore improve a firm's access to sources of capital.

1.1.4 Insurance Sector in Kenya

The insurance industry in Kenya is regulated by the insurance regulatory authority (IRA).The Insurance Regulatory Authority is a statutory government agency established under the Insurance Act (Amendment) 2006, CAP 487 of the Laws of Kenya to regulate, supervise and develop the insurance industry. As at December 2013, there were 51 registered insurance companies in Kenya. Majority of them are engaged in CSR activities. Kenya Re Ltd. for example has a campaign called "NikoFiti-Ability beyond Disability" Campaign. The campaign is geared towards empowering persons with disabilities. Other companies also support different aspects of CSR including education; environmental conservation etc .At times the insurance companies come together under their umbrella body Association of Kenya Insurers (AKI) to organize several CSR activities. For example last year (2013), AKI members organized several free medical camps around the country. This is in addition to their individual CSR activities.

The insurance regulatory authority (IRA) in their situational analysis of the industry 2013-2017 (IRA outlook, 2013) have found out that the industry generally is stable. Growth of the industry is on upward trend with most companies posting positive results. Risk exposure is moderate .Most companies are now focusing on counties with 114 new braches likely to be opened by 2017. The insurance sector plays a significant role in the economic development and business sustainability. The sector helps in risk mitigation, social security, investment, job creation and contributes to the country's gross domestic product. The key challenges facing the industry according to IRA are; pricing, premium collection, claims settlement, staffing, fraud, intermediary services, interest rates, price competition, ICT, consumer demand, insecurity and money laundering, cultural barriers, insurance perception, political uncertainty, skills and competence and costs of compliance.

According to the Association of Kenya Insurers (AKI) report of 2013, motor commercial insurance brings the highest premium at 25.7% followed by motor private at 19.1%. The report also places Kenya as the fourth best performing insurance market in Africa after South Africa, Morocco and Mauritius. It also performs better than Mexico, China and Russia.

1.2 Research Problem

Being socially responsible involves cost and in order to be a sustainable business practice it should add value to the firm. However, in most cases, it seems that the time frame of the costs and benefits can be out of alignment the costs are immediate, and the benefits

are not often realized in short-term (Soloman and Hansen, 1985). Several studies done before have produced conflicting results. The research project will therefore add value to the business community especially insurance companies as this will allow them to determine the costs and benefits of CSR-and whether corporate social responsibilities will improve on their financial performance or not. Therefore there is a justifiable business case for carrying out the research.

There is a protracted debate about the legitimacy and value of corporate responses to CSR concerns. As CSR comes into contact with many of the issues traditionally addressed by government, like human rights and community investing, there is strong criticism that societal problems are best solved by freely elected governments. The resources of a corporation are poorly suited for addressing those social problems, and therefore, it is argued, they should not be misallocated. It is therefore imperative to do a research to find out if CSR activities can have an effect on financial performance of insurance companies. This has the potential of helping the insurances businesses in decision making and resource allocation towards CSR activities.

Several studies have been conducted globally on the relationship between corporate social responsibility and financial performance. In a meta-analysis of 127 multiple regression studies between 1972 and 2002, Margolis and Walsh (2003) examine the connection between social and financial performance and concluded that there was a positive relationship between corporate social performance and corporate financial performance. Griffin and Mahon (1997) summarized 62 research results of the relationship between CSR and CFP in 51 earlier papers. They found that there were 33

research results support the positive correlation, 20 of them support the negative correlation, and nine of them got no definite results. Roman et al. (1999) modified and developed the research results of Griffin and Mahon (1997). They deleted some papers with low validity, and added four papers latest published, finally they got 46 papers and 51 research results. A total of 63 percent of them (22 results) support the positive correlation, 10 percent of them (5 results) support the negative correlation, and 27 percent of them (14 results) failed to.

Despite that various researchers have analyzed the relationship between CSR and financial performance, there are mixed results with regard to the benefits of such an analysis. Friedman (1970) has suggested a negative link, as social responsibility involves costs and therefore worsens a firm's competitive position; while a decade later, Arlowand Gannon (1982), after reviewing seven empirical studies, concluded that economic performance is not directly related, in either a positive or a negative way, to social responsiveness (Arlowand Gannon, 1982). Literature provides conflicting results on the relationship between corporate social responsibility (CSR) practice and firm financial performance with some studies showing a positive relationship (Waddock & Graves, 1997),others negative (Cordeiro&Sarkis, 1997; Wagner et al, 2002) and still others showing that there is no relationship between the two variables (McWilliams & Siegel, 2000; Aragon & Lopez, 2007).

Most studies, both locally and internationally, have focused on the other sectors listed at the securities exchanges and not the insurance sector. Corporate social responsibility in the insurance sector has rarely been studied and there are inconsistent prior results and

limited research on the insurance sectors of developing countries about factors influencing corporate social responsibility and financial performance. Locally, Oyenje (2012) showed that there was insignificant positive relationship between CSR practice and financial performance. Omwenga (2010) found that CSR has positive relationship to the financial performance of companies listed at the NSE. Ogolla (2013) found out that there is a strong relationship between the independent variables corporate social responsibility and the dependent variable financial performance. CSR relationships have been partly neglected in many studies conducted in developing countries. This study intends to plug that gap. The research seeks to answer the question " Does the involvement in CSR activities affect financial performance of Insurance companies in Kenya"?

1.3 Research Objectives

To determine the relationship between corporate social responsibility and financial performance of insurance companies in Kenya.

1.4 Value of the Study

The study on insurance companies is very important to the government and policy makers in Kenya due to the contribution of insurance companies to the Kenyan economy in both terms of employment and GDP. Policy makers would be enlightened to make policies relating to CSR and ascertain the appropriate guidelines to be put in place for governing insurance companies.

The research would add value to the business community especially insurance company investors as this would allow them to determine whether to practice corporate social responsibilities to improve on their financial performance or not. The results of the study would help corporate managers in the decision making process, because the study would establish whether there is a linkage between the CSR and financial performance of the organization. The outcome of this research helps the employees to identify insurance companies which are environmentally and socially responsible when looking for prospective employers. Further, the results would also assist the society in finding firms with strong CSR practices to support.

The study would add value to the academic community. The study would be of great value to the body of corporate financial management discipline and would form the basis of further research by identifying the gap that arises from this study, Further, the study would create forum for further discussions and debate on firm financial performance related issues among financial consultants and financiers thus adding value to the body of knowledge that already exist. This study would shed more light in the CSR activities on the Kenyan insurance sector and its impact on the financial performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature that is relevant to the specific objectives context   and of the research. It outlines the empirical studies and key concepts and other relevant information related to the field. It also critiques the available theories, explains the knowledge gap and summarizes the literature review.

2.2 Theoretical Review

There are several theories on CSR, some supporting CSR, some against yet some are neutral. Those against CSR believe that if a company focuses more on social responsibility instead of maximizing profit, it will decrease the efficiency of market mechanism and fail to achieve optimal allocation of resources. However, people favoring CSR think that those companies are ethical practice oriented. Since they have lots of resources, they should donate some of them and take social citizen's responsibility to make the society better. Moreover it can not only improve the company's brand image, build a good relationship with community and government, induce more talents, but also explore some profitable markets that will bring to the company long term profits. Some of the theories explaining CSR and financial performance include instrumental theories, stakeholder theory and competitive advantage theory.

2.2.1 Instrumental Theory

Friedman (1970) theorizes that ''the only one responsibility of business towards society is the maximization of profits to the shareholders within the legal framework and the

ethical custom of the country''. Concern for profits does not exclude taking into account the interests of all who have a stake in the firm (stakeholders). It has been argued that in certain conditions the satisfaction of these interests can contribute to maximizing the shareholder value. An adequate level of investment in philanthropy and social activities is also acceptable for the sake of profits (McWilliams and Siegel, 2001). A number of studies show a positive correlation between the social responsibility and financial performance of corporations in most cases (Griffin and Mahon, 1997; Roman et al., 1999; Waddock and Graves, 1997) show a positive correlation.

According to Garriga and Mele (2004), depending on the economic objective proposed, three main groups of instrumental theories can be identified. In the first group the objective is the maximization of shareholder value, measured by the share price. Frequently, this leads to a short-term profits orientation. The second group of theories focuses on the strategic goal of achieving competitive advantages, which would produce long-term profits. In both cases, CSR is only a question of enlightened self-interest since CSRs are a mere instrument for profits. According to the third theory, CSR is a strategic tool to achieve economic objectives and ultimately, wealth creation.

Garriga and Meles (2004) observe that any investment in social demands that would produce an increase of the shareholder value should be made, acting without deception and fraud. He observed that it is quite readily accepted that shareholder value maximization is not incompatible with satisfying certain interests of people with a stake in the firm (stakeholders) In contrast, if the social demands only impose a cost on the company they should be rejected. Friedman (1970) has the same view. He observes that

in the long run, interest of a corporation that is a major employer in a small community is to devote resources to providing amenities to that community to develop resources or to improve its government. He argues that it makes it easier to attract desirable employees, thereby reducing wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects.

Mc Williams and Siegel (2001) point out that cause- related marketing creates a reputation that the firm is reliable and honest. Consumers typically assume that the products of a reliable and honest firm will be of high quality.

2.2.2 Stakeholder Theory

Stakeholder, according to Bruno & Nichols (1990) is a term which denotes any identifiable group or individual who can affect or be affected by organizational performance in terms of its products, policies, and work processes. This theory emphasizes that effective management of stakeholder relationships, the fundamental blocks of CSR, may result in better financial performance. They argue that identifying and managing ties with key stakeholders may mitigate the likelihood of negative regulatory, legislative or fiscal action (Freeman, 1984; Berman et al., 1999; Hillman and Keim, 2001).

Freeman (1984) argues that companies should take multiple CSR. Nowadays, more and more companies take CSR actively and consider the interest of stakeholders from the strategic perspective. These stakeholders may include shareholders, managers,

employees, creditors, suppliers, retailers, consumers, government, and community etc. In return, stakeholders are concerned more about the interest of corporate, which reduces the cost of opportunism behaviors, incentives and supervision. Freeman (1984) describes a firm as a series of connections of stakeholders that the managers of the firm attempt to manage. Davis (1975) argues that modern business is intimately integrated with the rest of society. It is not some self enclosed world, like a small study group. Rather, business activities have profound ramifications throughout society, and their influence on peoples' lives is hard to escape. Therefore, corporations have responsibilities that go beyond making money because of their great social and economic power.

Most studies analyze stakeholders into two groups-primary stakeholders and secondary stakeholders. Clarkson (1995) for example defines a primary stakeholder as one without whose continuing participation the corporation cannot survive as a going concern .These according to Clarkson, include: shareholders and investors, employees, customers and suppliers, together with what is defined as the public stakeholder group; the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and obligations may be due. The secondary groups are defined as those who influence or affect, or are influenced or affected by the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival. The stakeholder theory is the central theory to this research, which seeks to establish if organizations can be socially responsible and have good performance (profitable) while still satisfying investors and shareholders by providing acceptable levels of return on those investments.

2.2.3 Competitive Advantage Theory

A firm is said to have a competitive advantage if it creates and appropriates more value than the least efficient rival capable of breaking even. Harrison et al. (2007) argue that competitive advantage implies more than merely creating value. Rather, the key is to create more than competitors are able to create. This occurs when the firm drives a wedge between the willingness to pay it generates among buyers and the costs it incurs and then collects returns in excess of its on opportunity costs. Socially complex resources or capabilities that are not easily copied are necessary to retain a company's competitive advantage. CSR helps firms develop internal resources making a firm more prepared and able to adapt to the fast moving of demands and crises. CSR also expands external reputation benefits, increasing its attractiveness to customers and potential employees, investors and bankers.

Hillman and Keim (2001) argue that the development of proper relationships with the primary stakeholders such as employees, customers, suppliers, and communities as can generate competitive advantage. Porter and Kramer (2002) argued that investing in philanthropic activities may be the only way to improve the context of competitive advantage of a firm and usually creates greater social value than individual donors or government .They argued that philanthropic investments by members of cluster, either individually or collectively, can have a powerful effect on the cluster competitiveness and performance of all its constituent companies. The resource based view of the firm and dynamic capabilities approach is founded on the premise that the ability of a firm to perform better than its competitors depends on the unique interplay of human,

organizational and physical resources over time. It takes the view that social and ethical resources and capabilities can be a source of competitive advantage.

2.3 Determinants of Financial Performance

The determinants of financial performances can be classified into company specific (internal) and external factors (Al-Tamimi, 2010; Aburime, 2005). Internal factors are individual company characteristics which affect the financial performance of the company. These factors are basically influenced by internal decisions of management and the board. The external factors are sector-wide or country-wide factors which are beyond the control of the company and affect the profitability of companies in general.

2.3.1 Company Specific Factors/Internal Factors

The internal factors are company specific variables which influence the financial performance and profitability of a specific   company. These factors are within the scope of the company to manipulate them and they differ from company to company. In the case of insurance companies, these include size of claim liabilities, capital adequacy, asset quality, management efficiency, liquidity management, labor productivity, state of information technology, skills and competences, premium collection, claims settlement, staffing, fraud and intermediary services. Ideally the CAMEL framework often used by scholars to proxy bank specific factors, (CAMEL stands for Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity) can also be used in insurance companies to determine financial performance.

2.3.2 External Factors

These include Macroeconomic Factors and other factors that an individual company cannot manipulate. The macroeconomic policy stability, Gross Domestic Product (GDP), Inflation, Interest Rate and other macroeconomic variables affect the performances of companies. For instance, the trend of GDP affects the demand for insurance services. During the declining GDP growth the demand for insurance services falls which in turn negatively affect the financial performance of profitability of insurance companies. On the contrary, in a growing economy as expressed by positive GDP growth, the demand for insurance services is high due to the nature of business cycle. During boom the demand for credit is high compared to recession (Athanasoglou et al., 2005).

Other key challenges facing the insurance industry according to IRA outlook 2013 are price competition, consumer demand, insecurity and money laundering, cultural barriers, insurance perception, political uncertainty, and costs of compliance. All these determine the financial performance of the companies.

2.4 Empirical Studies

Griffin and Mahon (1997) summarized 62 research results of the relationship between CSR and corporate financial performance in 51 earlier papers. They found that there were 33 research results support the positive correlation, 20 of them support the negative correlation, and nine of them got no definite results. Roman et al. (1999) modified and developed the research results of Griffin and Mahon (1997). They deleted some papers with low validity, and added four papers latest published, finally they got 46 papers and 51 research results. A total of 63 percent of them (22 results) support the positive

correlation, 10 percent of them (5 results) support the negative correlation, and 27 percent of them (14 results) failed to reach any conclusion.

Margolis and Walsh (2003) reviewed the empirical research of predecessors. They found that most scholars set CSR as independent variable but not dependent variable. While CSR was set as independent variable, 50 percent support the positive correlation, about 25 percent support the negative correlation, 20 percent support hybrid correlation, 5 percent support no correlation. If CSR was set as dependent variable, two thirds support the positive correlation. Tsoutsoura (2004) carried out a study in the U.S.A to determine the relationship between CSR and financial performance in California using a sample of 422 from the S&P 500 firm and collected data covering a period of 5 years, 1996 to 2000. He found a positive and significant relationship between CSR and financial performance. He observed that each company differs in how it implements corporate social responsibility. The differences depend on such factors as the specific company's size, the particular industry involved, the firm's business culture, stakeholders' demands, and how historically progressive the company is engaging in CSR.

Cheruiyot (2010) aimed to explain the relationship between corporate social responsibility and financial performance of firms listed at the Nairobi stock exchange. A 5 year study with CSR index based on different level of implementation and dimensions was carried out in order to address multidimensional CSR indicators. This was a cross sectional study of all the 47 listed companies in the NSE's main segment as at 31st December 2009. Using regression analysis he sought to establish the relationship between CSR index and financial performance measured in terms of return on assets, return on

equity and return on sales. He found that there was a statistically significant relationship between CSR and financial performance. Mishra and Suar (2010) did a study on CSR and firm performance of Indian companies. Data on CSR were collected from 150 senior level Indian managers including C.E.Os through questionnaire survey. Data on financial performance was obtained from secondary source .They found a positive relationship between CSR and financial performance.

Omwenga (2010) found that CSR has positive relationship to the financial performance of companies listed at the NSE. The study covered a period of 5 years; 2007 to 2011.CSR was measured by the amount spent on CSR programmes while financial performance was measured by net profit. The research adopted the casual design to determine the relationship between corporate social. The P-Value and the t-test were used to test the individual significance of the predictor variables that was used in the study. The study used regression analysis to establish the relationship between financial performance and CSR practice of firms listed at the central bank of Kenya. Efficiency and capital intensity of the firms were included as control variables in the model. One major finding of the study is that there is a strong relationship between the independent variables (CSR practice, efficiency and capital intensity) used in the model and the dependent variable (ROA). The study found that there was a general upward trend in the amount invested in CSR activities between 2007 and 2011.The highest investment was seen in 2010 while the lowest in 2007. The study also found that there was an upward trend in the performance of firms listed in NSE.

Oyenje (2012) carried out a research to establish the relationship between CSR practices and financial performance of Firms in the Manufacturing, Construction and Allied Sector of the Nairobi Securities Exchange. Although the study was meant to be a census survey, non-availability of complete data of the companies resulted to only 10 out of the 14 companies in the sector being studied. Secondary data was obtained from the audited financial reports of the companies for the period from 2007 to 2011. A multiple regression model was established to determine the relationship between the two variables. Control variables of manufacturing efficiency and capital intensity were also introduced in the regression model. Her conclusion was that there existed a relationship between the independent variables (CSR score, manufacturing efficiency and capital intensity) used in the model and dependent variable (return on assets) with a correlation coefficient of 0.870. The results of the study also showed that there was insignificant positive relationship between CSR practice and financial performance. Financial performance and manufacturing efficiency was found to have a significant linear inverse relationship.

Ogolla (2013) found out that there is a strong relationship between the independent variables corporate social responsibility and the dependent variable financial performance. The population of the study comprised of all the 41 commercial banks licensed by central bank of Kenya that were in operational between Jan 2007 and Dec 2011. The main objective of the study was to determine whether there exist a relationship between corporate social responsibility and financial performance of commercial banks licensed by central bank of Kenya. The study adopted casual design. Secondary data was obtained from the audited financial reports of the central bank of Kenya for the period from 2007 to 2011. A multiple regression model was adopted to determine the relationship

between the two variables. Corporate social responsibility score was obtained using content analysis of reports of the banks on various components of corporate social responsibility as reported in their audited financial reports.

2.5 Summary of Literature Review

The relationship between CSR and financial performance has been investigated for more than 3 decades. Studies have found positive, negative and no relationships. The general problem is that the literature presents inconsistent findings on the relationship between CSR and financial performance. The specific focus of this study is therefore to find out the relationship between CSR and financial performance of insurance companies in Kenya.CSR in the insurance sector has rarely been studied in Kenya and there are inconsistent prior results and limited research on corporate social responsibility and financial performance in Kenya. Most studies have used Net profit to measure financial performance. Using Net profit is not the best way to measure financial performance since different companies use different size of capital to invest thereby making comparison based on net profit difficult. The study is intended to plug the above gaps. The study used ROA to measure financial performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter expounds in details the structure of the research. It provides a discussion of the research methodology that was used in this study. It discusses the research design especially with respect to the choice of the design. It also discusses the description of the population of the study, data collection methods as well as data analysis and data presentation methods that was employed in the study.

3.2 Research Design

This study used a co-relational descriptive survey research design. Descriptive designs explain phenomena as they exist and are often used to obtain information on the characteristics of a particular problem or issue while co-relational studies establish relationships between various variables.

Descriptive analysis helped the study to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. Co-relational designs measure the nature and magnitude of the relationship between two or more quantitatively coded variables, and predicting the values of the criterion variable given the value of the predictor variable. This design requires that the variables of interest be measured within one group, rendering it the most suited for this research project. In regard to time horizon, the research used a longitudinal study covering five years; 2009 to 2013 as well as cross-sectional design covering cross-section of insurance companies in Kenya.

3.3 Population of the Study

The target population may be defined as the collection of elements or objects that possess the information sought by the researcher and about which references are to be made. Population refers to an entire group of individuals, events or objects having common observable characteristics in which the results will be generalized in the target population (Mugenda & Mugenda, 2003).

This is a census study .All the 51 insurance companies were used in the study and the analysis was based on insurance companies that participated in CSR for the years 2009-2013. Sampling design was not be used since the population was few and could be easily analyzed. The insurance companies were only 51 as at December 2013. The study population was made up of all the 51 registered insurance companies in Kenya which were operational between the years 2009 to 2013.

3.4 Data Collection

This study was facilitated by the use of secondary data. Secondary data was extracted from published financial reports, newsletters and other publications by the companies including information from the company websites and from insurance regulatory authority (IRA) for five years from 2009 to 2013. International financial reporting standards require companies to disclose the amount of money they spend on Corporate Social Responsibility in their annual reports independently from the other financial statement items.

3.5 Data Analysis

Data collected was edited, coded and classified into different components to facilitate better and efficient analysis. The quantitative data collected was analyzed by the use of SPSS and presented through percentages, means, median, variances and standard deviations. Correlation and regression analysis were used to establish the relationship between CSR and financial performance.

3.5.1 Model Specification

The multiple regression equation is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + €$$

Where

Y= Financial performance (Return on Assets)

α = Constant Term (the value of Financial performance when all variable are held to constant zero)

β= Beta/correlation/regression coefficient (a parameter estimate that measures the effect that financial spending on CSR has on ROA

X_1= Total cost of CSR activities (CSR components)

X_2= Inflation

X_3= Interest Rates on Deposits

X_4= 91 days Treasury bills

$€$ = Error Term (difference between actual and predicted value)

In this study, CSR practices were analyzed using the total cost of all the CSR components: environmental concerns, community involvement, employee relations, product/customer concerns, education, health and others. Others constitute all those other activities of CSR which cannot be attributed to any of the identified categories.

The total cost of CSR was obtained by adding the costs for the seven components of CSR. The coefficient of determination, R squared, measure was used to test the significance of the regression model in explaining the relationship between CSR practices and Financial Performance. R squared is a measure of goodness of fit and shows the percentage variance in the dependent variable that is explained by the independent variable(s). The higher the R squared the better the model.

3.5.2 Statistical Test

In order to test the significance of the model in measuring the relationship between corporate social responsibility and financial performance of insurance companies in Kenya, the study conducted an Analysis of Variance (ANOVA). On extracting the ANOVA statistics, the researcher reviewed the significance value (P-values). The study tested at 95% confidence level and 5% significant level. On establishing that the P-values were less than the significance level, the study rejected the null hypothesis and accepted the research hypothesis.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses data analysis, findings, interpretations and presentation. Data were analyzed to establish the impact of CSR on financial performance in the Insurance sector. The study used descriptive analysis. Descriptive statistics is the term given to the analysis of data that helps describe, show or summarize data in a meaningful way such that, for example, patterns might emerge from the data. Descriptive statistics are applied to populations. The properties of populations, like the mean or standard deviation were analyzed.

According to information gathered from IRA, there were 51 registered insurance companies in Kenya as at December 2013. For the purpose of analysis, only the insurance companies that were in existence for the whole five year period of review (2009-2013) were analyzed. Insurance companies that never engaged in CSR or data on CSR were not available for any of the five years, were omitted from the analysis. For that reason, only 20 insurance companies were analyzed. The data for the study was obtained from the audited financial statements of the insurance companies and also from IRA. F-Test (ANOVA test) was used to test if the variances from the mean of two populations are equal, in this case the variances in CSR and in financial performance.

Regression analysis was also used. Regression estimates the relationship between the impacts of the CSR and the FP in the insurance sector in Kenya. The level of significance was set at 0.05.R^2 and Durbin-Watson tests were also used. R-Squared (coefficient of determination) is a statistical term saying how good one term is at predicting another. If R-Squared is 1.0 then given the value of one term, you can perfectly predict the value of another term. If R-Squared is 0.0, then knowing one term does not help you know the other term at all. More generally, a higher value of R-Squared means that you can better predict one term from another.

4.2 Response Rate

A total of 44 companies had been targeted for the study but only complete data for 20 companies was collected and thus used for the study. This represents a 45% response rate.

4.3 Descriptive Analysis

Table 4.1: Analysis of Return on Assets

	N	Minimum	Maximum	Median	Mean	Std. Deviation
ROA	60	0.66	48.18	5.2265	6.0293	6.30499
inflation	60	2.60	19.70	9.85	9.0988	4.72545
91 Day Treasury Bills	60	2.36	20.80	7.53	8.8518	5.90685
CSR	60	.00	1.77	0.650	.1721	.30272
Interest on deposit	60	3.41	7.66	4.2300	4.4365	.77365

Table 4.1 above presents results of the descriptive statistics of the overview of return on assets by insurance companies in Kenya during the period 2009 to 2013. Generally minimum ROA during the study period was 0.66 while the maximum was 48.18. The

median for ROA was 5.2265 with a mean of 6.0293 and standard deviation of 6.30499. For the inflation, the minimum value was 2.60% while the maximum value was 19.70%. The median was 9.85% with the mean of 9.0988 and standard deviation of 4.72545. For the 91 day treasury bills, the minimum was 2.36% while the maximum value was 20.80%. The median was 7.53% mean of 8.8518 with a standard deviation of 5.90685. For the CSR as a ratio of total assets, the minimum was 0.00 with a maximum of 1.77%, median of 0.65%, mean of 0.1721% with a standard deviation of 0.30272%. Finally, interest on deposit had minimum value of 3.41%, maximum of 7.66%, median of 4.23% mean of 4.4365 with a standard deviation of 0.77365. These findings show that the variables in the study were evenly distributed and not skewed to one end.

4.3 Correlation Analysis

The Pearson product-moment correlation coefficient is a measure of the strength of a linear association between two variables and is denoted by r. It attempts to draw a line of best fit through the data of two variables, and the Pearson correlation coefficient, r, indicates how far away all these data points are to this line of best fit. The study also conducted Pearson product-moment correlation coefficient and the findings were as shown in the Table 4.2 below:

Table 4.2: Pearson Moment of Correlation

		ROA	Inflation	91 Day Treasury Bill	CSR	Interest on deposit
ROA	Pearson Correlation	1				
	Sig. (2-tailed)					
Inflation	Pearson Correlation	-0.15	1			
	Sig. (2-tailed)	0.252				
91 Day Treasury Bill	Pearson Correlation	0.090	.0293[*]	1		
	Sig. (2-tailed)	0.042	0.023			
CSR	Pearson Correlation	-0.086	0.106	0.128	1	
	Sig. (2-tailed)	0.0312	0.422	0.331		
Interest on deposit	Pearson Correlation	-0.151	.563[**]	-0.082	0.07	1
	Sig. (2-tailed)	0.0251	0	0.531	0.596	

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

The study further conducted Person Moment of correlation to establish the strength of the relationship between the dependent variable and the independent variables. From the findings indicated in the table 4.2 above, it can be noted that there is a negative relationship between financial performance of insurance companies as measured by ROA and the rate of inflation experienced in the economy as indicated by the correlation coefficient of -0.15. However, the relationship is not significant as indicated by the p-value of 0.252.

A review of the relationship between ROA and 91 Day Treasury bill revealed a positive relationship between the two variables as indicated by the co-efficient correlation of

0.090. The 91 Day Treasury bill was however significant in explaining the changes in the financial performance of insurance companies as supported by a significance value of 0.042. For Corporate social responsibility investment, there was a negative relationship between financial performance of insurance companies and CSR as explained by the coefficient correlation of -0.086 with a p-value of 0.0312 showing the CSR investment is an important variable in the explanation of financial performance of insurance companies.

There was also a negative relationship between financial performance of insurance companies and Interest on deposit as depicted by the correlation coefficient of -0.151. However, interest on was an important factor in explaining the financial performance recorded by insurance companies.

4.4 Regression Analysis

In addition to descriptive analysis, the study conducted a cross-sectional multiple regression on the 20 insurance firms. These findings are discussed below based on an annual basis.

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.878[a]	0.7709	0.7591	5.98385

Table 4.5 above shows a model summary of regression analysis between four independent variables including total cost of CSR activities, Inflation, Interest Rates on Deposits and 91 days Treasury bills and a dependent variable namely return on assets. The

table showed that value of R was 0.878; the value of R square was 0.771 and the value of adjusted R square was 0.759. From the findings, 77.1% of changes in the return on assets were attributed to the four independent variables in the study. Positivity and significance of all values of R shows that model summary is significant and therefore gives a logical support to the study model.

Table 4.4: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	391.286	4	97.8250	2.689	.055[b]
Residual	2001.616	55	36.39		
Total	3745.902	59			

The data findings were analyzed and the SPSS output presented in table 4.6 above. ANOVA statistics of the processed data at 5% level of significance shows that the value of calculated F is 2.689 and the value of F critical at 5% level of significance With numerator degrees of freedom 4 and denominator degrees of freedom 95 was 2.47 Since F calculated is greater than the F critical (4.08>2.47), this shows that the overall model was significant.

Table 4.5: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.699	8.518		2.313	0.023
inflation	-0.162	0.634	-0.137	-0.2552	0.246
Csr/total assets	-0.0791	1.838	0.158	-0.043	0.0421
91 days treasury bills	0.093	0.485	0.045	0.192	0.034
Interest on deposit	-0.149	2.242	-0.179	-0.066	0.02

From the regression findings, the substitution of the equation:

$(Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4)$ becomes:

$ROA=0.699-0.162X_1-0.0791X_2+0.093X_3-0.149X_4$

Where Y is the dependent variable (ROA), X_1 is inflation variable, X_2 is CSR/Total Assets, X_3 is 91 days treasury bills and X_4 is interest on deposit.

From the study findings, holding all variables constant at zero will lead to ROA of 0.699%. However, a unit increase in inflation will lead to 0.162 decreases in the level of ROA recorded by insurance companies. Similarly, a unit increase in CSR/Total Assets will lead to a 0.0791 decrease in the level of ROA recorded by insurance companies. A unit increase in 91 days treasury bills will lead to 0.093% increase in the ROA recorded by insurance companies and finally, a unit increase in interest on deposit will lead to 0.149 decreases in the ROA recorded by insurance companies.

At 95% level of confidence, inflation has a significance of 0.246, CSR/total assets had a significance of 0.0421, 91 days treasury bills had a significance of 0.034 while Interest on deposit had a significance of 0.02. These shows that inflation was not significant while all other variables were significant

4.5 Discussion of Study Findings

Using person moment of correlation, the study established that there is a negative relationship between financial performance of insurance companies as measured by ROA and CSR as indicated by the correlation coefficient of -0.086. These findings

contradict those established by Tsoutsoura (2004) who established a positive and significant relationship between CSR and financial performance. He observed that each company differs in how it implements corporate social responsibility. The differences depend on such factors as the specific company's size, the particular industry involved, the firm's business culture, stakeholders' demands, and how historically progressive the company is engaging in CSR.There is also a negative relationship between financial performance of insurance companies as measured by ROA and the rate of inflation experienced in the economy as indicated by the correlation coefficient of -0.15.

The study also established that there was a positive relationship between ROA and 91 Day Treasury bill. The 91 Day Treasury bill was however significant in explaining the changes in the financial performance of insurance companies as supported by a significance value of 0.042. These findings are consistent with those recorded by Mishra and Suar (2010) who established a positive relationship between 91 Day Treasury bill and financial performance of firms listed at the Nairobi stock exchange.

The study further established that there was also a negative relationship between financial performance of insurance companies and Interest on deposit as depicted by the correlation coefficient of -0.151. Insurers are exposed to the interest rate environment especially life insurance companied because they sell long-term products whose present value depends on interest rate. Therefore interest rate fluctuations highly affect the financial performance of insurance companies.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study focused on the effects of corporate social responsibilities among insurance companies, on their financial performance. This study aimed at comparing the findings with the previous studies and making conclusions based on the research. This chapter also has suggestions for further research based on questions left unanswered by the research.

5.2 Summary of Findings

From the presentation of findings and discussions in chapter four, the minimum ROA during the study period was 0.66 while the maximum was 48.18. The median for ROA was 5.2265 with a mean of 6.0293 and standard deviation of 6.30499. For the CSR as a ratio of total assets, the minimum was 0.00 with a maximum of 1.77%, median of 0.65%, mean of 0.1721% with a standard deviation of 0.30272%. For the inflation, the minimum value was 2.60% while the maximum value was 19.70%. The median was 9.85% with the mean of 9.0988 and standard deviation of 4.72545. For the 91 day treasury bills, the minimum was 2.36% while the maximum value was 20.80%. The median was 7.53% mean of 8.8518 with a standard deviation of 5.90685. Finally, interest on deposit had minimum value of 3.41%, maximum of 7.66%, median of 4.23% mean of 4.4365 with a standard deviation of 0.77365. These findings show that the variables in the study were evenly distributed and not skewed to one end.

From the Person Moment of correlation, for corporate social responsibility investment, there was a negative relationship between financial performance of insurance companies and CSR as explained by the coefficient correlation of -0.086 with a p-value of 0.0312 showing the CSR investment is an important variable in the explanation of financial performance of insurance companies. It can also be noted that there is a negative relationship between financial performance of insurance companies as measured by ROA and the rate of inflation experienced in the economy as indicated by the correlation coefficient of -0.15. A review of the relationship between ROA and 91 Day Treasury bill revealed a positive relationship between the two variables as indicated by the co-efficient correlation of 0.090. There was also a negative relationship between financial performance of insurance companies and Interest on deposit as depicted by the correlation coefficient of -0.151. However, interest on deposit was an important factor in explaining the financial performance recorded by insurance companies.

From the model summary of regression analysis between four independent variables including total cost of CSR activities, Inflation, Interest Rates on Deposits and 91 days Treasury bills and a dependent variable, the value of R square was 0.771 and the value of adjusted R square was 0.759. 77.1% of changes in the return on assets were attributed to the four independent variables in the study. From the study findings, holding all variables constant at zero will lead to ROA of 0.699%. However, a unit increase in inflation will lead to 0.162 decreases in the level of ROA recorded by insurance companies. Similarly, a unit increase in CSR/Total Assets will lead to a 0.0791 decrease in the level of ROA recorded by insurance companies. A unit increase in 91 days treasury bills will lead to

0.093% increase in the ROA recorded by insurance companies and finally, a unit increase in interest on deposit will lead to 0.149 decreases in the ROA recorded by insurance companies.

5.3 Conclusions

For Corporate social responsibility investment, the study concludes it was negatively correlated with financial performance of insurance companies. This study also concludes that there is a negative relationship between financial performance of insurance companies as measured by ROA and the rate of inflation. As the level of inflation increases, holding individual income constant, individuals will have limited income to spare for insurance purposes leading to reduced investment returns for insurance companies. The study further concludes that the relationship was not significant.

The study further concludes that there was a positive relationship between ROA and 91 Day Treasury bill. As the returns on the Treasury bills increase, the insurance companies' financial performance is also bound to increase especially considering the fact that insurance companies are key players in the Treasury bill market. The study further concludes that the 91 Day Treasury bill was however significant in explaining the changes in the financial performance of insurance companies.

The study also concludes that there was also a negative relationship between financial performance of insurance companies and Interest on deposit as depicted by the correlation coefficient of -0.151. However, interest on was an important factor in explaining the financial performance recorded by insurance companies.

5.4 Recommendation

Based on the findings in chapter four and conclusions above, the study recommends that insurance companies diversify their investment portfolios in order to diversity these risks. Some risks like inflation and interest rates can be minimized through diversification to improve the financial performance of insurance companies. The study further recommends that insurance companies increase their allocations for investments in CSR. This is because there is no any single organization that exists in a vacuum but instead, they all exist in a society. As such it is important for organizations to invest in CSR as they affect the society in the same manner that they are affected by the society.

Through CSR, an organization is able to improve its financial performance; therefore organizations are advised to engage in CSR activities as this leverage the firms operations. The management of firms should include CSR as one of their policies for profit maximization. Organizations should view corporate social responsibility as an avenue for revenue generation besides undertaking it as per the requirements that mandate it. It should be adopted as a going concern so as to sustain the returns in future. Corporate social responsibility should be an integral part of every organization's operations.

5.5 Limitations of the Study

The study experienced limitations in accessing segregated data on insurance companies' investment in CSR. Majority of the companies did not keep separate records on the exact allocations spent on CSR making it difficult to access accurate data. Instead, majority of the companies only indicated a portion of their expenditures allocated for CSR activities.

The study also faced the challenge of unstandardized accounting practices among insurance companies. The policies applied in the preparation of financial statements and in the computation of returns on assets was not uniform across all the insurance companies. This makes it difficult to do comparison across the insurance companies.

The study also faced the challenge of consistency in categorizing the companies' investment in CSR.Some CSR components were considered as assets of some of the companies in different years. This brought about the challenge of overestimation of assets. As a result, this posed the challenge of giving accurate data on ROA.

5.6 Suggestions for Further Research

This study concentrated on the effects of CSR on financial performance of insurance companies. In order to facilitate the generalization of findings in Kenya to all organizations engaging in some level of corporate social responsibility, this study recommends that further studies be conducted on all companies undertaking CSR to establish its effect on financial performance. This will enhance the generalization of findings.

Further research is needed to explore what levels of investment in CSR are beneficial. These studies could provide information for management on apportioning scarce resources to competing stakeholders' demands and on evaluating cost in CSR investments. It is also important to suggest the timing in the relationship, since it would be valuable to investigate and to discover how long it takes for the impact of CSR on financial performance to be revealed.

Further studies could be done on impact of Corporate Social Responsibility on other financial performance measurement variables like net profit. The study could determine the relationship between the total amount invested by the firm on CSR and the annual profit .A longer period of analysis of more than five years can also be used.

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APPENDICIES
APPENDIX I: INTRODUCTION LETTER

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SARAH WAIRIMU

UNIVERSITY OF NAIROBI

P.O BOX 30197-00100

NAIROBI

2ND APRIL   2014

</div>

To whom it may concern,

RE: RESEARCH STUDY

I am a student at University pursuing an MBA degree with a concentration in Finance. I am currently undertaking a research project in partial fulfillment of the requirements for award of the degree. The research seeks to establish the relationship between CSR and financial performance of insurance companies in Kenya for the years 2009 to 2013.

This letter is to kindly request for your audited financial reports and expenditures on CSR for the years 2009 to 2013.   Please note that the information you provide will be treated as confidential and will only be used to complete the academic project course.

The findings of the study will be availed to you upon request.

Yours sincerely,

Sarah Wairimu

Student ID No 24782287

APPENDIX II: LIST OF REGISTERED INSURANCE COMPANIES

1. AAR Insurance Kenya Limited

2. A P A Insurance Limited

3. Africa Merchant Assurance Company Limited

4. Apollo Life Assurance Limited

5. AIG Kenya Insurance Company Limited

6. British-American Insurance Company (Kenya) Limited

7. Cannon Assurance Limited

8. Capex Life Assurance Company Limited

9. CFC Life Assurance Limited

10. CIC General Insurance Limited

11. CIC Life Assurance Limited

12. Continental Reinsurance Limited

13. Corporate Insurance Company Limited

14. Direct line Assurance Company Limited

15. East Africa Reinsurance Company Limited

16. Fidelity Shield Insurance Company Limited

17. First Assurance Company Limited

18. G A Insurance Limited

19. G A Life Assurance 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

33. Occidental Insurance Company Limited

34. Old Mutual Life Assurance Company Limited

35. Pacis Insurance Company Limited

43. Tausi Assurance Company Limited

44. The Heritage Insurance Company Limited

45. The Jubilee Insurance Company of Kenya Limited

46. The Kenyan Alliance Insurance Company Limited

47 The Monarch Insurance Company Limited

48. Trident Insurance Company Limited

49. UAP Insurance Company Limited

50. UAP Life Assurance Limited

51. Xplico Insurance Company Limited

APPENDIX III: CSR (MILLIONS) AS A % OF TOTAL ASSETS

Name of Insurer	% AMOUNT SPENT ON CSR (CSR/TOTAL ASSETS)X 100				
	2009 (yr 1)	2010 (yr 2)	2011 (yr 3)	2012 (yr 4)	2013 (yr 5)
1. AIG Kenya	1.015	1.110	1.770	1.690	1.692
2. AMACO	0.178	0.117	0.187	0.209	0.210
3. APA	0.487	0.627	0.350	0.285	0.348
4. Apollo	0	0.007	0.005	0.016	0.060
5. Blue Shield	0	0	0	0	0
6. British American	0.339	0.350	0.265	0.252	0.151
7. Cannon	0.002	0.003	0.022	0.012	0.008
8. CFC Life	0.022	0.110	0.087	0.072	0.058
9. Concord	0	0	0	0	0
10. Co-operative	0.013	0.017	0.003	0.004	0.004
11. Corporate	0.205	0.175	0.209	0.092	0.182
12. Directline	0	0.035	0.040	0.042	0.057
13. East Africa Re	0.051	0.478	0.054	0.101	0.122
14. Fidelity Shield	0.060	0.099	0.095	0.094	0.300
15. First Assurance	0.046	0.102	0.067	0.029	0.044
16. Gateway	0	0	0.037	0.018	0
17. Geminia	0.055	0	0.047	0.024	0.027
18. General Accident	0.035	0.032	0.076	0.107	0.086
19. Heritage AII	0.003	0.047	0.024	0.060	0.048
20. ICEA	0.016	0.100	0.015	0.008	0.013
21. Intra Africa	0.050	0.029	0.015	0	0.014
22. Invesco	0	0	0	0	0
23. Jubilee	0.028	0.047	0.020	0.016	0.021
24. Kenindia	0.012	0.024	0.011	0.022	0.017
25. Kenya Alliance	0.076	0.061	0.050	0.081	0.037
26. Kenya Orient	0	0.071	0.038	0.126	0.079
27. Kenya Re	0.047	0.050	0.065	0.081	0.089
28. KNAC	0	0	0	0	0
29. Lion of Kenya	0.014	0.022	0.020	0.038	0.058
30. Madison	0	0.100	0.028	0.012	0.021
31. Mayfair	0	0.037	0.015	0.056	0.079
32. Mercantile	0.063	0.003	0.074	0.007	0.023
33. Metropolitan Life	0	0	0	0.029	0.079
34. Occidental	0.027	0.090	0.087	0.049	0.038
35. Old Mutual	0.011	0.011	0.008	0.010	0.010
36. Pacis	0	0	0	0.084	0.056
37. Pan Africa	0.009	0.008	0.010	0.008	0.007
38. Phoenix	0.038	0.035	0.045	0.032	0.048
39. Pioneer	0.058	0	0	0	0
40. Shield	0	0	0.006	0.009	0.006
41. Real	0	0	0	0	0
42. Standard	0	0	0	0	0
43. Takaful	0	0	0	0	0
44. Tausi	0	0	0.002	0	0.008
45. The Monarch	0.046	0.105	0.029	0.064	0.060
46. Capex	0	0.063	0.259	0.176	0.078
47. Trident	0.005	0.037	0.042	0.021	0.023
48. Trinity Life	0	0	0	0	0
49. UAP Insurance	0.074	0.028	0.054	0.039	0.053
50. UAP Life	0.017	0.017	0	0	0.005
51. Xplico	0	0	0.035	0.083	0.103

APPENDIX IV: DATA ON INFLATION FOR THE STUDY PERIOD

	2009	2010	2011	2012	2013
Jan	12.1	9.1	4.7	18.9	13.5
Feb	11.9	5.9	4.1	18.3	12.3
March	10.5	5.3	3.6	16.7	11.1
April	7.8	4.1	4.2	15.6	10.2
May	9.9	2.7	3.9	13.1	8.7
June	6.2	3.2	4.7	12.2	8
July	12.8	4.3	4.5	10.1	9.1
Aug	12.1	3.3	14.49	7.7	11.1
Sep	10.5	2.6	16.6	6.1	9.8
Oct	9.9	3.1	15.5	5.4	10
Nov	12.4	2.9	17.3	4.14	11
Dec	9.9	2.7	19.7	3.3	11.1

APPENDIX V: DATA ON 91 DAY TREASURY BILLS

	2009	2010	2011	2012	2013
Jan	8.533	6.612	2.357	19.905	8.122
Feb	8.488	6.502	2.409	20.696	8.105
March	8.445	6.226	2.455	20.799	8.052
April	8.391	6.199	2.519	20.769	8.036
May	7.991	6.139	2.555	20.614	8.164
June	7.700	6.052	2.595	20.503	8.229
July	7.346	5.740	2.592	19.807	8.213
Aug	7.157	5.450	2.603	19.332	8.928
Sep	7.235	4.883	2.627	19.152	9.368
Oct	7.294	4.454	2.760	18.745	9.747
Nov	7.292	3.971	2.784	17.983	10.097
Dec	7.360	3.343	2.905	17.461	10.318

APPENDIX VI: INTEREST RATES ON DEPOSITS

Month	2009	2010	2011	2012	2013
Jan	5.19	5.00	3.41	4.33	4.17
Feb	5.23	4.89	3.47	4.31	4.16
Mar	5.09	4.74	3.47	4.30	4.14
Apr	5.12	4.49	3.51	4.29	4.13
May	5.10	4.58	3.68	4.28	4.12
Jun	5.28	4.45	3.85	4.26	4.10
Jul	5.09	3.85	4.07	4.25	4.09
Aug	5.00	3.74	4.21	4.24	4.08
Sep	5.05	3.53	4.83	4.22	4.06
Oct	5.03	3.58	5.75	4.21	4.05
Nov	5.06	3.54	6.99	4.20	4.04
Dec	4.84	3.59	7.66	4.18	4.02

APPENDIX VII: COMPANY LEVEL OF PERFORMANCE (% ROA)

Name of Insurer	% RETURN ON ASSETS(ROA) I.E (NET PROFIT/TOTAL ASSETS)X100				
	2009 (yr 1)	2010 (yr 2)	2011 (yr 3)	2012 (yr 4)	2013 (yr 5)
1. AIG Kenya	5.880	10.395	11.138	8.197	9.951
2. AMACO	4.443	4.336	2.326	2.914	2.354
3. APA	2.841	2.677	3.466	1.508	2.048
4. Apollo	0.000	4.139	0.249	2.636	1.908
5. Blue Shield	-39.767	0	0	0	0
6. British American	1.554	3.454	2.317	2.560	2.760
7. Cannon	7.827	8.301	2.774	8.752	8.004
8. CFC Life	-4.535	1.420	-2.137	1.830	0.657
9. Concord	-2.234	-2.338	0	0	0
10. Co-operative	2.836	2.782	4.313	7.640	6.478
11. Corporate	6.373	6.197	1.828	10.134	7.438
12. Directline	3.055	2.395	6.076	6.794	6.720
13. East Africa Re	4.573	48.182	2.695	6.027	5.928
14. Fidelity Shield	9.406	11.151	3.584	6.192	6.650
15. First Assurance	5.247	6.029	6.273	6.856	6.630
16. Gateway	2.235	1.683	32.065	0.911	13.996
17. Geminia	24.085	3.586	4.939	11.620	9.202
18. General Accident	4.741	3.363	4.409	6.086	5.286
19. Heritage AII	0.853	4.903	10.732	11.290	14.314
20. ICEA	0.901	7.470	1.549	2.839	3.055
21. Intra Africa	4.943	10.519	15.587	7.143	13.010
22. Invesco	0	2.415	6.958	1.097	0.000
23. Jubilee	3.400	15.168	3.089	2.546	3.308
24. Kenindia	2.272	10.472	-0.964	0.775	0.323
25. Kenya Alliance	11.358	11.018	4.515	2.502	4.388
26. Kenya Orient	5.842	0.328	3.130	4.119	3.453
27. Kenya Re	0.731	8.750	6.714	7.804	7.242
28. KNAC	-4.308	-7.393	0	0	0
29. Lion of Kenya	4.971	7.454	8.426	4.621	5.489
30. Madison	1.858	10.360	0.954	2.296	2.686
31. Mayfair	0.218	2.194	0.207	1.347	0.467
32. Mercantile	4.350	7.328	4.113	7.837	7.495
33. Metropolitan Life	-19.646	-10.346	-23.852	-16.947	11.535
34. Occidental	9.220	3.639	4.928	5.875	4.807
35. Old Mutual	-6.559	0.000	4.579	-0.216	1.854
36. Pacis	4.257	7.469	3.349	4.464	4.815
37. Pan Africa	-0.541	1.177	-0.172	-0.027	-0.254
38. Phoenix	3.172	7.730	1.192	3.769	3.858
39. Pioneer	4.307	5.547	2.918	3.167	3.893
40. Shield	0	0	-5.297	10.909	5.735
41. Real	0	0.000	0.000	0.000	0.000
42. Standard	5.786	0	0	0	0
43. Takaful	0	0	0.000	0.000	0.000
44. Tausi	0	0.000	-8.001	-1.824	-4.224
45. The Monarch	-0.141	11.486	5.405	13.260	13.728
46. Capex	-2.103	-5.423	10.599	4.840	6.501
47. Trident	15.060	3.195	2.080	21.789	16.216
48. Trinity Life	0.000	0	0	0	0
49. UAP Insurance	2.550	4.785	12.608	12.440	15.297
50. UAP Life	-5.125	-1.812	-11.496	0	-6.538
51. Xplico	0	0	1.615	38.771	28.700

APPENDIX VIII: COMPANIES INCLUDED IN THE STUDY

1. AIG Kenya
2. AMACO
3. APA
4. British American
5. Cannon
6. CFC Life
7. Corporate
8. East Africa Re
9. First Assurance
10. General Accident
11. ICEA
12. Jubilee
13. Kenindia
14. Kenya Re
15. Mercantile
16. Occidental
17. Pan Africa
18. The Monarch
19. Trident
20. UAP Insurance