EFFECT OF MERGER ANNOUNCEMENTS ON THE SHARE RETURN OF INSURANCE COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

I declare that this research project is my own work and has not been submitted for any degree or examination in any other University either reproduced, reprinted or made available to others in any form.

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DEDICATION

This research paper is dedicated to my beloved wife Sarah, my children Dr. Jonathan and Lamech and to my parent Mr. Michael Maranga Kunyoria for always believing in me. Thanks for the support.

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LIST OF ABBREVIATIONS

ANOVA - An Analysis of Variance

CAAR - Cumulative Average Abnormal Returns

EMH - Efficient Market Hypothesis

M & As - Mergers and Acquisitions

NSE - Nairobi Securities Exchange

TVA - Trading Volume Activity

ABSTRACT

The announcement of mergers and acquisitions can affect the market's reaction. As a result, the share prices can fluctuate during the M&A time period. The return of the sales is one of indicators to measure shareholder value. The capital adequacy requirement in insurance sector has triggered need for mergers and acquisition to meet the capital requirement and as a business expansion strategy. Insurance companies are currently under pressure to meet the required capital base as a result of new capital adequacy introduced by the finance Act of 2015 in Kenya. As some insurance companies sought mergers and acquisition to raise more capital by listing at the NSE. This raises concerns on effect of announcement of merger and acquisition in share returns among quoted insurance firms in Kenya. The objective of the study was to find out the effect of mergers announcements on the share returns of insurance companies trading at the Nairobi stock exchange market. The study was anchored on efficient Market Hypothesis theory, signaling theory and the free cashflow theory. The study adopted an Event study research design applicable when examining effect of occurrence of an event say announcement of M&A on dependent variable. Event study research design was suitable in determining effect of announcement of merger and acquisition on share returns in quoted insurance firms in NSE. The target study population was six insurance firms trading at the Nairobi Stock Exchange which have undergone mergers and acquisitions. The study used secondary data on share price/share returns of the merged and acquired listed insurance companies before and after the mergers and acquisitions. The study used the test of difference of sample mean to determine the difference in means of share returns of the firms prior and post merger. This was done to assess the influence of mergers announcement on the share returns of insurance firms trading at NSE. The study concluded that merger and acquisitions announcement has no statistical significant impact on the share returns of quoted insurance companies. Mergers and acquisition event announcement lead to change in daily share returns with much resulting into decrease in share earnings. Announcement of a merger and acquisition triggers a change in stock returns around the event date. Findings for this study reveal that shareholders had insignificant reactions on announcements of mergers and acquisitions which show inefficiency in the NSE capital market. The means of the share returns before and after the announcements were statistically similar as the statistical t test accepted the null hypothesis. The p value was greater than the alpha value hence adopting the null hypothesis. The conclusion of the study was based on the inefficiencies of the stock market that did not consider the impact of the announcements for M & A in establishing the prices of the affected shares.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The announcement of mergers and acquisitions can affect the market's reaction. As a result, the share prices can fluctuate during the Mergers time period. The return of the share as one of indicators to measure shareholder value. Investors can interpret announcements of that kind in different ways triggering more price volatility. The share returns and trading volume as indicators as the market reaction is not only reflected by the changes of stock prices, but also by looking at the trading activity which can be seen from the trading volume of the stocks itself. It relates to the goal of corporate that obviously to pursue shareholder value maximization, in which every investor will seek the profit from the return either in long-term or short-term investment. Mergers among companies affect dividends, stock return, stock splits and bonus share. For instance, bonus share is investors additional share for each share they hold hence the share return of the company falls in the same proportion of the bonus issued, right issue; is issued to the existing shareholders, this affects the share return falls in the same proportion as the right issue, stock splits; this affects the share return by reducing according to the stock split ratio. Mergers announcement imply that the company is well performing hence attracting more investors to invest with the company which in turn affects the share return positively. Further, the importance of firm's characteristics such as age, profitability, and leverage as corporate disclosure influence share returns after merger announcement.

From the theoretical perspective, the efficient markets hypothesis (EMH the prevailing share prices is a good reflection of available information concerning a firm's value, and

in no way can it earn excess profits or abnormal returns using this information (Clarke et al., 2001). According to Cai (2013), the efficient market hypothesis theory asserts that financial markets are efficient taking the market efficiency forms of proposed by Eugene Fama in Clarke et al (2001): weak, semi strong and strong form. The announcement of certain listed firm's action with the purpose of increasing shareholder value attracts market risks. The investors interpret the firm's action as merger announcement, as valued opportunity to increase the shareholder value; while others interpret it negatively and even avoid the possible risks that may arise from Mergers instead of investing shares. The variety ways of investors in interpreting such firm's business strategy lead to increased price volatility. As a result, share return on the period of the merger announcement turns into doubtful as it could be very high or even extremely low. Also, trading volume activity (TVA) informs the investors to determining the action and also to reviewing the market reaction.

Merger announcements in the markets are associated with mixed reaction on stock behaviour and high earning announcements have positive market reactions while low earning announcement experience negative market reactions (Aga and Kocaman, 2008). According to Panayides and Gong (2002) study on stock reaction on merger announcement in the shipping company, they concluded that all firms' equity returns grow quickly upon announcement of the merger.

1.1.1 Mergers Announcements

Merger announcement is defined as that time when companies announces the mergers to the public through the press release, therefore when a merger is announced, it reveals important information about that deal, hence the information is utilized to determine the response of stock market to the announcement of a mergers (Mailanyi, 2014). The fact that merger announcement, may exhibit signal to the market upon announcement and that can have an effect on the movements of prices of shares. Upon when a merger announcement a significant volume of information given concerning that specific deal and the same can be used to measure the response of an announcement of a merger or an acquisition by the stock market. The market reaction is reflected by the changes of stock prices, but also by looking at the trading movement which can be viewed from the trading volume of the stocks (Mulwa, 2013). The availability of stock trading activity decision made by investors also can be seen from the change in the trading volume of stock in stock market. Increase in trading volume is assumed that the market will be profitable as the investors raised the amount of their investment in certain stocks.

Three different types of mergers that were identified by (Kumar &Bansal, 2008) namely: horizontal mergers which is the combining of two firms that were in the same level and operating in similar sectors and same production level producing similar products, vertical mergers also these are mergers producing different goods and services for particular finished products and conglomerate mergers is the combination of firms that operates in different business.

1.1.2 Share Returns

Stock return is a measure of possible company returns on a common stock holders' investment. Baker (2006) defined return as the gain or loss on the securities held by shareholders over a given time period. The company's board of directors has the liberty to decide the stock return payout amount to those with ordinary shares despite the legal and debt agreement limitations. Shleifer and Vishny (2000) study on stock return policies of 4000 firms in 33 countries concluded that stock return vary across legal regimes and stock return payout is as a result of pressure from the minority investors to limit agency behavior. Companies in jurisdictions that have good laws that protect shareholders, tend to have high payout ratio compared to company in those countries with weak shareholders protection.

The income component (dividend) and capital gains component are the two main components contained in the stock returns which guide investors on choosing the stock to buy and dividends change how merger announcement is done to the market (Keonwn and Pinkerton, 1984). According to Ross, Westerfiel d& Jaffe (2002) stock return is a portion of a firm's earnings that's distributed to the investors and this is a board decision. Dividend defined as shillings per share market return percentage which finally is the dividend yield. Therefore, dividend is the mandatory distribution of gains realized from the capital gains (Khan & Jain, 2007). Capital gain is defined by Megginson and Smart (2008) as the earnings that accrues to the investor when selling an asset while capital gains refers to the excess returns realized over the buying of certain assets like company's common stock (Khan & Jain,2007).

1.1.3 Merger Announcement and Share Return

Mergers occur for the purpose of delivering the value of the firm and generate profit two companies that are combined to develop synergy and create the value of the firm. According to (Mulwa, 2013) many companies in 2001 failed due to poor stock return management of the merged companies as stated by (Boot, 2011). The announcement of mergers and acquisitions can affect the market's reaction. As a result, the share prices can fluctuate during the M&A time period. The share returns and trading volume as indicators as the market reaction is not only reflected by the changes of stock prices, but also by looking at the trading activity which can be seen from the trading volume of the stocks itself. It relates to the goal of corporate that obviously to pursue shareholder value maximization, in which every investor will seek the profit from the return either in long-term or short-term investment.

Merger increases the share price hence the bigger the company the greater the stock returns. Mergers have unique benefits that can be achieved by the combined firm, he further said that mergers are associated with economic benefits which are variations increasing the value that could not be realized without of mergers. Mergers also cause a reallocation of assets, business strategies and providing of the new operating plans for the firm (Pazarkis et al., 2006). Merger increases the share return hence the bigger the company the greater the stock returns. The synergy theory states that mergers aims to increase the share return for the shareholders make more revenue t since those companies which combine have lower operation costs. Example of proctor and Gamble merged with Gillete in 2005, according to the researcher found that this merging led to growth of company revenues. Andrade (2004) stated that the key determinant of a company to

participate in the merger is its financial position that is used to gain firms competition through obtaining its larger market share to expand its geographical area and reduces business risk. According to Ismail Abdou & Annis (2011) the great way to achieve stable financial growth is by merging a company.

1.1.4 Listed Insurance Companies

The Kenyan insurance industry has contributed greatly to the economic development and the national GDP. According to Financial Stability Report (2013) by the IRA, insurance penetration in Kenya was at 3.4 % ranking it among the best five insurance markets in Africa and the best in East Africa. There are 47 insurance companies in Kenya carrying out both General and life insurance business. The current scenario in the Kenyan insurance sector is that only 6 out of 47 insurance companies are listed in the NSE. The insurance industry is regulated by the Insurance Regulatory Authority (IRA) under an Act of Parliament Cap 487. IRA a state corporation is mandated to govern and promote development of insurance industry in Kenya. The major actors in the industry are insurance firms, Re-insurance companies, insurance brokers and agents among others.

Insurance sector has experience mergers and acquisitions as a strategy to expand medium term due to requirement for an increased minimum capital as required by finance bill 2015 (IRA, 2016). The amended Insurance Act came into effect in June and adopted a risk-based capital adequacy system, where by insurers covering high-risk businesses required to increase their capital. Some of the merger and acquisition in Kenya's Insurance sector include mergers of ICEA and Lion Assurance Company to form the ICEA LION group; mergers of Apollo Insurance Company Limited and Pan Africa Insurance Company to form APA Insurance, Old Mutual acquired UAP Insurance;

LeapFrog Investments, a private equity firm, acquired Resolution Insurance; Saham Group of Morocco acquired Mercantile Insurance Company Ltd; Prudential Plc of UK acquired Shield Assurance Company Ltd and that of Britam Investment Group acquiring Real Insurance Company Ltd (IRA, 2016). There have seen many l mergers and acquisitions in the insurance industry aiming to take advantage of synergies and also a means of diversification into both general and life businesses by the larger firms. Major acquisitions in 2015 was that of Real Insurance by Britam, Pan Africa Insurance acquired at least 51% percent of Gateway insurance, the UAP-Old Mutual merger and Jubilee Holdings partnering with DRC's State-owned insurance company Sonas to expand its business line such as offering medical and life cover products (Kainika, 2017).

1.2 Research Problem

The announcement of mergers and acquisitions can affect the market's reaction. As a result, the share prices can fluctuate during the M&A time period. The return of the sales is one of indicators to measure shareholder value (Ismail, Abdou & Annis, 2011). The share returns and trading volume as indicators of the market reaction is reflected by the changes of stock prices and trading activity which can be seen from the trading volume of the stocks itself. Following the theory of Market efficiency price will always reflect fully the available information availed to the market (Boot, 2011). The firm's shareholders are involved in the merger activity achieving optimal results due to merging benefits such as increased market share.

The capital adequacy requirement in insurance sector has triggered need for mergers and acquisition to meet the capital requirement and as a business expansion strategy. Insurance companies are currently under pressure to meet the required capital base as a result of new capital adequacy introduced by the finance Act of 2015 (IRA, 2016). The Act requires general insurance companies to raise their working capital from Ksh 300 million to Ksh 600 Million, and life Assurance companies to raise their working capital from 150 Million to 400 Million (Cytonn Investments, 2016). This capital requirement change has already led to announcement of mergers and acquisitions within the insurance sector. As some insurance companies sought mergers and acquisition to raise more capital by listing at the NSE. Companies such as Barclay Plc, Africa announce intent to acquire a 63.3 percent in First Assurance Company Ltd (AKI, 2017).Major acquisitions in 2015 was that of Real Insurance by Britam, Pan Africa insurance acquiring a 51% stake into Gateway insurance to grow its general business line, the UAP-Old Mutual merger and Jubilee Holdings partnership with DRC's State-owned insurance company Sonas to offer medical and life cover products. Mergers and acquisition announcement have effect of targets and acquiring company's stock value as behavioral reaction in the security market makes the shareholders review their goals and expectations about the listed insurance company' profitability in future in Kenya (Osoro, 2017). This raised concerns on effect of announcement of mergers and acquisitions on share returns among listed insurance companies in Kenya.

Empirical studies on mergers and share returns exhibit contradictions results. A study by Chakraborty (2010) reported negative returns whereas Swanstrom 2006) found positive returns for the shareholders of the target firms. Findings from other in other markets

show significantly positive abnormal share holders' returns   of the target firms and insignificantly negative returns to shareholders of bidder companies during the period of M&A (Campa & Hernando 2004). Returns in these markets area affected by many factors like the payment mode either stock, cash or mix, bidder's asset base, type of merger (horizontal, vertical or conglomerate) and the kind of acquisition local or foreign. Sylvani, and Yunita. (2017) examined market response to merger and acquisitions (M&As) announcement in telecommunications firm in Asia-Pacifics that involved 17 firms that have engaged in Mergers and Acquisitions between 2011-2014 by evaluating the abnormal returns over 10 days prior and 10 days after the announcements with an the estimation period of one hundred days. The result revealed an absence of significant difference between the abnormal return prior and after announcement

Antoniadis, Alexandridis and Sariannidis (2014) examined effect of Mergers and Acquisitions announcement on share price in commercial banks listed on Athens Stock Exchange Market. Piraeus Bank sought to merge with Hellenic Postbank and Agricultural Bank of Greece and revealed that share values of Hellenic Postbank, and Piraeus bank increased for a period of time after the day of the announcement and ATE bank exhibited negative share returns. Popovici (2014) argued in his research impact of merger on performance of bidder Bank during the periods of 2000-2011 and came to conclusion that merger does not improve the value of the market of shares of bidder Bank.

Locally mergers and acquisitions announcement studies have been carried out. Barasa (2015) looked at the influence of merger and acquisitions announcement on the value share prices of firms trading of at the Nairobi Securities Exchange and revealed changes in stock prices immediately after merger and acquisition announcement but share price

change dropped after the announcement whereas in some cases the prices increased and that mergers and acquisitions announcements had significant effects on total accumulated share returns. A further study by Gathecha (2014) examined the effect of announcements of M&A on shareholder value for quoted companies M&A had a positive effect on shareholders wealth as shown by abnormal returns related to the date of declaration of M&A. Despite increase in mergers announcement in insurance and financial sector Kenya, there is no study that has focused on determining the impact of mergers announcements on the share returns of insurance companies quoted at the NSE. This study seeks to address existing knowledge gaps by addressing the question, what is the effect of merger announcements on the share returns of the insurance companies trading at the NSE?

1.3 Research Objective

The objective of this research was to determine the effect of mergers announcement on the share returns of insurance companies trading at the Nairobi securities exchange.

1.4 Value of the Study

The study will act as an empirical evidence for other researchers who find themselves conducting similar research on the mergers and Stock return thus improving the research and update on new findings. Moreover, the investment advisors will use the study in advising their clients on the kind of stock to invest on. The study will also guide them on how best to advise investors to invest on basis of their goals and objectives. The share return effect on corporate restructuring information is also an aid to investors on making decision on action to take during corporate restructuring to maximize their wealth.

Furthermore, the study will greatly benefit the policy makers and the management of various organizations or firms listed at the NSE to understand how mergers has benefited other firms in term of increasing the market and also revenue of the merged firms hence identifying the key aspects that would turn around a firm after merger or acquisition aim to enhance their financial performance.

The study will be of importance to the faculty at the university increasing academic data as learning material for the students and improving their knowledge and research, thus students will gain from the study as they will use as reference materials on their work related on merger announcement and stock return.

Ultimately, the study is of great assistance to customers as they will be in a position to understand on the possible effects of mergers and how it affects them. Synergies can be created that will lead to reduction of prices of items or for the cases where the mergers deal does not succeed. Mergers also have the possibility of creating monopolistic firms that act to the detriment of customers in terms of prices.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter contains the information on various theories on mergers announcements, determinants of share returns, conceptual framework and ends with the summary of literature review.

2.2 Theoretical Review

This section will review the theories the scholars have proposed in the area of mergers announcement. Effective mergers are key in ensuring that the share returns of the entities improve. The theories of mergers include; the hypothesis (EMH) theory, signaling theory and the free cashflow theory.

2.2.1 Efficient Market Hypothesis (EMH) theory

The theory proponents was Fama (1970) who noted that efficiency Market Hypothesis (EMH), as a market where prices fully reflects the information existing in the market hence no unusual profits can be earned through exploiting it. The theory proposes that prevailing stock is a reflection in full of information available concerning the value of the firm, and that one can never gain excess profits or abnormal returns using this information (Clarke et al., 2001). According to Cai (2013), efficiency of a market says that stock values show a random walk pattern meaning that the prevailing or past share prices are not important in projecting future prices, and therefore a drop or a raise in share price does not imply that its subsequent movement will show the same trend.

This hypothesis states that investors cannot make profit when they trade on news reports and other information in public domain since the share values react to information

immediately it is available. Furthermore, in an efficient market information collection and trading dependent on information is not valuable as it is not new in the market. The investors therefore have no incentive to gather and analyze due to the realization of the unbiased estimate of the shares' value by the market(Mabhunu, 2004).

EMH stock prices reflects all information available that are related to the profitability of the company and that of the financial market efficiently disseminates the new information that affects the company's profitability (Fama, 1969), 3 forms of EMH exist; weak form efficiency, semi strong form efficiency and strong form market efficiency, Fama concluded that most firms are at semi strong form of market efficiency. Theory of efficient market hypothesis is applicable in the current study in that information on mergers and acquisition announcement would have effect on the security of stock prices based on past, current and future events. Therefore, EMH support fully news on mergers and share values reflect all information either new or available in an unbiased manner to the market participants. Markets like those deliver precise signals for resource allocation since the market values is a reflection of the basic worth of every security's in the insurance company. The theory will support examining the effect of merger announcement on share returns among the Insurance companies listed in Kenya.

2.2.2 Signaling Theory

It was proposed by Brennan and Copeland in 1988 that financial information acted as a way of information dissemination from management to shareholders. They developed it from Fama et al. (1969), who opined that though reporting, a company may reduce any information asymmetries that may have been there between stockholders and

management. It suggests that financial performance announcement passes to market original information (Pathirawam, 2009). Arthurs, Busentz, Hoskieon & Johnson (2009) found out that signals affect the market sensitizing hence affect investors' decisions. Their findings supported the signaling theory. During the financial performance announcement, the signs prior the announcement allows for the sensitizing of stock holders and consumers. Positive results signal that the firm is performing well, information has a cost and that it does not reach all people at the same time.

The signals demonstrates what the firm is doing to maximize the firms value (Van Horne & Wachowicz, 2005) in their studies they concluded that the market needs information and hence reacts on how the firm performs in terms of profitability and also to the information that was communicated by the management during the merger announcement, example market reacts to dividends hence the investors reacts positively if the firm's dividends are increased, Signaling theory explain the positive market reaction (Bradley, Desai & Kim,1983) gives managers the confidence to believe in positive future from words to action, the management send out information to the market about merger transactions to influence the expectations of the investors.

Signaling theory is applicable in case of mergers and acquisition announcement and stock returns. Managers represent the best interest of stockholders and always attempt to optimize a firm's intrinsic values as they determine the timing and terms of takeover bids. Management has full information about the likely gains of the takeover, but cannot pass the information to shareholders (Morelles & Zhdov, 2005). External, shareholders do not have perfect information and accept or reject takeover bids based on the informed recommendations of managers. Merger announcement in Insurance constitutes an event

window initiated by the insurance companies that affects share price. The announcement will imply that the company has money or is weak hence will attract or loose many investors to invest with the company and therefore affects the share price either positively or negatively. Because insider trading laws bar managers from inside trading. Information on market prices indicates the information for investors who are not informed and their response toward the mergers and acquisition would impact on stock return of the targeted or acquiring firms in the insurance companies listed in NSE in Kenya. When a firm announces mergers and acquisition intents it sends a signal to the investor and if they react to this signal as expected this will affect the share prices and returns of the listed insurance company.

2.2.3 The Free Cashflow Theory

Easterbrook (1984) free cash flow to equity is the available cash to distribute to shareholders of the company, he said to allow managers to avoid use of capital markets they divert free cash flow from shareholders. Jensen (1986) in his studies concluded that there is conflict of interest to the free cash flow distribution between shareholders and managers they are required to represent. The theory insists on the need to improve the financial performance through merger. When managers divert their free cash flow from dividend, it is the return on shareholders' equity that is affected hence affecting the financial performance of a firm. The reason being that returns on equity measure the firms' profitability by showing how much a firm makes from the funds invested by the shareholders and investors.

The theory developed explains the way debt-for-stock exchanges reduce the inefficiency in firms. This is through enhanced substantial free cash flow, availability of substitute for dividends and diversification of firms. Further, mergers in an industry and liquidation-driven mergers usually generate larger returns than cross-industry mergers.

2.3 Determinants of Share Returns

The section discusses market efficiency, firm profitability, size of company, Age of the Firm and financial leverage as determinants of share returns.

2.3.1 Market Efficiency

The efficient market hypothesis (EMH) is the suggestion that prevailing stock value fully reflects available firms information concerning the firm value, and it is not possible to earn excess profits or abnormal returns using this information (Clarke et al., 2001). According to Cai (2013), the hypothesis posits that financial markets are efficient. In a market that is efficient the security prices are assumed to reflect the impact of information based on past, current and future events. The main logic behind the EMH is that stock value need to reflect fully reflect all newly and information present in a neutral manner to the market players. Markets of the kind deliver accurate signals for resource allocation as market price is a representation of each security's basic value.

2.3.2 Firm's Profitability

A firm's profitability is an important determinant of stock returns in future. Novy-Marx (2013) showed that firms with big gross profits significantly perform better than those that are not profitable. Fama and French (2006) argued that the level of profitability is a proxy to potential profitability and helps predict future returns, dividend discount .Fama

and French (2015) developed and tested a 5 factor model that corrects their 3 factor which address market premium, asset portfolio and size model to include investments and profitability. These extended factor models are responsible for a numerous shortcomings, provide some hope for summarizing the cross-section of average return of stock. Generally, the contemporary literature offers evidence that, to have an acceptable description of average returns, it is important to develop a good understanding of expected future profit potential.

2.3.3 Company Size

The size of the company influences the share returns. Mathur and Kenyon (1997) in their studies they concluded that big firms have a better chance to access finances compared to the smaller firms meaning when the organization is large it generates more revenue hence being in a better and stable financial position because of its size they are also able to diversify their assumed risks effectively and respond faster to any changes in the operating environment and market while on the contrary smaller firms generates smaller revenue hence making the firm's financial position not to be stable and hence unable to access the financial resources and lower cost hence low prices of the shares.

2.3.4 Age of the Firm

Some prior findings by Batra, (1999); Lumpkin and Dess (1999) indicated that the age of the firm influences its share returns. Sorensen and Stuart (1999) on their findings they concluded that firms that are old tend to be slow and they have old technology and not flexible making them difficult to adapt the new market and competition from new firms. On the other hand, new firms that are small take away the market share because they are aware what is happening to the market and what is exactly needed hence making them

easily adjustable despite of the challenges as limited access to finances and their unpopular brand, old firms tend to relax because they think they have won the market hence losing the market since their services and goods are old.

2.3.5 Financial Leverage

This is a product of the difference between a company's the rate of return on investments of the assets it holds and the rate it needs to pay to its creditors (Garrison et al., 2014). A lot of effort must be put in explaining correlation of a firm's real asset risk and the riskiness of its equity. Theoretical and empirical evidence abound to relate stock risk to leverage. Leverage is ordinarily defined as the use of credit to invest and get some return on that investment. A high financial leverage is riskier for a firm. It is also evident that the level of financial leverage has a direct relationship with expected profits on a firm's equity. Hence leveraging on finance is employed in many instances as a way of adjusting the cash flow and a firm's financial position.

2.4 Empirical Review

A number of studies have analyzed the effect of mergers on the share returns of the companies in different settings in the world. The resultant outcomes are different, some studies concluded that mergers have a positive relationship with the share returns; others confirmed the insignificant relationship from different methodologies.

Laz (2008) researched about the relationship between mergers and the share returns of the companies trading on the Athens Stock Exchange in Greece. He used a sample of 130 companies over the period of 60 days by the help of an event study methodology

from the population of 281 companies. From the analysis, a negative correlation of mergers announcements and the stock returns was confirmed.

Sylvani and Yunita (2017) examined market response toward merger and acquisitions (M&As) announcement in telecom businesses in Asia-Pacific which covering 17 firms that have entered into Merger and Acquisition between 2011-2014 by evaluating the abnormal return during 10 days prior and ten days after M&A announcement with the estimated period of one hundred days. The objective of the study was to evaluate the impact of merger announcements on share return, turnover and share price movement to analyze the return of cumulative Abnormal Returns (CARs) during the event window was computed and Average Volatility Abnormal Return (AVARit) was computed to measure share volatility of price. The study also considered firm features like profitability, leverage, and age of a firm to determine the extent the features have on share return, trading volume and share price volatility within the M&A announcements. The findings revealed that there existed no significant difference between the abnormal return before and after announcement. There was no significant effect on trading volume and volatility (AVAR) before and after the merger announcement. Further results revealed that features have no significant effect on both CAR and AVAR with the total effect of 26.6% and 9.12% respectively. The study focused on merger announcement in telecommunication industry in Asia-pacific countries. The current study will focus on effect of merger announcement on share returns among listed insurance companies in Kenya.

A study by Barasa (2015) examined impact of merger and acquisitions announcements on value prices of firms quoted at the Nairobi stock Exchange. The study used an event window methodology. Secondary data was collected and analyzed to answer the research

question. The findings revealed changes in stock prices immediately after merger and acquisition announcement but share price change dropped after the announcement whereas in some cases the share prices increased. The findings also indicated that there was abnormal returns experienced in some listed companies but indicated no significant change in share returns and accumulated returns. The study found out that the mergers and acquisitions announcements had significantly influenced total accumulated share returns for different quoted companies before and after the announcements. Therefore, they were indeed wealth creating projects for investors at the Nairobi Securities Exchange since they were able to positively influence share returns even in the short term. In essence, merger and acquisition announcements increase shareholders value after they took effect. The study focused on effect of merger and acquisition announcement on listed companies without focusing on firms in specific industry. The current study will focus on impact of merger announcements on share returns of insurance companies trading in Nairobi Securities Exchange in Kenya.

Antoniadis, Alexandridis and Sariannidis (2014) examine influence of Mergers and Acquisitions announcement on share price in banks listed on Athens Stock Exchange Market. Piraeus Bank sought to merge with Hellenic Postbank and Agricultural Bank of Greece. The study adopted an event study methodology in assessing effect of merger announcements about returns from stocks of banks involved. Statistical tests were used on both abnormal returns and cumulative abnormal returns an interval of 10 days different for a span of 100 days. The finding revealed that efficient market hypothesis was upheld as share prices of Hellenic Postbank, and Piraeus Bank increased for some

time after the date announcement. However, each bank exhibited negative share returns and hence announcement had no significant influence on its share price.

The results could be exhibited due to different bank features in respect to age, profitability and leverage. Wong, Kui, Cheung and Mun, (2009) examined the impact of mergers and acquisitions announcements on the pricing conduct of Asian bidding and target companies with the aid of the data of acquisition announcements from the Bloomberg Database and Reuters Business Database for firms earlier alluded to from 1st January 2000 to 31 December 2007. The findings revealed that proposed acquisition was considered valuable to the owners of bidding firms but not considered as favourable to the stockholders of the target firms. Further, the finding ascertained hypothesis that the abnormal return for the shareholders of bidding firms during the post-announcement period depends on the type of acquisition. The study was however done based on firms in developed countries Hong Kong, China, Taiwan, Singapore, South Korea and Japan. The current study focus on examining effect of merger announcement on share returns.

Shah and Arora (2014) assess effect of M&A announcements in the Asia-Pacific region during the time period of May 2013 – September 2013 to find out the post-facto impact of M&A announcements on the stock prices of the target and the bidding firms. The study has used the event study methodology and focused on Cumulative Average Abnormal Returns (CAAR) of the target and bidder companies' share values in various event windows have been analyzed. A paired sample analysis has also been conducted by comparing the pre-announcement and post-announcement returns of the target and bidder firms' stock prices in the event window of ±2 days. In all event windows, Target Company's stock price yields significant and positive CAAR that is different from zero

in a significant manner. Unlike the target firms, bidder firms do not show statistically significant CAAR across all the event windows. The target firms depict that the post announcement gains are significantly higher compared to the pre-announcement returns, indicative of the immediate market reaction to the information disclosure.

Carl, McGowan and Norfolk (2008) examined the effect of M&A completion announcements on the stock price behavior for two anchor banks in Malaysia: Hong Leong Bank Berhad and Arab Malaysian Bank Berhad. The analysis uses the event study technique, the Naïve Model, a model that is based on Market Model = 1 to compute the abnormal returns surrounding the $M\beta = 0$ and α with constrained & A completion announcement date and to evaluate the effect of M&A completion announcement on the banks' return. The findings from event study show that the M&A completion announcements have positive information in market.

Gathecha (2014) looked at the information content of M&A announcement for listed companies at the NSE using descriptive research design and the standard risk adjusted event study methodology. Five firms were sampled and all were studied over the period of study. The study found that M&A positively affect shareholders wealth as evidenced by abnormal returns around the declaration date of M&A

Kimani (2012) did a study to examine whether the mergers of Glaxosmith and Cline merger delivered the value for the shareholders of the company. He analyzed the 2 year pre-merger and 2 year post merger financial performance. The analysis of financial performance involved the determination of the return on investment. The linear regression model used in the analysis confirmed the positive relationship between

mergers and shareholders return. He concluded that GlaxoSmithKline performed better financially after the merger.

Mwaniki (2011) analyzed the mergers announcement of unquoted commercial banks and their impact on the share returns in Kenya. He examined the relationship between mergers announcement and the share returns using the regression analysis and ANOVA analysis. He used a sample of 17 non-listed commercial banks and analyzed their share return reactions in the 30 day period. He concluded that mergers announcements greatly improved the share returns of the non-listed commercial banks in Kenya.

Nash (2008) researched on the correlation of mergers announcements and the share returns of the companies trading on the Athens Stock Exchange in Greece. He used a sample of 200 companies over the period of 30 days by the help of an event study methodology from the population of 450 companies. From the analysis, the prices of the companies greatly improved after the merger announcement.

2.5 Conceptual Framework

```
┌─────────────────────────────┐
│                             │                    ┌──────────────┐
│   Mergers announcement      │ ─────────────────► │ Share return │
│                             │                    └──────────────┘
└─────────────────────────────┘
```

Independent variables   **Dependent variable**
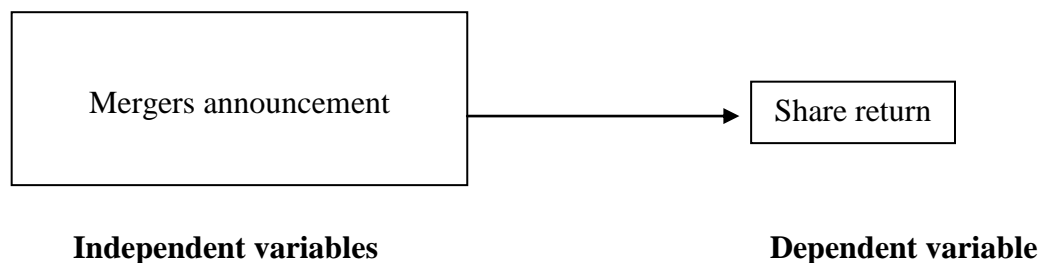
Figure 2. 1: Conceptual Framework

2.6 Summary of the Literature Review

The literature review entails the theories that were discussed informing the effect of merger declaration and share returns in the market and included the hypothesis (EMH) theory, information theory, signaling theory and the free cashflow theory. The determinants of share returns were also discussed namely, market efficiency, size of the company, firm profitability and financial leverage. Empirical studies such as Sylvani and Yunita. (2017), Wong, Kui Cheung and Tuen Mun (2009) and Carl, McGowan and Norfolk (2008) revealed that mergers announcement have contradicting results on share returns in both developed and developing countries. Also local empirical studies Mwaniki (2011), Barasa (2015) and Kimani (2012) indicated mergers announcements greatly improved the share returns as confirmed by the studies. However, the studies by Ochiengi (2010) and Laz (2008) confirmed that the share returns were unaffected after mergers announcements. This study focused on different companies listed or unlisted in security exchange. Further the studies used different research methodologies with few using descriptive designs while other used event window research design. This motivates the undertaking of this study to find the relationship between mergers announcement and share returns of listed insurance companies in Nairobi Security Exchange.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section discussed the sources of data, research design to be applied, and population of the study, data collection and data analysis to be employed.

3.2 Research Design

For the purpose of this study, the study adopted an Event study research design applicable when examining effect of occurrence of an event say announcement of M&A on dependent variable. Event study was suitable in determining effect of announcement of mergers and acquisitions on share returns in listed insurance companies in NSE. The research design is chosen as it helped in determining whether there existed abnormal share return effect related to an unexpected M&A announcement holds that share returns reflected quick, unbiased, rational, and risk-adjusted expectations of the firm's value in future periods based on the reception of new information.

3.3 Population

Population is defined as a set of elements which are well defined (Mugenda, 2008). The population of interest in this study was six insurance companies trading at the Nairobi Stock Exchange and which have undergone mergers and acquisitions.

3.4 Data Collection

The study used secondary data on share price/share returns and total assets of the merged and acquired listed insurance companies before and after the mergers and acquisitions.

Secondary data obtained from the financial statements was used; report from Insurance Regulatory Authority annual reports and from the Nairobi securities exchange

3.5 Data Analysis

This study constituted an event study which is structured to examine the relationship between mergers announcement and share returns among the listed insurance companies at NSE in Kenya. Descriptive statistics mean and standard deviations were adopted in analysis of data. Further simple regression model to determine effect mergers announcement on the share returns as assess whether there is an abnormal share returns due to mergers announcement. This was test Efficient Method Hypotheses (EMH) to test any variation in share returns caused by announcement of mergers and acquisitions of insurance companies.

Market model, according to MacKinlay (1997) is more widely used in empirical research and its assumptions are statistically and empirically reasonable. The study focused on using the CAPM model to calculate the returns by each stock per day.

3.6 Analytical Model

A 60 day period of study was undertaken (30 days before and 30 days after the merger announcement).

Daily returns of each insurance company was determined by the total change in the market value a security and dividend income received over a holding time divided by a security price at the start of the holding period.

As;

$$Rj = \frac{(Pi\text{-}Po\text{+}D1)}{Po}$$

Data was analysed by the use of tests of differences where the share returns before merger and acquisition were compared with share returns after merger and acquisition. A test of sample means was undertaken that sought to look at the differences between the means of the two populations. T test statistic was then used to determine whether the difference between the means was statistically significant or not, and whether to accept the null hypothesis or fail to reject the same.

3.7 Diagnostic Tests

The independent Samples t-Tests undertake an assumption of similarity in variances. In order to diagnose whether the data complied with this test, a Levene's Test for Equality of variances was undertaken. This test was used to identify whether the assumption of the t-test has been met or not.

3.7.1 Significance Test

In order to test the significance of the independent sample means, a t test statistic compares the alpha -value and the p -value or the significance of the study is contrasted with the alpha value. A p value that is greater than the alpha value means the study fails to reject the null hypothesis. However, the null hypothesis is rejected if the p value is less than the alpha value. For a two tailed test, a further comparison is undertaken between the

t statistic value with the t calculated value. A decision is made to reject the null hypothesis if the t calculated is less than the t critical at the degrees of freedom specified. The study used a two tailed test as it looked at the differences in sample means between the two populations (share returns before merger and share returns after merger). This implied that the test of significance that was undertaken only compared the p value against the alpha value and a decision determined as per the decision rule above.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter showed the analysis of the data from the field and various discussions of the findings, the outcome of the results were shown in appropriate tables to show the major findings.

4.2 Response Rate

The study used secondary data collection methods. There are a number of insurance companies that have merged and others have been acquired. There are however only 6 companies that have been listed at the NSE, out of which two have experienced merger and acquisition. Data that was used to determine the share returns of these companies was collected, thirty days of trading pre the announcement of the merger and acquisition and thirsty trading days after the merger and acquisition. All the data was acquired which represented a response rate of 100%. The data was then analyzed by the use of test of independence of sample means by use of SPSS statistical software.

4.3 Diagnostic Test

The t test of sample means makes various assumptions. The assumptions are that data is assumed that it follows a normal curve distribution in which case normality test is undertaken. The normality test is determined by the skewness level and kurtosis as shown in table 4.1 below.

Data is either negatively skewed if skewed to the left or positively skewed if it is skewed to the right. The distribution of share returns for both post and pre-merger of Pan Africa

is negatively skewed with pre-merger data being highly negatively skewed. On the other hand data for Britam on both pre – merger and post-merger is positively skewed. Kurtosis measures the sharpness or the flatness of the distribution. Data with high kurtosis shows that it is sharp while a lower kurtosis shows that data is flat.

Table 4.1 Normality Test

	Skewness		Kurtosis	
	Statistic	**Std. Error**	**Statistic**	**Std. Error**
Pan Africa Before Merger	-3.639	.427	16.938	.833
Pan Africa After Merger	-.410	.427	.013	.833
Britam before Merger	.980	.427	1.567	.833
Britam After Merger	2.705	.427	8.073	.833
Valid N (listwise)				

In general terms, distribution of share returns for Pan Africa before merger showed high kurtosis and were highly negatively skewed. This did not show tendencies of normal curve. Data for the other variables however had normal curve tendencies.

The other assumption of independent sample test is that the variability in each group is roughly equal. This is measured by Levene's test of equality variances. If this condition is not met, then the Levene's test provides an alternative special type of t-test. This is explained in the table 4.3 and 4.4

4.4 Descriptive Statistics

Table 4.2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
Pan Africa Before Merger	30	-.9704	.2632	-.015701	.2048262	.042
Pan Africa After Merger	30	-.195	.154	.01140	.083593	.007
Britam before Merger	30	-.03317	.07555	.0125710	.02331701	.001
Britam After Merger	30	-.05758	.40000	.0563543	.09330717	.009
Valid N (listwise)	30					

Share returns before merger showed a minimum value of -97% while it had a maximum value of 26.3%. The mean was -1.5% with a standard deviiation of 20.48% and a vraiance of .042.

After merger, the distribution of share returns for Pan Africa had a minimum value of -19.5% and a maximum value of 15.4% with a mean of 11.4% and a standard deviation of 8.36%. The mean of share returns after merger is higher than the mean of share returns before the merger. However we may not yet conclude whether the difference is statistically significant or not.

The mean of the share returns for Britam before merger is 7.55% with a standard deviation of 1.26%. Again the mean of share returns after merger announcement for Britam was higher at 40% with a standard deviation of 5.64%.

4.5 Independent T-Test for Sample Means

The test is used in determining whether two means are different from each other. In this case we determine whether the mean of share returns before merger is statistically different from the mean of the share returns after merger for both of the insurance companies. We have already established that the means after merger for both of the companies are higher than the means of these companies before merger. The test helps us to determine whether the difference between the means is statistically significant or not.

4.5.1 Introduction

In order to undertake an independent sample t-test, the following steps have to be undertaken. The first step is to identify the null hypothesis which in this case state that the mean of share returns for both Pan African Insurance Company and Britam Insurance before the merger is equal to the mean of the share returns after the merger. Since no order is established of measuring the difference in the means, then we conclude that it is a two tailed test that is determined at an alpha value of 0.05. A t-test is therefore appropriate for this study.

4.5.2 Group Statistics

The group statistics generally describes the share returns variable in the two groups. Share returns were determined for two insurance companies, 30 days after merger denoted (merger date >=0) and 30 days before merger denoted (merger date <0). The share returns variable formed two groups of share return before merger denoted by less than 0 in the teable 4.3 below. The total size of this group was 60 (30 days for each company before merger). The other group was 30 days share returns for each group after merger.

Table 4.3: Group Statistics

	Merger Date	N	Mean	Std. Deviation	Std. Error Mean
Share Returns	>= 0	60	.033876	.0907076	.0117103
	< 0	60	-.001565	.1452301	.0187491

Source: Author, 2018

Table 4.3 indicates that value of share returns for the companies before merger was -0.16% with a standard deviation of .15. The performance of share returns after merger was higher at a mean value of 3.39% with a standard deviation of 9.07%.

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4.5.3 Independent T-test Statistic

Table 4.4: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Share Returns	Equal variances assumed	.042	.839	1.603	118	.112	.0354407	.0221	-.00833	.0792
	Equal variances not assumed			1.603	98.952	.112	.0354407	.0221	-.0084	.0793

Source: Author, 2018

In order to undertake a test on whether the assumption on uniformity of the variances is met by the data, a Levene's test is undertaken. We look at the significance of the Levene's test and compare it with the alpha value of 0.05. The p value (significance value) is .839 which is higher than the alpha value, which means that we fail to reject the null hypothesis that the variability between the two groups is the same. We therefore assume equal variances and we use the 'equal variances assumed' row. This row shows a calculated t value of 1.603 with 98.95 df.

The significance value for the 2 tailed test was .112. For a single tailed test we would be required to determine the critical t value in a table, however in this case of two tailed tests, we decide whether to reject or fail to reject the null hypothesis. This decision is based on comparing the alpha value with the p value. We reject the null hypothesis if the p value (.112) is less than the alpha value (0.05). In the current situation we fail to reject the null hypothesis and make a decision that the difference between the means is not significant enough meaning that there is no statistically significant difference between the share returns for the companies before merger and share returns after merger.

The mean of the share returns after announcements of merger showed that it was higher than the mean of share returns before the announcement of the merger. However, the test statistic that was undertaken at 95%   df showed that the difference is not statistically significant and the study failed to reject the null hypothesis that state that there was no difference between the means of the two populations. We therefore conclude that there is no impact of merger announcements on share gains of insurance companies trading at the Nairobi stock market.

4.6 Discussion of Findings

The study analysis was undertaken first before merger was announced for each company and after merger was announced for each company. The analysis of share returns was also undertaken with all the share returns for all the companies before announcement of merger and another group of all the share returns for all the companies 30 days after the merger announcements were made. The resulting sample size was 60 for each group of analysis.

The analysis of share returns for Pan Africa Company before merger showed a maximum share return of 26% and a minimum of -97% and a standard deviation of 1.5%. On the other hand, Britam reported share returns, 30 days before merger took place at a high of 1.26% and a lower of -33.3%. A similar scenario is almost replicated for both companies after merger announcements were made. It is evident that Britam did not experience high variability in share returns either before or after share announcements. On the other hand, Pan African Company Limited exhibit signs of high volatility on share return.

When the share returns were grouped together for all companies on the basis of share returns before merger and share returns after merger, two populations with different means were observed. The mean of the share returns for the population after merger was announced was 3.39% with a standard deviation of 9.07%. The mean of the share returns for the group before merger announcements were made was -0.15% and a standard deviation of 14.52%. This shows that the mean of the population of share returns for the insurance companies after the announcements of merger were made was larger than the mean of the share returns before the announcement of the merger took place.

An independent sample mean t statistical test was then carried out, in order to determine whether these differences in mean were statistically significant. The null hypothesis was established as there is no difference between the means of the share returns for the companies before merger and the mean for the share returns after merger of the companies. This null hypothesis would only be rejected if the p value was less than the alpha value. The p value was found to be 0.112 while the alpha value was at 0.05. It therefore showed that there was no enough evidence provided by the data to reject the null hypothesis. The study thereby failed to reject the null hypothesis and a conclusion

was made that no statistical significant difference between the means of the share returns before and after merger announcement in the insurance industry in Kenya exists.

Most of the existing empirical literature shows an existence of a positive correlation between M&A and share returns meaning that announcements of M&A increased the share returns of many firms as per most of the studies. This is supported by studies such as Barasa (2015) who found significant changes on stock prices after M&A at the NSE. Antoniadis et, al. (2014) also found that the stock prices also increased after a period of time from after announcement of M&A. They claim that the study was in consistence with the EMH theory where changes in the market are reflected directly in the prices of the commodities. Other studies with a similar opinion are studies by Shah & Arora (2014), Gathecha (2014) and Kimani (2012).

The results of the study are however agreed with findings of some of the empirical reviews. Laz (2008) for instance revealed the existence   of a negative correlation of the announcements of merger and share returns. This means that when mergers and acquisition are undertaken, the share returns for the merged companies decreased in value in Athens. Another study that supported the findings of this study is a study undertaken by Syivani & Yunita (2017) who found out an absence of a significant difference of market reactions between pre - merger and post mergers.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter presents the summary of findings, conclusion, recommendations, study limitations study and suggestions for further studies. The main objective of the study was to determine the effect of mergers and acquisitions on the stock returns of insurance companies in Kenya. The research adopted an event study methodology and relied on secondary sources of data.

5.2 Summary of the Findings

Findings for this study revealed that the reactions of the shareholders before the merger remained the same as their reactions after the merger. The cumulative share returns fluctuated in both periods indicating that shareholders reacted differently to merger and acquisition announcements. In fact, when the mean for individual companies was undertaken on share returns, for the periods, before and after the merger announcements the post-merger periods seems to have higher share returns means as compared to the pre - merger period. The mean for the pre-merger period is observed as -0.15%, while the merger period had a mean value of 3.39%. The test statistic however, showed that there is no effect of mergers and acquisition announcement on share returns for the insurance companies quoted at the Nairobi stock Exchange.

The shareholders reactions towards M&A was positive, though it was not positive enough to show any significant change from the previous share returns. This was shown as the study findings failed to reject the null hypothesis. The null hypothesis in the study was that the mean of the share returns for both the post-merger and pre-merger periods were the same. The study found a p value of 0.112 while the alpha value was 0.05. The study was a two tailed test and therefore the critical t value from the table was not compared with the t value that was calculated in the study of 1.603. Since the p value is greater than the alpha value the null hypothesis could not be rejected.

The findings of this study therefore indicated that there is no effect on announcements of mergers and acquisitions on the share returns for insurance firms quoted at the Nairobi Stock Exchange. The study also found out that NSE is a weak market that does not efficiently transfer information on announcements of mergers and acquisitions to the prices of the stocks of such companies. This finding is worrying on the capital market authority as it creates doubts on the efficiency of both the capital and the money markets that exist in the country.

5.3 Conclusions of the Study

From the study findings various conclusions can be developed. The major conclusion we find from the study is that there is no effect of announcements of M&A on share returns for insurance companies quoted at NSE. This means that news on mergers and acquisitions for insurance companies quoted at NSE do not excite the market enough so as to create an impact, as they do not drive the price of their stocks high enough to the extent of achieving abnormal returns.

We may also conclude that shareholders and investors in the insurance industry do not view mergers and acquisitions in the sector as beneficial enough to increase the value of the shares significantly. They are therefore not excited by the mergers and acquisitions in this industry in Kenya. This is because investors and shareholders would increase their investment in the company if they are of opinion that holding such investment would reap off good returns. The industry might be too risky to the extent that investment in the industry, however appealing it might look may be crowded out by the high risks involved. It would also be concluded that the investors and the shareholders might have considered the acquiring companies or the merging partnering companies as weak without much to offer the industry that would elicit their interest to increase their investment in the sector.

The study also provides a conclusion that the NSE market is of the weak type of efficiency as the information regarding M&A is not acted quickly enough by being incorporated in the pricing of the shares of such companies. Investing in the shares would increase demand that consequently would increase the price of the shares and end up increasing the performance of the company on share returns elements.

5.4 Recommendations of the Study

Management of listed insurance firms should consider the improvements it seeks to achieve from a certain company before investing in the company in the through of mergers and acquisitions. Mergers and acquisition are designed to increase the value companies as it is in line with the synergy theory which stipulates that the merged entity value is higher than that of value of the standalone firms. Merged entities benefit from the benefits of economies of scale and scope thus will lower on costs and boost returns.

The Competition Authority of Kenya should formulate sound polices, rules and regulations on mergers and acquisitions of firms in Kenya to avoid instances where firms engage in M&As against the shareholders wish. Punitive measures should thus be taken against managers who engage in mergers to achieve personal interests at the shareholders expense On the other hand there should be full disclosure of information on announcement of the merger to enable the bidding firm make a rational acquisition decision.

The top management of Nairobi Security Exchange NSE and the Capital Market Authority CMA should sensitize the listed firms on the importance and positive effects of engaging in mergers and acquisitions. In addition, the national government through Kenya Revenue Authority KRA should offer incentives to the merged entities in the first few years into the merger deal. This will encourage more firms to enter into mergers and acquisitions which in the long run will boost the stock market performance and in turn the growth of the nation's economy.

5.5 Study Limitations

The research was narrow and focused on the effect of mergers and acquisitions on share returns; it did not explore other aspects of financial performance for instance the effect on profitability, Return on Equity, Return on Assets, market share etc. Besides the study was based on a short window period of 60 days hence the findings may not be sufficient to establish the impact of mergers and acquisitions on the returns of stocks. Some insurance companies are not listed in the NSE hence getting data was a challenge. Secondary data was obtained from NSE publications and the merged entities financial data .However, this is subject to prejudice as opposed to primary data which gives firsthand information. The study also focused on one sector of the economy which only makes up about 13% of the capital market. The results of this one sector should therefore not be generalized to represent the entire market. Therefore, before making such generalizations study should be undertaken for the entire market.

5.6 Suggestions for Further Studies

The current study focused on the merger and acquisition entities in the Kenyan Insurance industry, for insurance companies listed at NSE. Further studies should be done on the effect of mergers on share returns across the border. Further studies should also be done on the effect of share returns in other industries e.g. the airline industry, manufacturing industry, agricultural industry and financial services industry. The current study used a short window period of 60 days, studies should be done in future using a longer window period of say 120 days so as to establish the long run effect of mergers and acquisition announcement on share returns.

Further studies should also be conducted to determine the impact of macro-economic variables on stock returns around the event date. For instance, the impact of the exchange rate, interest rates, inflation and money supply on stock returns before and after the merger announcement. Studies should be done to establish the impact of financing mergers and acquisitions using stocks. Future studies should look into the impact of mergers and acquisition on the company's market share and factors which influence the success of mergers.

The current study focused on a sample of 6 insurance companies that had merged in the period 2012 to 2015. This is a small sample size hence the findings may not be conclusive. Further studies should be carried out on all insurance companies that have engaged in mergers so as to give a conclusive and up to date status on the effect of mergers on stock returns. This will also help to monitor the trend on mergers and acquisitions in the Kenyan insurance industry

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Appendix 1: List of Companies

Company	Merged with	Current Name	Announcement Date
British American Investments Company	Real Insurance Company	Britam Insurance	22.11.2013
Pan Africa Insurance	Gateway Insurance	Pan Africa Insurance	17.03.2015
CIC Insurance Group Ltd			
Liberty Kenya Holdings Ltd			
Jubilee Holdings Ltd			
Kenya Re Insurance Corpora1on Ltd			

Appendix II: Share Returns before Merger

	Britam	Pan African Insurance Company	Pan African Share Returns	days	Britam	Days
1	9.45	9.8	0.0102	17.2.15	0.01058	16.10.2013
2	9.55	9.9	-0.0404	18.2.15	-0.0052	17.10.2013
3	9.5	9.5	0.13157	19.2.15	0.00526	18.10.2013
4	9.45	10.75	-0.12558	20.2.15	0.04761	19.10.2013
5	9.9	9.4	0.12234	21.2.15	0.0202	20.10.2013
6	10.1	10.55	0.02843	22.2.15	0.01485	21.10.2013
7	9.85	10.85	0.0322	23.2.15	0.01015	22.10.2013
8	9.95	11.2	-0.04	24.2.15	0.01507	23.10.2013
9	10.1	10.75	0.06976	25.2.15	0.005	24.10.2013
10	10.15	11.5	-0.11304	26.2.15	0	25.10.2013
11	10.15	10.2	-0.04411	27.2.15	0.00039	26.10.2013
12	10.11	9.75	0.02564	28.2.15	-0.001	27.10.2013
13	10.1	10	0.075	01.3.15	0.00495	28.10.2013
14	10.15	9.25	0.10811	02.3.15	0.0197	29.10.2013
15	10.35	10.25	-0.04878	03.3.15	0.0229	30.10.2013
16	10.65	9.75	0.07692	04.3.15	0.01408	31.10.2013
17	10.8	10.5	-0.071428	05.3.15	0	01.11.2013
18	10.8	9.75	0.012821	06.3.15	-0.0231	02.11.2013
19	10.55	11	-0.13634	07.3.15	-0.0332	03.11.2013
20	10.2	9.5	0.26315	08.3.15	0.00971	04.11.2013
21	10.3	12	0.10417	09.3.15	0	05.11.2013
22	10.3	13.25	-0.01886	10.3.15	0.00483	06.11.2013
23	10.35	13	-0.22692	11.3.15	0.00483	07.11.2013
24	10.3	10.05	0.00995	12.3.15	0.0582	08.11.2013
25	10.9	10.15	-0.97044	13.3.15	0.01376	09.11.2013
26	11.05	10.05	0.02985	14.3.15	0.00452	10.11.2013
27	11	10.35	-0.01449	15.3.15	0.0227	11.11.2013
28	11.25	10.2	0.081081	16.3.15	0.02275	12.11.2013
29	12.1	11.1	0.09909	17.3.15	0.07555	13.11.2013
30	12.85	10	0.09909	18.3.18	0.06198	14.11.2013

Appendix III: Share Returns after Merger

	Britam	Pan African Insurance Company	Pan African		Britam	
1	13.2	10.16	-0.016	19. 3.15	0.11742	15.11.2013
2	14.75	10	0.01	20. 3.15	0.047457	16.11.2013
3	15.45	10.1	0.13861	19. 3.15	0.05825	17.11.2013
4	16.35	11.5	0.04869	20. 3.15	-0.03669	18.11.2013
5	15.75	12.06	0.03233	21. 3.15	-0.09523	19.11.2013
6	14.25	12.45	-0.09236	22. 3.15	0	20.11.2013
7	14.25	11.3	0.06637	23. 3.15	0.08421	21.11.2013
8	15.45	12.05	-0.07551	24. 3.15	-0.02913	22.11.2013
9	15.00	11.14	0.1535	25. 3.15	0.01616	23.11.2013
10	15.25	12.85	-0.19455	26. 3.15	0.4	24.11.2013
11	14,85	10.35	0.13526	27. 3.15	0.01358	25.11.2013
12	14.65	11.75	-0.11063	28. 3.15	0.02389	26.11.2013
13	15.00	10.45	0.10047	29. 3.15	0.05566	27.11.2013
14	14.15	11.5	-0.04782	30. 3.15	0.01767	28.11.2013
15	14.4	10.95	-0.04109	31. 3.15	-5.7575	29.11.2013
16	15.9	10.5	0.04857	01. 4.15	-0.33616	30.11.2013
17	10.15	11.01	0.0917	02. 4.15	-0.05	01.12.2013
18	10.1	10	0.01	03 .4.15	0.05	02.12.2013
19	10.15	11.01	-0.13714	04. 4.15	0.0197	03.12.2013
20	10.35	9.5	0.05263	05 .4.15	0.0197	04.12.2013
21	10.65	10.00	-0.025	06. 4.15	0.02898	05.12.2013
22	10.8	9.75	0.10256	07. 4.15	0.01408	06.12.2013
23	10.85	10.75	0.009392	08. 4.15	-0.0046	07.12.2013
24	10.55	10.85	-0.01843	09. 4.15	-0.03318	08.12.2013
25	10.2	10.65	-0.03755	10. 4.15	0.009801	09.12.2013
26	10.3	10.25	0.05853	11. 4.15	0.00	10.12.2013
27	10.3	10.85	0.01382	12. 4.15	-0.00485	11.12.2013
28	10.35	11.00	0.09214	13. 4.15	-0.00483	12.12.2013
29	10.3	11.15	-0.03587	14. 4.15	0.05825	13.12.2013
30	10.9	10.75	0.009302	15. 4.15	0.00231	14.12.2013