

**THE EFFECTS OF MERGERS AND ACQUISITIONS ON
FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN
KENYA**

PAULINE MWAIZI MWANZI

D63/18710/2019

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE
OF MASTER OF SCIENCE IN FINANCE, SCHOOL OF BUSINESS,
UNIVERSITY OF NAIROBI**

NOVEMBER 2021

DECLARATION

This research is my original work and has not been presented for a degree in any other university.

PAULINE MWAIZI MWANZI

D63/18710/ 2019



26/11/2021

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Signed

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Date

This research has been submitted for examination with my approval as the student University Supervisor

DR. KENNEDY OKIRO



...26/11/2021...

Signed

Date

ACKNOWLEDGEMENT

I am grateful to for enabling me wisdom and being a light unto my path as I took up the challenge and He granted me the grace and bravery through the entire process. I found great favour with Him and the people I have worked with.

Special thanks to my supervisor, Dr. Okiro for the immense support through the process with great advice and a gentle spirit. That has seen me have a better and a much clearer perspective as I did the study.

Much appreciation accorded to my friends and family for the much help they have accorded me. They have been such a great support system.

Special to my classmates for the constant communication and encouragement to stay on course.

DEDICATION

This project is dedicated to my wonderful parents, siblings and friends for the love and support, the faith they had in me and the prayers they made for me. I remain forever indebted to them.

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LIST OF ABBREVIATIONS AND ACRONYMS

AKI	Association of Kenya Insurers
CPI	Consumer Price Index
ICEA	Insurance Company of East Africa
IPO	Initial Public Offering
IRA	Insurance Regulatory Authority
M&A	Mergers and acquisitions
NSE	Nairobi Securities Exchange
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Package for Social Sciences

ABSTRACT

Rapid changes with high competitive pressure in insurance industry in the recent past has forced firms to adopt competitive strategies that will improve their financial performance. There have been extensive researches on mergers and acquisitions with inconsistent results and conclusions. The business environment is rapidly changing and necessitating organizations to undertake mergers and acquisitions as one of the strategies to save a firm with dwindling incomes. Most of the studies done for the insurance industry were based on the general ratios used to measure performance of an organization. In view of the knowledge gap identified, this research focused on finding out how performance changes if any pre and post-merger based on the ratios specific to the insurance industry. In order to attain the study's goal, this study used a descriptive research approach. To examine if there was any impact on financial performance, the descriptive research design was employed to assess the performance of insurance firms before and after the M&A. This study's population was insurance companies that have merged and acquired a controlling stake between 2000 and 2019. The study considered five years of data before and after the merger and acquisition for each of the insurance companies. Secondary data from the Insurance Regulatory Authority (IRA), AKI historical market statistics, and individual firm published audited financial statements from their official websites were used in this study. A comparison of the periods before and after the merger was done to see if mergers result in improved financial performance. Mergers and acquisitions have been linked to the financial performance of Kenyan insurance companies, according to research. While research suggests that mergers and acquisitions boost insurance company financial performance, mergers and acquisitions account for just 82.8 percent of insurance company financial performance in Kenya. After mergers and acquisitions, insurance companies should focus on the long term vision, according to this study, because long-term returns are higher than short-term profits. As a result, both sides must put in more work after mergers and acquisitions in order to increase performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Rapid changes with high competitive pressure in insurance industry in the recent past has forced firms to adopt competitive strategies that will improve their financial performance. The performance of a firm not only contributes towards increasing the market worth of the firm but results in the entire industry growth which eventually spurs growth of an economy Veronesi (2013). According to Christensen (2013) companies are motivated to implement strategies that are technologically progressive, not risky and too expensive with a goal to capitalize on future growth and become reputable. One of the key approaches that organizations have implemented to boost on their financial performance is M&A's. In the last decade M&A's have been continuously experienced in the global markets due to financial benefits to the companies that undertake this. A study carried out by Korir (2006) on how mergers affect the financial performance of firms listed on the NSE found that mergers tend to improve performance of companies. According to Akinbuli & Kelilume (2013) the main goal of M&A is to increase performance of a firm, this has not always been the circumstance as some of the company's suffer losses.

M&A happens when two companies make a decision to combine their entities which may involve both firms joining to form a new business or where the bigger firm acquires the smaller firm. In his study Baldwin (1998) argued that companies that merge boost their negotiating influence over providers as a result convincing them to supply services and goods to the merged company at a lower cost. As a result of low cost of inputs with customers being charged higher prices, the merged firm is able to make abnormal profits resulting in their success. The motivations for M&A are to achieve economies of scale, operational efficiencies, expand one's revenues and market share with geographical and product diversification (Sudarsanam, 2015). Other motives identified include acquisition of assets, need to acquire new technological capabilities, cost reductions, incentives for managers, tax purposes and operational risk reduction.

The study aims to identify MandA in Kenya's insurance sector, which is a critical component of the country's broader financial system. In Kenya's insurance market, there have been ten M&A acquisitions since 2010, with roughly half of them occurring in 2014 and 2015. Recent mergers and acquisitions in the Kenyan economy, according to Inoti and others, indicate that corporations are still taking advantage of this purchase opportunity. As a method to improve their business goals, both in the industry and in the country (Onyuma, 2014). Kenya has recently seen a frenzy of mergers and acquisitions. NIC Bank and CBA merged, KCB PLC acquired National Bank, State Bank of Mauritius acquired Chase Bank to form SBM Bank, Telkom and Airtel merged, Rubis PLC acquired Kenol Kobil Limited, Shell Petroleum Co Limited acquired BP Africa's businesses in Kenya, and Sokoni Retail Kenya acquired Quick Mart and Tumaini Self Service Supermarkets.

1.1.1 Mergers and Acquisitions

The amalgamation of two or more firms where only one firm continues to form a new entity on its own is a merger Gaughan (2007). Alistair and McLean (2010) stated that a merger is an integration of two legacy cultures blended from the best attributes each company has to offer. Legally, consolidation of two or more firms into one entity is a merger Cartwright and Schoenberg (2006). Mergers take place in three key forms: horizontal, vertical and conglomerate mergers. The horizontal form of merger takes place in firms that operate in the same industry; usually competitors offering similar goods or services Martin (2015). Marembo (2012) defines horizontal mergers as the acquisition of competitors in the same line of business in order to increase market share and reduce competition in one strike. For example, the merger of two or more organizations involved in distribution industry or steel manufacturing. Putting an end to price-reductions thus decreasing or eliminating competition, elimination of duplication of facilities and operations, economies of scale in production, research and development, entering new geographical markets and increasing the product lines.

When the purchaser expands forward towards customers or back towards the source of raw materials, vertical mergers occur at various levels of the production process. For example, firm A manufactures handbags and firm B supplies leather that is used to make the handbags. Firm B has been supplying firm A with leather for years, in attempt to reduce cost and increase efficiencies merging of the two firms creates synergy. These agreements occur between firms that have consumer supplier relationships. Finally, conglomerate mergers involve companies whose lines of business activities are unrelated. It's anchored on theory of financial synergy that postulates the complementarities of internal cash flows and investment opportunities. An organization in a declining stage has limited attractive investment opportunities although producing huge cash flows while a firm growth stage has no internal cash flows with more investment prospects. Thus merging of two firms with fluctuating but negatively correlated cash flows can make the combined firm have stable of cash flows.

Acquisition is a state where a firm referred to as acquirer or predator takes over another firm referred to as the target Kovacich and Halibozek (2005). Lole (2012) stated that in most acquisitions, one company (commonly the larger) simply decides to purchase another firm, negotiate value of the target firm with the management then acquire it. It is a single transaction where the predator buys the assets or shares of the target company with the intention of obtaining its control. There are three types of acquisitions: friendly, hostile and reverse. Friendly is an acquisition where without any force businesses voluntarily agree to go for acquisition. Reverse acquisition is the process in which a private company takes over the public company so as to acquire and take advantage of the public company's status whereas avoiding the financial and regulatory requirements associated with an IPO. Whereas hostile is done by force, the smaller company has no option it's taken by force.

Skills and experience must be transferred for profitability, synergy and efficiency for a merger agreement to be successful (William and Krug 2007). Various companies undertake M&A for a variety of reasons. The main objectives for mergers and acquisitions are gaining market dominance, improving innovation, increasing efficiency

through economies of scale production, and changing a company's competitive scope (Ireland, Hitt, and Harrison 2001). Merger and acquisition is a critical vehicle in facilitation of productivity and corporate progression according to Botchway (2010). M&A facilitate synergies between merged organizations, generate efficiencies and increase competitiveness Houston and Ryngaert (1994).

1.1.2 Financial Performance

The extent that a firm uses assets from its core kind of activity to earn money is referred to as financial performance (Ruback and Healy 1992). Financial performance, according to Miyenda (2015), is the extent of an organization's monetary health during a certain time when compared to analogous firms in the same industry or when comparing sectors or industries in general. Analytical reviews can be performed to assess a firm's performance. According to Akguc (1995), a ratio is a statistical measure of the relationship between two elements stated in financial statements. We can measure the potential of the firm's profitability, solvency and liquidity through ratios.

The ability of a corporation to make a profit is referred to as profitability (Annis, Ismail, and Abdou 2011). The profitability ratio, according to Adams and Buckle (2000), depicts the potential impact of reserve shortfalls due to financial claims on capital and surplus. Net profit and earnings per share, return on assets, return on equity, and return on sales, investment yield, cash flows, and operational profit are all examples of profitability metrics. Insurance performance ratios include Loss ratio, expense ratio, earned premium ratio, combined ratio, incurred claims ratio, Commission ratio, underwriting leverage and Retention ratio. For examining the financial impact of mergers and acquisitions on an insurance business, profitability ratios and insurance underwriting ratios are critical. This study looked at the performance of assets before and after the merger, the combined ratio, loss ratio, cost ratio, loss ratio, and retention rate to see how mergers and acquisitions affect the financial performance of Kenyan insurance businesses.

1.1.3 Mergers and Acquisitions and Financial Performance

Mergers and acquisitions are primarily used to create synergies that benefit shareholders by promoting shareholder wealth, corporate growth, production efficiency, market power, and profitability (Lole 2012). Other research, on the other hand, paints a different picture of mergers and acquisitions failures and losses. According to Bruner (2002) nearly 70-80% of mergers and acquisitions results in insignificant value above the annual cost of capital. Management's overconfidence in the expected synergies from mergers and acquisitions could lead to an overpayment for the target firm (Ileri, 2011). Mergers and acquisitions are most likely one of the most important investment decisions that any business will be required to make. Acquiring another firm is probably the quickest way for any firm to grow, and if it is done correctly, increase the shareholder value Ryan (2007). Farah (2015) discovered that M&A events improved the financial performance of Kenyan financial organizations in his study of the influence of mergers and acquisitions on the financial performance of Kenyan financial organizations.

1.1.4 Kenya Insurance Industry

The insurance sector adds to the economy with provision of financial security, mobilization of savings and promotion of direct and indirect investments (AKI, 2018). The Insurance Act (Chapter 487 of the Kenyan Laws) governs the industry. The Association of Kenya Insurers is also in charge of self-regulation in the insurance market. In 1987, AKI was established as a review and consultation organization for insurance firms. The Insurance Institute of Kenya is the sector's professional body, and it is primarily responsible for the training of industry experts. The Insurance Regulatory Authority is in charge of overseeing the sector. The IRA was established with the mission of regulating, supervising, and promoting the growth of Kenya's insurance market (IRA, 2018). As of 2018, the regulator had licensed 58 insurance and reinsurance companies. In 2018, the gross domestic product increased by 4.9 percent, although insurance coverage fell from 2.68 percent in 2017 to 2.43 percent in 2018. (IRA, 2018). Gross premium income was KES 216.26 billion at the end of 2018, showing a nominal increase rate of 3.5 percent over the KES 209.00 billion recorded in 2017. In Kenya, insurance services are mostly obtained through agents, brokers, or insurance firms directly. In 2018, insurance agents accounted for 39.3 percent of total industry premiums, while insurance

brokers accounted for 33.5 percent and insurance firms accounted for 27.2 percent (IRA, 2018). The insurance market in Kenya is dominated by non-life insurance products especially motor vehicle, property and health while uptake of life insurance products lagging behind but is well developed compared to other countries in East African region.

1.2 Research Problem

There have been extensive researches on mergers and acquisitions with inconsistent results and conclusions. The business environment is rapidly changing and necessitating organizations to undertake mergers and acquisitions as one of the strategies to save a firm with dwindling incomes. Furthermore, the appetite of entering a new market and reaping benefits immediately makes mergers and acquisitions very popular among other corporate finance growth strategies. There are several motivations for organizations undergoing through mergers and acquisitions. The key corporate goals are to maximize efficiency through economies of scale, gain a larger market power and reshape a firm's competitive scope, access to innovative competences Hitt et al. (2007). M&A's are carried out with the anticipations of realizing synergies and economic gain Straub (2007). For this transactions to be acceptable, the two companies involved must be worth more as one than when they were separate.

Lole (2012) used a survey research model to investigate the impact of mergers and acquisitions on APA insurance. Secondary data on the company's total assets and net income before and after the merger was used in the analysis. He compared the two eras' performance. He employed regression analysis to examine the impacts of mergers and acquisitions on the combined business's financial performance and discovered that MandA had only a 33% impact on financial success. After mergers and acquisitions, Ileri (2011) looked at the financial performance of Kenyan oil businesses. According to the report, corporations must merge in order to achieve more bargaining power, increase the creation of economies of scale, and expand their businesses. According to Mahonga and Matanda, insurance businesses that use market expansion not only have procedures in

place to assist them grow by entering new markets with new and present assets, but they are also employing existing resources and talents to stay competitive (2019).

Yeh and Hoshino (2002) investigated the effects of 86 Japanese corporate acquisitions conducted between 1970 and 1994 on the company's operational performance. Profitability, expansion, and efficiency were used to gauge the performance of acquisitions. In terms of sales growth and profitability, there was a clear declining tendency. Martynova, Oosting and Renneboog (2007) researched on impact economic performance of firms that underwent corporate takeovers in Europe. The results were that both the predator and target companies were beating the average firms before any attempted takeover, but once the takeover was successfully completed the profitability decreased. Chesang (2002) evaluated the financial performance of Kenyan banks that used merger approach to restructure between 1993 and 2000. Capital adequacy, profitability and solvency indicators were used as the performance measures in the study. Apart from solvency ratios and capital adequacy, the study concluded that most combined banks' financial performance did not improve after the restructuring, and that their profitability actually worsened. Ndura (2010) discovered that there was no positive influence on the insurance company's profitability in the first four years following the merger in his study of the impact of mergers on the financial performance of insurance businesses in Kenya.

Most of the studies done for the insurance industry were based on the general ratios used to measure performance of an organization. Given the knowledge gap identified, this research focused on uncovering the evolution of performance before and after the merger based on reports specific to the insurance industry. Answer the research question "What is the effect of mergers and acquisitions on the financial performance of insurance companies in Kenya?" This research paper fills a void in the academic literature.

1.3 Research Objective

This study objective was to analyze the effect of mergers and acquisitions on the financial performance of insurance companies in the Kenyan market.

1.4 Value of the Study

Shareholders, management, scholarly insurance companies, government, and regulators would all benefit from this research. Researchers who want to learn more about the influence of mergers and acquisitions on insurance company financial performance can read more about the study's topic and look for research gaps that were not addressed in this article. Academics would utilize it as a source of empirical evidence and as a starting point for further investigation. To the shareholders, the study would inform on whether their value can be multiplied through mergers and therefore back or reject any mergers proposed by the management. The study would make managers more knowledgeable on the effects of mergers and thus able to make conscious decisions regarding offer or opportunities for mergers.

The regulator, IRA would be able to set the right policies when enforcing regulations to the insurance industry with regards to M&A. The government and government agencies would borrow from this research in making informed policy pronouncements aimed at developing and growing the insurance industry while maintaining financial stability within the financial market.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section includes a comprehensive analysis of mergers and acquisitions literature (M&A). It contains information from prior studies in the same subject of inquiry. Secondary materials from published works are examined, including journals, papers, Master's thesis volumes, and other reports. It aims to integrate concerns relating to the theories that will be examined as well as the empirical assessment of related investigations. It also provides a conceptual foundation for mergers and acquisitions.

2.2 Theoretical Review

Mergers and Acquisitions theories are examined in this section. It explores different researchers' viewpoints on mergers and acquisitions and how they interpret them. Market power theory, synergy theory, corporate control theory, and efficiency theory are just a few of the ideas that underpin mergers and acquisitions.

2.2.1 Corporate Control Theory

Corporate control, according to Fama and Jensen (1983), is described as the right to select the management of corporate sources, remuneration of top-level managers, hiring and firing power, and confirmation and monitoring of significant decisions. Weston, Mitchell, and Mulherin (2004) claimed that there is always another firm or management team willing to purchase a non-performing company, and that management should be removed for failing to capitalize on synergy possibilities. After acquisition, the performance of the acquired firm improves. Underperformance of the target firm may be as a result of managers pursuing their own interests at shareholders' interest expense or lack of knowledge and skills needed to maximize the company's value by the management. If the management of the acquiring company is more capable than that of the target company, then the efficiency of the acquired firm can be improved. Bradley (1980) studied the stock performance of firms that were targets of takeover bids, this was

the first major exposition of a truly modern corporate control theory. He observed a 30 percent spike in share value immediately following the announcement of the offer, which remained constant until the transaction was finalized or terminated.

2.2.2 Synergy Theory

Synergy infers to a state where the merged company has more value than the sum of the individual merging companies. Synergy arises from enhanced management capabilities, creativity, innovations, research and development due to the complementarities of skills and resources Pandey (2004). Sevenius (2003) classified synergies as cost synergies, revenue synergies, financial synergies and market synergies. Financial synergy is a result of the lower costs of a firm raising its finances internally versus getting finances from external sources. A merger of enterprises with distinct investment prospects and cash flow positions might result in a financial synergy impact and lower capital costs. Synergy advantages benefit both the target and the acquirer's owners, according to McLaney (2009). He goes on to suggest that target shareholders will only sell their shares if they are offered a higher price than they believe the shares are now worth. The integration of core business units and cost or revenue centers, as well as essential services like accounting, budgeting, and marketing, typically results in cost reductions.

2.2.3 Efficiency Theory

According to this view, M&A redeploys resources that have the potential to benefit society. Mergers will only take place if there is a reasonable chance of realizing enough synergies to make the deal beneficial to all parties concerned. A mechanism for reallocation of the firm's capital for better uses is provided. Bruner (2014) depicts that M&A's as voluntary resulting from the mutual benefits to be derived by the shareholders of the entities that engage in it. It involves achievement of a synergy or improvement of the targets management performance. If the target company's shareholders do not see a positive gain in value, they will not sell or yield to the purchase, and if the buyers' shareholders see a negative gain, the buyer will not complete the transaction. Thus, an observation of the merger deal, this theory predicts positive returns and value creation to both the target and the acquirer (Jain & Raorane 2011).

2.2.4 Market Power Theory

The ability of a firm to control the price of a product by its manipulation of demand, supply or both is known as market power. Firms that possess market power are able to control the price for a service or product even as they maintain market share are referred to as price setters. This theory argues that increased concertation leading to monopoly effects and collusions results in merger gains. By limitation of competition a merged firm strategically employ the excess funds to cement its position further, improve its market power while making super-normal profits. The profit margin of the merged firm is enhanced by the market power by forcing suppliers to accept lower prices or buyers to pay high prices. The allocation of market power has far-reaching ramifications for economic efficiency and societal well-being. According to Jeffrey (2006), proactive actions to enhance the financial status of purchasers or third parties can lead to the establishment and preservation of market dominance.

There are times after M&A's value maximization is not realized. There is evidence that managers may choose to chase their own interests instead of acting in the shareholders' best interests. Managers may undertake M&A's to maximize their own net worth in place of firm's value maximization by engaging in excessive incentive consumption, increase of their own incomes and net worth and take other actions inconsistent with maximization of value. Managers, according to Jensen (1986), may get involved in projects of dubious value in order to raise the company's scale, hence enhancing their remuneration and prestige, particularly when it comes to M&A. Managers may counterattack takeovers by another firm that would threaten their jobs by engaging in defensive acquisitions.

2.3 Determinants of Financial Performance

The term "financial performance" refers to a broad evaluation of a company's overall financial health over time. It measures how efficiently a firm utilizes its business assets to

create revenues. Measures of performance for insurance firms are profitability ratios, inflation and insurance ratios.

2.3.1 Insurance Ratios

The incurred Expense ratio is calculated by dividing the expenditures spent in a given period by the premium generated during that same time. This period can be either an accounting period or a fiscal year. Incurred expenses are the total expenditures recognized using the accrual accounting method for the period. Earned premium refers to the sum of premium collected for the portion of an insurance policy that has expired. This is the premium income in the period less change in unearned premium reserve on the Profit & Loss statement. The expenditure ratio reflects management's efficiency in producing premiums from the company's written business. It calculates the percentage of premium spent on all costs associated with obtaining, writing, and servicing insurance and reinsurance. It is calculated by dividing management costs by gross written premium. The loss ratio indicates the company's capacity to pay claims incurred as a result of premiums collected from policyholders. In order to fight against future insurance payouts / claims, higher loss ratios may indicate that an insurance company's risk management processes need to be improved. The amount of net incurred claims is divided by the amount of net earned premium to arrive at this figure. The incurred claims ratio is computed by dividing total claims over total premiums earned over a given time. Benefits paid during the period and the change in reserves throughout the period equals incurred claims.

Combined ratio measures the ability of the company to meet the policyholders' claims when they occur and the day to day costs of running the firm. It is measured by adding the expenses and incurred losses and dividing the sum by the total earned premiums. Solvency ratio is derived by dividing the policyholder surplus with assets. This ratio shows the proportion of assets which are not needed for the payment of claims or other liabilities. Liquidity ratio is the percentage of liquid assets of total reserves. It's intended to capture the ability of the firm to meet its claims liabilities. Underwriting leverage is measured by dividing premium incomes, net of reinsurance dealings with policyholders'

surplus. There is an inverse correlation between this ratio and ability of firms to write more business as new policies generate liabilities that must be reinforced by a surplus due to the limited liability of insurance companies. Renewal/retention ratio is the proportion of those customers or members that renew their coverage to those that are qualified to renew. The renewal ratio measures the percentage of insured that stay registered in the program after their coverage term expires.

2.3.2 Profitability Ratios

Profitability ratios measure a company's profit potential over time in relation to its sales turnover, balance sheet assets, operating costs, and shareholders' interests. These financial metrics demonstrate how good businesses use their existing assets to generate revenues and value for shareholders. Return on assets is also referred to as return on investment. It shows how well a firm is at converting its investments into profit, it's all about efficiency. Return on assets measures how successful a business can improve its bottom line by utilizing assets at its disposal. It's measured by division of net income by total assets as a percentage. An elevated ROA indicates a firm's efficient use of available assets to generate income. Return on equity indicates how well a firm uses shareholder investments in generation of incomes. It's a measure of a shareholder's returns on their investment. ROE is measured by division of net income with average shareholders' interest as a percentage. The net income can be found on the income statement while shareholder's equity on the business's statement of financial position.

Divide the average Investment Assets by Net Investment Income to get the Investment Yield. Net investment income is the revenue from investment assets such as loans, bonds, stocks, mutual funds, loans, and other investments minus corresponding expenses. A high Investment Yield indicates a firm is performing better on its investments. Gross profit margin demonstrates how much an enterprise can increase the deals above expense of products sold. The amount of deals remaining after covering extra operating expenditures is referred to as the working edge. After accounting for non-working costs, the pretax edge depicts an enterprise's profitability. The net revenue metric refers to a company's ability to generate profit after expenses.

2.4 Empirical Evidence

The impact of mergers and acquisitions on a company's financial performance has been the subject of several empirical studies. This is because mergers and acquisitions are one of the most prevalent techniques employed by firms to improve their performance. Profitability comparisons may be used to see if mergers are taking place to benefit from economies of scale or scope. Profits for both the acquired and predator companies are predicted to improve following the merger as compared to their values prior to the merger or to the industry average.

2.4.1 International Studies

The influence of mergers and acquisitions on Indonesian commercial banks was investigated by Viverita (2008). The study concluded that mergers boost a bank's profit potential by assessing financial performance for seven years before and after the merger. The data reveals that after mergers and acquisitions, the capital adequacy ratio, return on assets, net interest margin, return on equity, and non-performing loans have all improved.

By analyzing/comparing the pre-consolidation and post-consolidation financial ratios of the organizations, Sidharth and Sunil (2009) conducted a research study in India with the goal of determining the effects of business consolidations on the operating performance of purchasing companies. The variations in the pre-consolidation and post-consolidation financial ratios for the companies that engage in local and foreign/international/ over the border acquisitions were evaluated. The study concluded that there are disparities in the effect of performance after mergers and acquisition which depended on the type of deal whether a local firm was acquired or an international one was involved. Specifically, there was a better impact for ratios of companies engaged in localized deals/acquisitions while those engaged in foreign deals had a slightly negative performance.

Shim (2011) assessed the association between M&A on firm performance of insurance prices and the general performance of firms in the USA property-liability insurance industry. The primary objectives were to explore impacts of diversification on insurance prices across lines, changes in the efficiency of the insurer, and the general financial performance using unbalanced panel data collected between 1989 and 2004. His

empirical tests revealed for the newly formed insurance companies; the prices declined after the M& As. Likewise, diversified insurance industries tend to charge lower prices compared to their less diversified counterparts. The researcher concluded that acquiring insurers reduce the overall risks of underwriting and manage their frictional capital costs more efficiently through product line or geographic diversification, hence gaining a competitive edge in pricing. In a research of post-merger profitability of Royal Bank of Scotland conducted by Muhammad (2011), only 6 ratios out of 20 ratios studied scored 'better' after the merger. From the ratio analysis RBS merger was proved as failure in the banking history as the bank was not successful in improving its profitability.

2.4.2 Local Studies

Between 1995 and 2005, Ndura (2010) performed research on the impact of mergers on the financial performance of Kenyan insurance businesses. He concluded that mergers had no good impact on insurance company profitability in Kenya, as it remained the same or deteriorated following the merger in the first four years. As for long-term solvency and capital adequacy of the merged insurance companies, half of the companies improved while the other half worsened thus cancelling each other effectively. The study concluded that measures of performance unique to the insurance industry that focuses on leverage, liquidity and solvency; insurance companies that conduct general insurance business in Kenya were positively affected while insurance companies that transact in life business were adversely affected.

In her study, Miyenda (2015) sought to determine whether there had been improvements in financial performance after completing mergers and acquisitions in insurance companies. The data and analysis revealed that the performance of the post-merger and acquisition period outperformed that of the pre-merger and acquisition period. MandA had a significant impact on ROE, an indicator of profitability that is a conventional measure of performance due to its statistical significance, to support this claim. The evidence obtained validated and corroborated the correlation between MandA and financial performance, indicating that a number of factors with a high ratio have a marginal increase. According to Mahonga and Matanda (2019), insurance businesses that have used market expansion have not only put in place mechanisms to assist them

develop by entering new markets with new and existing products, but they have also leveraged their existing resources and talents to stay competitive.. However, according to results of the study, companies are less likely to pursue a diversification and acquisition strategy, which aims to help them enter new market categories, gain market share, grow and improve sales volume.

2.5 Conceptual Framework

The conceptual framework demonstrates the relationship between insurance ratios (independent variables) and financial performance (dependent variable). The variables are relevant in the Kenyan context, and data collection is simple.

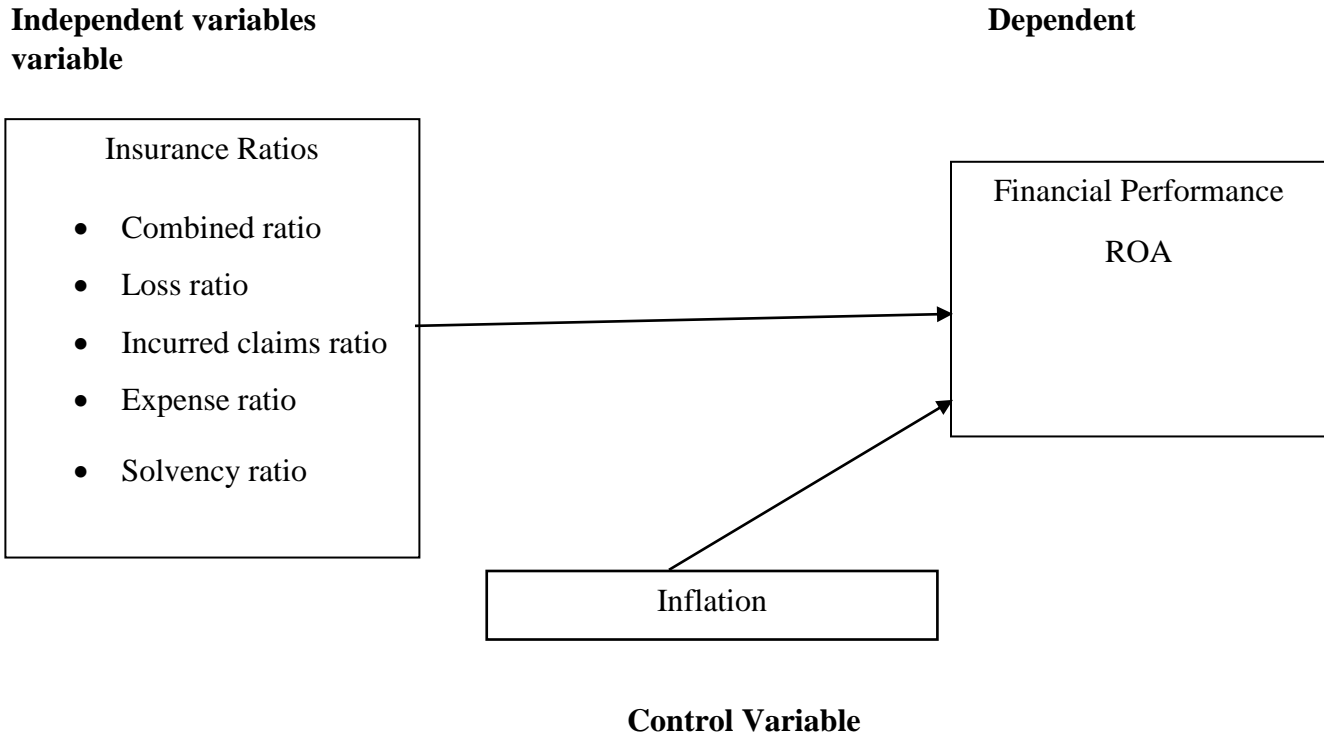


Figure 2.1: Conceptual Framework

2.6 Summary of Literature Review

Corporate control theory, synergy theory, efficiency theory, and market power theory are some of the theories proposed to explain why M&A are justified. Although their potential to produce value is debatable, mergers and acquisitions are seen as a fundamental method for achieving growth. According to the literature, the findings of most previous investigations have not reached a consistent conclusion. The current study intends to analyze the effects of M&A on the financial performance of Kenyan insurance businesses due to of these inconsistent results.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the numerous processes and phases taken in this study to examine the impact of mergers and acquisitions on the financial performance of Kenyan insurance businesses. It goes into the research concept, demographic study, data gathering procedures, and data analysis in great depth.

3.2 Research Design

In order to attain the study's goal, this study used a descriptive research approach. Descriptive research, according to Zikmund (2003), is a study design that describes the features of a population or phenomenon. To examine if there was any impact on financial performance, the descriptive research design was employed to assess the performance of insurance firms before and after the M&A.

3.3 Population of Study

A population is a group of people, events, or objects that share a similar attribute (Mugenda & Mugenda, 2003). This study's population was insurance companies that have merged and acquired a controlling stake between 2000 and 2019 (Appendix 1). The study considered five years of data before and after the merger and acquisition for each of the insurance companies.

3.4 Data Collection

According to Kothari (2004), data collection is a systematic strategy for gathering and analyzing data from many sources in order to have a better understanding of the issue under inquiry. Secondary data from the Insurance Regulatory Authority (IRA), AKI historical market statistics, and individual firm published audited financial statements from their official websites were used in this study.

3.5 Data Analysis

Data analysis, according to Cooper and Schindler (2011), uses logic to assimilate acquired data in order to determine uniformity and trend, among other key details in a study. The study examines the financial performance of the amalgamated Kenyan Insurance Companies prior to and after the M&A. To evaluate if mergers result in increased financial performance, a comparison of pre- and post-merger periods was conducted.

3.5.1 Diagnostic Tests

3.5.1.1 Autocorrelation

It is a systematic pattern of errors that can be positive or negative. For an accurate prediction, all systematic information should be incorporated into the regression model. This is due to the omission of variables, incorrect specification of models and systematic measurement errors. The Breusch Godfrey test was used to test for Gujarati's(2004) autocorrelation.

3.5.1.2 Multicollinearity

This word refers to a situation where two or more independent variables are correlated in a highly linear fashion in a multiple regression model. Perfect multicollinearity challenges the assumption that no explanatory variable is a perfect linear function of any other explanatory variable (Gujarati, 2004). The inflation factor was used to determine multicollinearity. There is no multicollinearity when the VIF value is between 1 and 10, but there is multicollinearity when the VIF value is less than 1 or larger than 10.

3.5.1.3 Stationarity

The statistical features of a process that generates a time series do not change over time, which is known as stationarity. To check for the presence of a unit root, the Augmented Dickey-Fuller Test was used.

3.5.2 Analytical Model

The extent to which change in the dependent variable (financial performance) was influenced by variation in the independent components was investigated using multiple linear regression. The multiple linear regression model presented below was used.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \epsilon$$

Where:

Y= Financial performance (measured by ROA – net income/total assets)

α = Constant term

$\beta_1, \beta_2, \beta_3$ and β_4 = Beta coefficients

X1= Combined Ratio (measured by claims + expenses/net earned premium)

X2= Loss Ratio (measured by net incurred claims/net earned premium)

X3= Incurred Claims Ratio (measured by total claims/total earned premium)

X4= Expense Ratio (measured by management expenses/gross written premium)

X5= Solvency Ratio (measured by policyholder's surplus/assets)

X6= Inflation (measured by $\text{CPI}_{\text{year 2}} - \text{CPI}_{\text{year 1}} / \text{CPI}_{\text{year 1}} * 100$)

ϵ = Error term

SPSS software was used for statistical analysis.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter contains the data analysis, outcomes, and discussion of the findings. The presentation focuses on the descriptive analysis of data acquired from IRA, AKI historical market statistics, and the individual company's public audited financial statements in the first portion of the chapter. In the second section, the impact of mergers and acquisitions on the financial performance of Kenyan insurance companies is discussed. The chapter concludes with a review of findings in connection to previous research in the field.

4.2 Data Presentation

The first part of this section includes a description of the mergers and acquisitions, as well as financial performance statistics from the insurance companies examined. The second part examines how mergers and acquisitions affect the financial performance of Kenyan insurance companies.

4.2.1 Descriptive Analysis

The study focused on financial performance (ROA), combined ratio, loss ratio, incurred claims ratio, expense ratio, solvency ratio and inflation for five years of data before and after the merger. To get a deeper understanding of the variables, the researcher conducted a descriptive analysis of the data.

The study findings on ROA for the ten years studied indicate that there was an increase in mean values for ROA after the mergers across the five years. The mean value improved from 0.65568 in the first year to 0.74852 in fifth year. The increase was also seen in year 2, year 3 and year 4. The maximum value increased from 0.7260 in the first year to 1.8419 in the fifth year. Before mergers, the ROA results show that there were regular ups and downs, with the highest mean in the fifth year and lowest mean in the third year. The findings of the study on ROA are shown in Table 4.1.

Table 4.1 Descriptive Statistics on ROA for the Insurance Companies

	Minimum	Maximum	Mean	Std. Deviation
Before M&A				
Year 1	.0312	1.3731	.379493	.3872201
Year 2	.0312	1.2960	.350174	.3426900
Year 3	.0446	.6165	.239566	.1878921
Year 4	.0173	1.6524	.307297	.4623247
Year 5	.0170	3.0112	.485647	.8951763
After M&A				
Year 1	-.8834	.7260	.65568	.4612618
Year 2	-.8913	.7418	.66969	.4275639
Year 3	-.8734	1.4657	.762978	.8498527
Year 4	-1.2120	1.7515	.726222	1.0322441
Year 5	-1.0860	1.8419	.748520	.9640459

The findings on combined ratio indicate that there was an inconsistency in the mean values across the years; the mean values before the mergers improved from 0.500364 in the first year to 0.509655 in the fifth year. However, in the second year, there were decreases, followed by an increase in the third year, which was subsequently followed by a fall in the fourth year. The mean fell from 0.551864 in the first year to 0.427973 in the fifth year after the mergers, and the values were generally lower than before the mergers. Table 4.2 summarizes the findings.

Table 4.2 Descriptive Statistics on Combined Ratio for the Insurance Companies

	Minimum	Maximum	Mean	Std. Deviation
Before M&A				
Year 1	.0115	.8470	.500364	.2860323
Year 2	.0057	.9066	.429445	.2685132
Year 3	.0032	.9415	.531782	.2953396
Year 4	.0029	.8890	.447855	.3235809
Year 5	.0033	.8867	.509655	.2732957
After M&A				
Year 1	.0063	.9617	.551864	.3318987
Year 2	.0535	.8422	.436973	.2577740
Year 3	.0068	.9850	.392118	.2944890
Year 4	.0070	.9553	.413809	.3634785
Year 5	.0066	.8964	.427973	.3450905

The findings on loss ratio indicate that there was a general increase in the mean values across the five years before the mergers. The mean value improved from 0.238479 in the first year to 0.427248 in the fifth year. This was a different case for the mean values after the mergers, as shown by a decrease from 0.280343 to 0.255297 in the first year to the fifth year respectively as shown in Table 4.3.

Table 4.3 Descriptive Statistics on Loss Ratio for the Insurance Companies

	Minimum	Maximum	Mean	Std. Deviation
Before M&A				
Year 1	.0093	.8181	.238479	.2571331
Year 2	.0041	.9407	.410159	.3310900
Year 3	.0024	.8222	.362856	.2654126
Year 4	.0015	.9462	.416705	.3331273
Year 5	.0024	.5718	.427248	.4429024
After M&A				
Year 1	.0047	.6864	.280343	.2334944
Year 2	.0439	.5332	.224951	.1851003
Year 3	.0063	.7976	.298064	.3201050
Year 4	.0059	.6248	.233536	.2160329
Year 5	.0024	.8598	.255297	.2842201

Further, the findings on incurred claims ratio indicate that the highest mean was achieved in the third year before the mergers with a value of 0.553848 while the lowest mean was seen in the first year with a mean value of 0.297906 with the values being largely unstable. Following the mergers, the mean was mostly on a downward trend, falling from 0.369310 in the first year to 0.271903 in the fifth. Table 4.4 summarizes the findings.

Table 4.4 Descriptive Statistics on Incurred Claims Ratio for Insurance Companies

	Minimum	Maximum	Mean	Std. Deviation
Before M&A				
Year 1	.0224	.9303	.297906	.2799483
Year 2	.0132	.8891	.396556	.2925520
Year 3	.0067	.9579	.553848	.3049843
Year 4	.0052	.8400	.357176	.2521720
Year 5	.0083	.8807	.412100	.3029653
After M&A				
Year 1	.0077	.9527	.369310	.3289617
Year 2	.0111	.8499	.310729	.2733113
Year 3	.0210	.8374	.307281	.2594283
Year 4	.0089	.7634	.252400	.2683624
Year 5	.0095	.8738	.271903	.2536609

The study also determined that the expense ratio for all the insurance companies generally decreased from 0.334968 in the first year to 0.216737 in the fifth year before the mergers. The results also indicate that the mean values reduced from 0.486740 in the first year to 0.240987 in the fifth year after the mergers, but the decrease was generally inconsistent. Results for expense ratio are as shown in Table 4.5.

Table 4.5 Descriptive Statistics on Expense Ratio for Insurance Companies

	Minimum	Maximum	Mean	Std. Deviation
Before M&A				
Year 1	.0312	.7309	.334968	.2339896
Year 2	.0312	.6041	.296633	.1655956
Year 3	.0446	.6165	.248036	.1842606
Year 4	.0173	.9524	.310561	.4611009
Year 5	.0112	.7344	.216737	.3219757
After M&A				
Year 1	.0312	.5570	.486740	.6872109
Year 2	.0312	.3605	.235881	.0896966
Year 3	.0446	.6165	.294322	.1596372
Year 4	.0268	.6524	.317020	.1867304
Year 5	.0214	.5022	.240987	.1275947

Further, the findings on solvency ratio indicate that the highest mean was achieved in the fourth year before mergers with a mean value of 0.421301 with the lowest mean in the third year (0.366927). After the mergers, the highest mean value was obtained in the third year (0.408359) with the lowest mean in the second year (0.348476) indicating largely unstable values throughout the years. Table 4.6 summarizes the findings.

Table 4.6 Descriptive Statistics on Solvency Ratio for Insurance Companies

	Minimum	Maximum	Mean	Std. Deviation
Before M&A				
Year 1	.0312	.8470	.392962	.2722845
Year 2	.0312	.7984	.368809	.2103146
Year 3	.0446	.7909	.366927	.2230848
Year 4	.0268	.8524	.421301	.4593456
Year 5	.0112	.8344	.276013	.3305469
After M&A				
Year 1	.0112	.6637	.371471	.1888399
Year 2	.0268	.5262	.348476	.1447944
Year 3	.0903	.7909	.408359	.1891510
Year 4	.0969	.7896	.386816	.1991186
Year 5	.1065	.4951	.234901	.1364189

Further, the findings on inflation indicate that the highest mean was attained in the second year with a value of 0.166000 while the lowest mean was seen in the fourth year with a mean value of 0.067091 before mergers. After the mergers, the mean values reduced from 0.062182 in the first year to 0.059455 in the fifth year. Table 4.7 summarizes the findings.

Table 4.7 Descriptive Statistics on Inflation

	Minimum	Maximum	Mean	Std. Deviation
Before M&A				
Year 1	.0340	.2620	.104000	.0835560
Year 2	.0340	.2620	.166000	.0824282
Year 3	.0340	.1400	.086545	.0295309
Year 4	.0340	.1400	.067091	.0401782
Year 5	.0570	.1400	.098273	.0348313
After M&A				
Year 1	.0570	.0690	.062182	.0046652
Year 2	.0630	.0800	.071909	.0066702
Year 3	.0470	.0800	.059818	.0111249
Year 4	.0470	.0800	.060636	.0112096
Year 5	.0470	.0800	.059455	.0163546

The variable trends were also summarized and presented in a figure as shown in Figure 4.1.

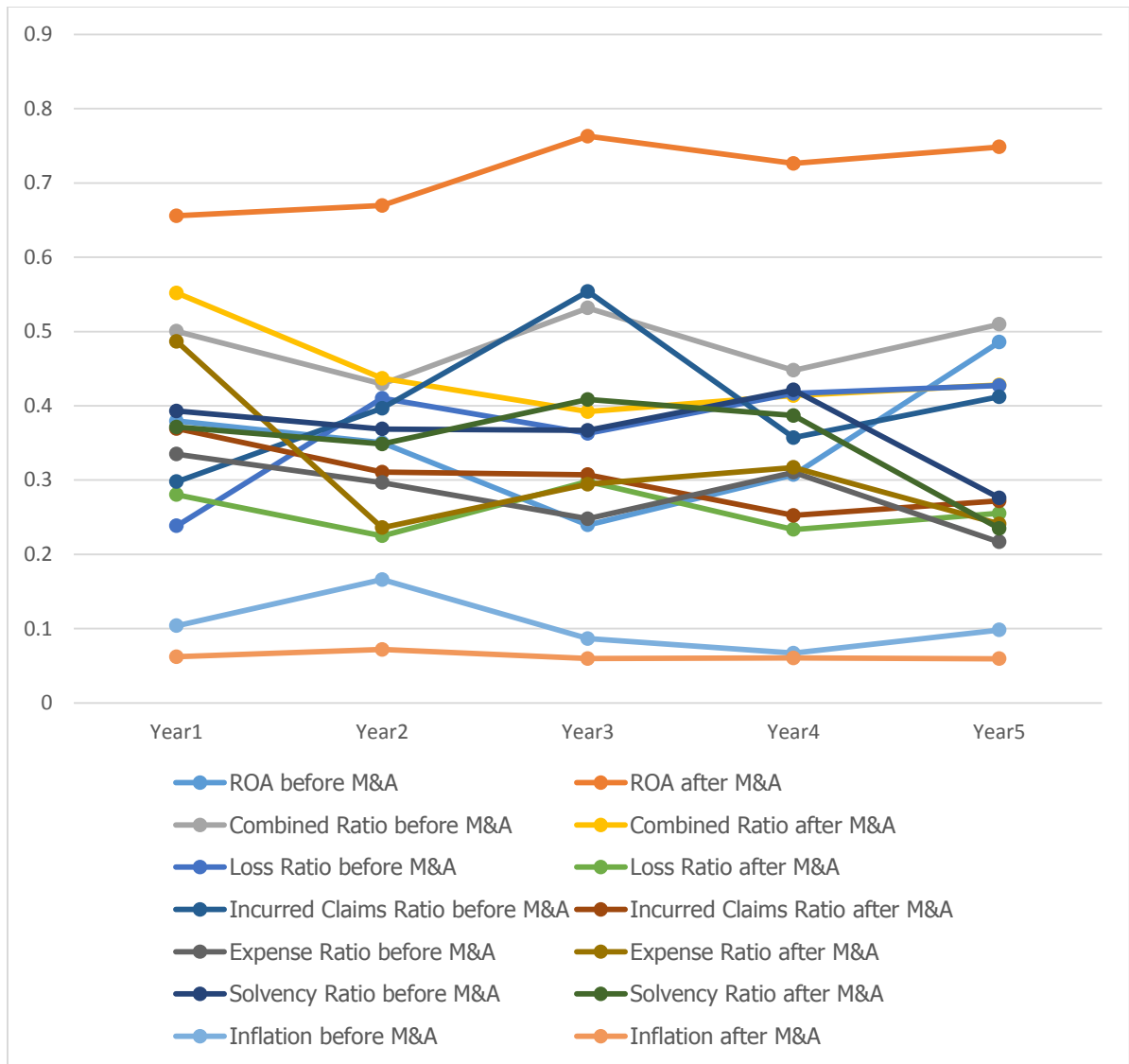


Figure 4.1 Trends of Variables

4.2.2 Diagnostic Tests

Autocorrelation tests were used to see if there was any correlation between periods. Autocorrelation was measured using the Breusch-Godfrey serial correlation LM test. The null hypothesis states that serial auto correlation does not exist. With a p value of 0.1596, the null hypothesis is not rejected, and it is established that autocorrelation does not exist. These findings are summarized in Table 4.8.

Table 4.8 Test for Autocorrelation

Breusch-Godfrey LM test for autocorrelation			
F-statistic	0.876	Prob. F(6, 4)	0.6756
Obs*R-squared	1.967	Prob. Chi-Square	0.1596

VIF values were also used to test for multicollinearity. When the VIF values are between 1 and 10, there is no multicollinearity; however, when the VIF values are less than 1 or greater than 10, there is multicollinearity. The VIF values in the study were well between 1 to 20, suggesting that multicollinearity was not an issue, as seen in Table 4.9.

Table 4.9 Test for Multicollinearity

	Tolerance	VIF
Combined Ratio	.419	2.389
Loss Ratio	.263	3.806
Incurred Claims Ratio	.226	4.430
Expense Ratio	.435	2.297
Solvency Ratio	.370	2.701
Inflation	.438	2.281

Dependent Variable: Financial Performance

The statistical features of a process that generates a time series were also examined for stationarity to see if they did not vary with time. The presence of unit root was checked using the Augmented Dickey-Fuller (ADF) test. At various levels, all of the variables in the study were determined to be stationary, allowing regression analysis to be undertaken. Table 4.10 shows the results of the unit root tests.

Table 4.10 Unit Root Tests

Variable	ADF test	1% Level	5% Level	10% Level	<i>p</i> value	Comment
Combined Ratio	-3.973	-4.380	-3.600	-3.240	0.0097	Stationary
Loss Ratio	-3.275	-4.380	-3.600	-3.240	0.0174	Stationary
Incurred Claims Ratio	-4.214	-4.380	-3.600	-3.240	0.0043	Stationary
Expense Ratio	-3.656	-4.380	-3.600	-3.240	0.0097	Stationary
Solvency Ratio	-4.898	-4.380	-3.600	-3.240	0.0002	Stationary
Inflation	-4.114	-4.380	-3.600	-3.240	0.0060	Stationary

Before performing regression analysis, the researchers ran normality tests to ensure that the data was distributed normally. The Jarque-Bera test was used to determine whether the variables were normally distributed or not. In this situation, the null hypothesis was that the variables were not regularly distributed. All of the variables in this scenario have a Jarque-Bera probability value (p-value) larger than the threshold 5%, rejecting the null hypothesis and implying that the variables had a normal distribution. Table 4.11 summarizes the findings.

Table 4.11 Normality Tests

Variable	Skewness	Kurtosis	Jarque-Bera	Probability
Combined Ratio	0.9699	0.0169	5.47	0.0649
Loss Ratio	0.0867	0.6331	3.57	0.1674
Incurred Claims Ratio	0.2719	0.1935	3.30	0.1925
Expense Ratio	0.5351	0.1146	3.27	0.1951
Solvency Ratio	0.93132	1.568	0.904	0.18313
Inflation	0.89015	2.508	1.847	0.13239

4.2.3 Effect of Mergers and Acquisitions on Financial Performance

The study used regression analysis to figure out how the dependent variable and the study's independent variables were related. Mergers and acquisitions were the study's

independent variable. The study's dependent variable was financial performance as measured by return on assets.

The study discovered that mergers and acquisitions factors (combined ratio, loss ratio, incurred claims ratio, expense ratio, solvency ratio, and inflation) explained a large share of variance in insurance companies' financial performance in Kenya, with $R^2=.828$. This means that mergers and acquisitions factors account for 82.8 percent of the variance in insurance company financial performance. As a result, non-study factors account for 27.2 percent of the variance in financial performance. The findings are summarized in Table 4.12.

Table 4.12 Model Summary for the Relationship

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.910 ^a	.828	.770	.1625448

a. Predictors: (Constant), Combined Ratio, Loss Ratio, Incurred Claims Ratio, Expense Ratio, Solvency Ratio, Inflation

$F(6, 4) = 8.052$, $p.05$. was found to be the significance value in examining the model's reliability for the association between mergers and acquisitions components and financial performance (ROA). As a result, the model correctly forecasts the statistical significance of the relationship between the research variables. Table 4.13 displays the results.

Table 4.13 ANOVA for the Relationship

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.568	6	.095	8.052	.032 ^b
	Residual	.047	4	.012		
	Total	.615	10			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Combined Ratio, Loss Ratio, Incurred Claims Ratio, Expense Ratio, Solvency Ratio, Inflation

With all p values under .05, the study found that mergers and acquisitions considerations had a significant impact on the financial performance of Kenyan insurance companies. As a result, the study found that mergers and acquisitions had a significant impact on Kenyan insurance companies' financial performance. The findings are summarized in Table 4.14.

Table 4.14 Coefficients of Regression

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
1 (Constant)	.341	.075		3.950	.023
Combined Ratio	.231	.014	.228	8.077	.002
Loss Ratio	.283	.080	.701	2.799	.049
Incurred Claims Ratio	.360	.081	.378	6.287	.009
Expense Ratio	.205	.066	.366	7.798	.005
Solvency Ratio	.043	.054	.081	4.112	.015
Inflation	.607	.034	.557	6.685	.007

a. Dependent Variable: Financial Performance

Based on the regression model adopted by the study; $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \epsilon$

The model of the study therefore becomes; Financial Performance (ROA) = 0.341 + 0.231 Combined Ratio + 0.283 Loss Ratio + 0.36 Incurred Claims Ratio + 0.205 Expense Ratio + 0.043 Solvency Ratio + 0.607 Inflation + 0.075. The findings of the study imply that for every unit change in mergers and acquisitions factors in insurance companies in Kenya, ROA increases by a significant proposition as given in the model.

4.3 Discussions of Findings

ROA was higher five years after mergers and acquisitions than it was before mergers and acquisitions, according to the study's findings. These observations are backed up by

Viverita (2008), who studied the impact of mergers and acquisitions on Indonesian banks. When examining the financial performance of the banks for seven years before and after the merger, Viverita (2008) discovered that mergers increased a bank's profit potential, including return on assets.

The study discovered that after mergers and acquisitions, the loss ratio was lower than before mergers and acquisitions. The combined ratio, incurred claims ratio, and solvency ratio were all affected in the same way. In order to fight against future insurance payouts / claims, higher loss ratios may indicate that an insurance company's risk management processes need to be improved. The expense ratio also reveals how effective management is at generating premiums from the firm's written business. Shim (2011) agreed with the study findings when assessing the relationship between M&A and company performance of insurance firms in the United States industry. The researcher concluded that acquiring insurers reduce the overall risks of underwriting and manage their frictional capital costs more efficiently through product line or geographic diversification, hence gaining a competitive edge in pricing. Further, Muhammad (2011) postulated that these scored 'better' after the mergers.

The findings of the study, however, differ from those of Ndura (2010), who looked at the influence of mergers on the financial performance of Kenyan insurance businesses from 1995 to 2005. In contrast to the findings of Ndura (2010), the profitability of insurance businesses in Kenya was not favourably affected by mergers, as it remained unchanged or dropped following the merger in the first four years. Different study periods and different mergers and acquisitions in the insurance business can explain the disparity in these results.

In line with this study, Miyenda (2015) discovered that post-merger and acquisition period performance was superior to pre-merger and acquisition period performance. The fact that M&A had a considerable influence on ROE just added to this. The findings of this study confirmed and established the link between M&A and financial performance, revealing that there is a little increase in a number of factors with a strong relationship.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides an overview of the research, with a focus on the study's key findings. The findings of the research are also reported in this chapter. The researcher gives recommendations in the recommendation section on how the findings might be used to enhance policy in Kenyan insurance companies. The chapter concludes by outlining the study's limitations and proposing recommendations for future research.

5.2 Summary of Findings

The purpose of this research was to investigate the influence of mergers and acquisitions on the financial performance of Kenyan insurance companies. Over the course of five years, the study found that mean ROA values increased as a result of mergers and acquisitions. The findings on combined ratio indicate that there was an inconsistency in the mean values across the years before the mergers. After the mergers, the mean reduced in the first year to the fifth year, and the values were generally lower than those before the mergers.

The findings on loss ratio indicate that there was a general increase in the mean values across the five years before the mergers. This was a different case for the mean values after the mergers, as shown by a decrease from the first year to the fifth year. The findings on incurred claims ratio indicate that the highest mean was achieved in the third year before the mergers with the lowest mean in the first year, showing that the values were largely unstable. After the mergers, the mean was largely on a continuous decrease from the first year to the fifth year.

The study also determined that the expense ratio for all the insurance companies generally decreased from the first year to the fifth year before the mergers. The results also indicate that the mean values reduced from the first year to the fifth year after the mergers, but the decrease was generally inconsistent. The findings on solvency ratio indicate that the highest mean was achieved in the fourth year before mergers with the

lowest mean in the third year. After the mergers, the highest mean value was obtained in the third year with the lowest mean in the second year also indicating largely unstable values throughout the years. Finally, the findings on inflation indicate that the highest mean was attained in the second year before mergers. After the mergers, the mean values reduced from the first year to the fifth year.

5.3 Conclusions

According to the statistics, insurance companies are pursuing mergers and acquisitions steadily but increasingly in order to improve their financial performance. The research found a correlation between mergers and acquisitions and the financial performance of Kenyan insurance companies. Mergers and acquisitions have been shown to boost the financial success of these companies. According to the findings, mergers and acquisitions are responsible for 82.8 percent of the variation in insurance firm financial performance.

5.4 Recommendations

While data suggests that mergers and acquisitions improve insurance company financial performance, in Kenya, mergers and acquisitions account for only 82.8 percent of insurance company financial performance. This study recommends more mergers and acquisitions factors / insurance ratios into the business given that their financial performance may be increased further.

Insurance companies should also focus in the long term vision after mergers and acquisitions, as it was found that the long term returns are higher than the short-term returns. As a result, both sides must put in more work after mergers and acquisitions in order to increase performance.

5.5 Limitations

Despite the fact that the study concentrated on the link between mergers and acquisitions and insurance firm financial performance in Kenya, it did not explain how each component (insurance ratio) contributes to financial success. For instance, some insurance ratios can contribute positively to financial performance while others can lower

it. To devise the links between mergers and acquisitions and financial success, this study pooled all insurance ratios and performed a multiple regression analysis.

The study was also limited in its ability to generalize across time. The study's conclusions are valid only for the five years preceding and following the mergers and acquisitions studied. Given the dynamic nature of the insurance business, changes can arise any time causing change in the way insurance companies will do their business. The findings may not apply for the period before the five years and may not apply for the period after the five years studied.

5.6 Suggestions for Further Research

This study recommends that a study be performed to establish the nature of the association between mergers and acquisitions and financial success in other areas such as banking, hotels, education, or health.

A study can be done to address the issue of how the various insurance ratios individually affect financial performance. This will go a long way in advising insurance companies about which insurance ratio is more applicable in maximizing financial performance. In terms of generalizability across time, a study should be conducted over a longer period, extending beyond the ten years examined. In addition, return on assets was used to assess financial performance in the study. The study recommends a similar study to be undertaken but performance to be measured using other methods such as market share or return on equity.

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APPENDICES

Appendix 1: List of Mergers Acquisition between 2000 and 2019

Company Name	Merged with	Current name	Date of Merger or Acquisition
Pioneer Assurance	Fidelity Assurance	Pioneer Assurance	2002
Pan Africa Insurance	Apollo	APA INSURANCE	2003
ICEA Insurance	LION ASSURANCE	ICEALION	2012
CFC Life Assurance Company	Heritage All Insurance Company	Liberty Holdings Kenya	2012
Saham Group	Mercantile insurance	Saham	2013
British American Insurance Company	Real Insurance	Britam General	2013
Prudential Insurance Group	Shield Assurance Company	Prudential Life Assurance	2014
UAP Ltd	Old mutual ltd	UAPOLDMUTUAL	2014
Metropolitan life insurance	Canon life Assurance	Metropolitan life insurance	2015
Pan Africa Life Insurance	Gateway Insurance Company Limited	Pan Africa Insurance	2015
First Assurance	Barclays Africa	First Assurance	2015

Appendix 2: Summary of Data Collected

Claims

Company name	Merged with	Current name	Y1-B	Y2-B	Y3-B	Y4-B	Y5-B	Year	Y1-B	Y2-B	Y3-B	Y4-B	Y5-B
Pioneer Assurance	Fidelity Assurance	Pioneer Assurance	379,226	490,079	663,892	466,927	390,421	2002	352,618	310,590	248,974	199,681	202,281
Pan Africa Insurance	Apollo	APA INSURANCE	2,126,066	1,229,878	1,229,878	986,338	1,439,925	2003	926,066	751,209	651,209	567,464	364,295
ICEA Insurance	LION ASSURANCE	ICEALION	226,878	319,357	275,569	255,783	339,910	2012	228,613	147,779	144,384	116,252	107,781
CFC Life Assurance Company	Heritage All Insurance Company	Liberty Holdings Kenya	185,277	185,277	196,047	215,323	226,696	2012	180,876	178,656	123,780	147,644	108,780
Saham Group	Mercantile insurance	Saham	220,652	220,652	250,989	293,765	309,776	2013	111,092	91,092	89,092	77,644	78,767
British American Insurance Company	Real Insurance	Britam General	2,394,474	2,394,474	1,947,573	1,770,290	1,207,963	2013	1,101,667	1,101,892	1,030,009	923,747	978,464
Prudential Insurance Group	Shield Assurance Company	Prudential Life Assurance	747,796	847,796	747,796	652,713	652,713	2014	218,982	211,902	211,538	194,959	188,410
UAP Ltd	Old mutual ltd	UAPOLDMUT UAL	245,679	756,006	1,217,450	467,980	996,206	2015	864,883	713,283	75,063	48,699	18,829
Metropolitan life insurance	Canon life Assurance	Metropolitan life insurance	6,202,707	7,625,189	12,020,555	10,182,075	11,073,438	2015	11,868,118	15,916,095	15,869,248	21,200,823	22,954,679
Pan Africa Life Insurance	Gateway Insurance Company Limited	Pan Africa Insurance	706,407	1,161,974	1,040,826	604,093	449,385	2015	332,029	269,721	549,109	1,153,623	1,358,253
First Assurance	Barclays Africa	First Assurance	7,109	4,582	5,447	3,908	4,098	2015	11,099	126,470	12,733	13,760	14,733

Expenses

Company name	Merged with	Current name	Y1-B	Y2-B	Y3-B	Y4-B	Y5-B	Year	Y1-B	Y2-B	Y3-B	Y4-B	Y5-B
Pioneer Assurance	Fidelity Assurance	Pioneer Assurance	5,511,538	5,511,538	5,511,538	6,174,959	6,174,613	2002	185,277	185,277	196,047	215,323	226,696
Pan Africa Insurance	Apollo	APA INSURANCE	864,883	713,283	1,075,063	2,913,141	1,018,829	2003	220,652	220,652	250,989	1,093,765	1,093,765
ICEA Insurance	LION ASSURANCE	ICEALION	11,868,118	15,916,095	15,869,248	21,200,823	22,954,679	2012	2,394,474	2,394,474	1,947,573	770,290	207,963
CFC Life Assurance Company	Heritage All Insurance Company	Liberty Holdings Kenya	332,029	269,721	549,109	1,153,623	1,358,253	2012	747,796	847,796	747,796	652,713	652,713
Saham Group	Mercantile insurance	Saham	4,805,099	6,866,470	7,992,733	7,992,733	7,992,733	2013	245,679	756,006	1,217,450	467,980	996,206
British American Insurance Company	Real Insurance	Britam General	44,148	706,338	901,216	997,552	1,709,742	2013	6,202,707	7,625,189	12,020,555	10,182,075	11,073,438
Prudential Insurance Group	Shield Assurance Company	Prudential Life Assurance	391,604	343,130	828,505	919,277	612,450	2014	706,407	1,161,974	1,040,826	604,093	449,385
UAP Ltd	Old mutual ltd	UAPOLDMU TUAL	2,354,382	3,290,959	4,450,401	5,370,719	6,392,431	2015	1,707,109	1,864,582	1,985,447	2,951,970	5,284,098
Metropolitan life insurance	Canon life Assurance	Metropolitan life insurance	404,082	274,085	555,900	186,242	369,612	2015	77,245	2,240,127	1,783,108	1,317,764	1,619,369
Pan Africa Life Insurance	Gateway Insurance Company Limited	Pan Africa Insurance	1,403,907	763,213	1,106,434	2,311,789	2,652,337	2015	334,098	151,197	262,074	475,304	183,080
First Assurance	Barclays Africa	First Assurance	1,667	1,689	2,009	3,747	1,464		3,659	1,243	1,071	1,784	1,118

Total Claims

Company name	Merged with	Current name	Y1-B	Y2-B	Y3-B	Y4-B	Y5-B	Year	Y1-B	Y2-B	Y3-B	Y4-B	Y5-B
Pioneer Assurance	Fidelity Assurance	Pioneer Assurance	700,898	790,079	963,892	866,927	490,421	2002	952,618	710,590	548,974	699,681	502,281
Pan Africa Insurance	Apollo	APA INSURANCE	3,126,066	2,229,878	1,929,878	1,086,338	1,939,925	2003	1,026,066	791,209	851,209	967,464	564,295
ICEA Insurance	LION ASSURANCE	ICEALION	926,878	819,357	775,569	855,783	939,910	2012	728,613	447,779	344,384	216,252	307,781
CFC Life Assurance Company	Heritage All Insurance Company	Liberty Holdings Kenya	285,277	385,277	496,047	115,323	426,696	2012	280,876	278,656	223,780	247,644	208,780
Saham Group	Mercantile insurance	Saham	520,652	420,652	450,989	393,765	509,776	2013	311,092	191,092	189,092	177,644	178,767
British American Insurance Company	Real Insurance	Britam General	3,394,474	3,394,474	2,947,573	2,770,290	2,207,963	2013	2,101,667	2,101,892	2,030,009	1,923,747	1,978,464
Prudential Insurance Group	Shield Assurance Company	Prudential Life Assurance	1,747,796	1,847,796	1,747,796	1,652,713	1,652,713	2014	1,218,982	1,211,902	1,211,538	1,194,959	1,188,410
UAP Ltd	Old mutual ltd	UAPOLDMU TUAL	245,679	756,006	1,217,450	467,980	996,206	2015	964,883	913,283	975,063	748,699	518,829
Metropolitan life insurance	Canon life Assurance	Metropolitan life insurance	8,202,707	9,625,189	14,020,555	13,182,075	13,073,438	2015	12,868,118	17,916,095	19,869,248	20,200,823	20,954,679
Pan Africa Life Insurance	Gateway Insurance Company Limited	Pan Africa Insurance	1,706,407	2,161,974	2,040,826	904,093	949,385	2015	1,332,029	1,269,721	1,549,109	1,853,623	1,958,253
First Assurance	Barclays Africa	First Assurance	17,109	14,582	15,447	13,908	14,098	2015	18,099	26,470	42,733	19,760	22,733

Net Income

Company Name	Merged with	Current name	Y1-B	Y2-B	Y3-B	Y4-B	Y5-B	Year	Y1 -A	Y2-A	Y3-A	Y4-A	Y5-A
Pioneer Assurance	Fidelity Assurance	Pioneer Assurance	2,126,066	3,981,087	3,981,087	3,256,097	3,620,303	2002	2,876,824	2,876,824	3,721,440	3,370,422	2,162,947
Pan Africa Insurance	Apollo	APA INSURANCE	1,038,436	1,431,695	1,589,935	1,757,716	1,807,638	2003	2,286,130	2,147,779	52,021,524	61,944,650	68,177,548
ICEA Insurance	LION ASSURANCE	ICEALION	494,327	590,579	394,581	795,530	940,305	2012	1,234,584	1,545,876	1,975,670	2,146,659	2,748,506
CFC Life Assurance Company	Heritage All Insurance Company	Liberty Holdings Kenya	754,567	638,803	935,175	326,027	551,845	2012	-300,345	-321,087	-341,630	-339,121	-318,641
Saham Group	Mercantile insurance	Saham	373,392	400,669	312,866	266,608	192,702	2013	141,384	152,085	149,779	228,268	263,430
British American Insurance Company	Real Insurance	Britam General	221,744	221,744	251,092	121,409	121,565	2013	-167,974	-175,124	246,958	716,566	332,938
Prudential Insurance Group	Shield Assurance Company	Prudential Life Assurance	702,389	662,974	315,358	289,098	198,088	2014	-446,598	-823,093	-1,203,100	-1,780,950	-1,946,681
UAP Ltd	Old mutual ltd	UAPOLD MUTUAL	7,210,496	3,771,339	3,907,136	4,934,458	2,426,513	2015	4,787,884	6,685,317	5,143,356	8,119,001	6,751,661
Metropolitan life insurance	Canon life Assurance	Metropolitan life insurance	702,389	662,974	215,358	189,098	149,808	2015	-921,553	-1,104,935	-1,089,774	-1,009,865	-876,998
Pan Africa Life Insurance	Gateway Insurance Company Limited	Pan Africa Insurance	447,778	511,818	136,429	175,794	147,903	2015	811,994	462,393	73,998	94,377	112,987
First Assurance	Barclays Africa	First Assurance	2,734,220	2,957,925	1,957,925	1,211,641	1,280,267	2015	3,738,271	3,462,393	3,987,399	5,094,377	4,112,987

Total Assets

Company Name	Merged with	Current name	Y1-B	Y2-B	Y3-B	Y4-B	Y5-B	Year	Y1 -A	Y2-A	Y3-A	Y4-A	Y5-A
Pioneer Assurance	Fidelity Assurance	Pioneer Assurance	12,752,618	12,910,590	11,248,974	11,199,681	1,202,281	2002	24,786,234	24,098,671	24,898,765	25,987,672	22,787,187
Pan Africa Insurance	Apollo	APA INSURANCE	12,126,066	12,751,209	12,751,209	13,157,464	13,764,295	2003	22,098,911	18,976,356	21,098,276	20,987,656	23,989,782
ICEA Insurance	LION ASSURANCE	ICEALION	2,228,613	2,147,779	3,044,384	3,376,252	3,707,781	2012	7,198,565	7,098,756	8,850,161	9,697,446	10,226,441
CFC	Heritage	Liberty Holdings Kenya	15,780,876	15,780,876	11,423,780	11,487,644	11,808,780	2012	22,897,563	22,897,654	23,495,801	23,463,165	24,494,824
Saham Group	Mercantile	Saham	1,231,092	1,561,092	1,451,092	15,427,644	11,327,644	2013	1,476,379	1,047,715	1,253,455	1,944,065	1,069,436
Britam	Real Insurance	Britam General	7,101,667	7,101,667	5,630,009	4,523,747	5,678,464	2013	8,727,626	9,290,923	9,469,378	10,596,709	10,401,934
Prudential	Shield Assurance	Prudential Life Assurance	511,538	511,538	511,538	174,959	174,613	2014	840,045	923,443	1,377,523	1,469,490	1,792,466
UAP Ltd	Old mutual ltd	UAPOLDM UTUAL	10,864,883	10,713,283	11,075,063	12,913,141	11,018,829	2015	16,055,834	15,594,492	14,583,592	14,635,600	15,765,384
Metropolitan	Canon life Assurance	Metropolitan life insurance	1,868,118	1,916,095	1,569,248	1,200,823	1,954,679	2015	1,043,165	2,733,570	2,439,419	2,987,810	3,098,565
Pan Africa Life	Gateway Insurance	Pan Africa Insurance	1,332,029	1,269,721	1,549,109	1,153,623	1,358,253	2015	1,234,584	1,545,876	1,975,670	2,146,659	2,748,506
First Assurance	Barclays Africa	First Assurance	4,805,099	6,866,470	3,992,733	3,992,733	3,992,733	2015	5,149,283	4,667,716	4,672,741	4,776,472	5,000,787

Net Earned Premium

Company Name	Merged with	Current name	Y1-B	Y2-B	Y3-B	Y4-B	Y5-B	Year	Y1 -A	Y2-A	Y3-A	Y4-A	Y5-A
Pioneer Assurance	Fidelity Assurance	Pioneer Assurance	11,101,667	630,009	523,747	678,464	713,283	2002	999,876	1,098,760	1,098,765	1,143,768	1,156,734
Pan Africa Insurance	Apollo	APA INSURANCE	511,538	511,578	674,959	674,613	916,095	2003	1,349,087	1,408,789	1,907,688	1,786,725	1,987,650
ICEA Insurance	LION ASSURANCE	ICEALION	1,713,283	1,075,063	2,913,141	1,018,829	1,269,721	2012	2,987,610	3,018,728	3,160,671	3,824,576	352,229
CFC Life Assurance Company	Heritage All Insurance Company	Liberty Holdings Kenya	1,916,095	1,869,248	1,200,823	1,954,679	1,866,470	2012	3,767,546	4,067,512	4,398,640	4,038,055	4,273,820
Saham Group	Mercantile insurance	Saham	269,721	549,109	1,153,623	1,358,253	706,338	2013	400,786	469,960	581,286	534,654	1,018,761
British American Insurance Company	Real Insurance	Britam General	6,866,470	7,992,899	7,992,090	7,876,769	6,729,018	2013	6,309,786	6,700,241	6,574,479	2,520,099	6,701,153
Prudential Insurance Group	Shield Assurance Company	Prudential Life Assurance	706,338	901,216	997,552	709,742	878,788	2014	132,926	149,543	265,231	374,142	582,676
UAP Ltd	Old mutual ltd	UAPOLDMUT UAL	3,343,130	2,828,505	2,919,277	3,612,450	3,916,095	2015	8,453,266	4,557,555	8,140,782	8,296,675	7,987,654
Metropolitan life insurance	Canon life Assurance	Metropolitan life insurance	290,959	450,401	370,719	392,431	269,721	2015	325,678	529,280	187,279	234,678	234,567
Pan Africa Life Insurance	Gateway Insurance	Pan Africa Insurance	274,085	555,900	186,242	369,612	866,470	2015	146,098	178,656	197,657	205,097	126,896
First Assurance	Barclays Africa	First Assurance	763,213	1,106,434	2,311,789	2,652,337	1,706,338	2015	2,343,080	2,388,419	2,035,281	2,217,774	2,390,876

Management Expenses

Merged with	Current name	Y5-B	Y4-B	Y3-B	Y2-B	Y1-B	Date of M/A	Y1 -A	Y2-A	Y3-A	Y4-A	Y5-A
Fidelity Assurance	Pioneer Assurance	0.221 809	0.274 972	0.129 609	0.235 625	0.253 603	2002	0.373092 517	0.296040 568	0.61648 988	0.65237 5699	0.13444 0162
Apollo	APA INSURANCE	0.047 815	0.040 48	0.081 862	0.028 381	0.046 732	2003	0.663651 509	0.352024 585	0.35278 6797	0.38212 6858	0.22021 5143
LION ASSURANCE	ICEALION	0.303 301	0.256 659	0.215 607	0.017 281	0.017 012	2012	0.2007	0.19087	0.18003 4296	0.16532 586	0.16651 1636
Heritage All Insurance Company	Liberty Holdings Kenya	0.031 224	0.031 224	0.044 599	0.026 838	0.021 408	2012	0.2987	0.2341	0.27708 3614	0.28802 9928	0.26333 1038
Mercantile insurance	Saham	0.730 925	0.604 057	0.616 49	1.652 376	1.134 44	2013	0.2455	0.228769 054	0.21898	0.20313 2612	0.20722 3029
Real Insurance	Britam General	0.663 652	0.352 025	0.352 787	0.382 127	0.220 215	2013	0.2456	0.271011 648	0.31244 3741	0.29944 9505	0.32812 4816
Shield Assurance Company	Prudential Life Assurance	0.375 987	0.346 003	0.137 236	0.157 474	0.076 641	2014	2.50	0.220215 143	0.23598 8673	0.44267 6359	0.50220 0305
Old mutual ltd	UAPOLDMUTUAL	0.336 162	0.403 095	0.088 069	0.152 384	0.108 892	2015	0.192555 37	0.219892 535	0.22316 7532	0.20581 112	0.2098
Canon life Assurance	Metropolitan life insurance	0.569 025	0.430 778	0.490 372	0.303 462	0.320 649	2015	0.421991 911	0.360547 775	0.52921 8205	0.5909	0.3767
Gateway Insurance Company Limited	Pan Africa Insurance	0.238 034	0.215 307	0.217 861	0.169 493	0.173 318	2015	0.031224 218	0.031224 218	0.04459 8863	0.02683 815	0.02140 8078
Barclays Africa	First Assurance	0.166 716	0.308 358	0.353 907	0.290 731	0.011 195	2015	0.181119 964	0.19	0.24675 1996	0.23055 1462	0.2209

Policyholder's Surplus

Merged with	Current name	Y5-B	Y4-B	Y3-B	Y2-B	Y1-B	Date of M/A	Y1 -A	Y2-A	Y3-A	Y4-A	Y5-A
Fidelity Assurance	Pioneer Assurance	0.031 224	0.031 224	0.044 599	0.026 838	0.021 408	2002	0.37309 2517	0.29604 0568	0.61648 988	0.65237 5699	0.13444 0162
Apollo	APA INSURANCE	0.730 925	0.604 057	0.616 49	1.652 376	1.134 44	2003	0.66365 1509	0.35202 4585	0.35278 6797	0.38212 6858	0.22021 5143
LION ASSURANCE	ICEALION	0.663 652	0.352 025	0.352 787	0.382 127	0.220 215	2012	0.35202 4585	0.35278 6797	0.39580 3421	0.35790 7948	0.41691 3372
Heritage All Insurance Company	Liberty Holdings Kenya	0.375 987	0.346 003	0.137 236	0.157 474	0.076 641	2012	0.01119 5386	0.02683 815	0.09029 3453	0.09692 7333	0.10649 6213
Mercantile insurance	Saham	0.336 162	0.403 095	0.088 069	0.152 384	0.108 892	2013	0.61648 988	0.44178 6173	0.37882 0141	0.32308 0761	0.12904 185
Real Insurance	Britam General	0.569 025	0.430 778	0.490 372	0.303 462	0.320 649	2013	0.35202 4585	0.26831 3062	0.30782 9933	0.31939 7843	0.28849 8081
Shield Assurance Company	Prudential Life Assurance	0.238 034	0.215 307	0.217 861	0.169 493	0.173 318	2014	0.20530 5668	0.31983 6741	0.51299 6879	0.51513 4502	0.49506 9363
Old mutual ltd	UAPOLDMUTUAL	0.166 716	0.308 358	0.353 907	0.290 731	0.011 195	2015	0.47632 9725	0.49821 1869	0.51039 2501	0.48641 6751	0.41416 7509
Canon life Assurance	Metropolitan life insurance	0.530 6	0.526 2	0.790 9	0.789 6	0.204 0	2015	0.17745 0355	0.18775 3377	0.16844 1338	0.17775 3377	0.14844 1338
Gateway Insurance Company Limited	Pan Africa Insurance	0.847 0	0.798 4	0.414 9	0.780 3	0.684 0	2015	0.5306	0.5262	0.7909	0.7896	0.2040
Barclays Africa	First Assurance	0.059 5	0.101 9	0.542 1	0.060 1	0.346 2	2015	0.43277 6563	0.40355 8614	0.32165 2966	0.35033 8074	0.15033 8074

Inflation (CPI)

Company Name	Merged with	Current name	Y5-B	Y4-B	Y3-B	Y2-B	Y1-B	Date of M/A	Y1-A	Y2-A	Y3-A	Y4-A	Y5-A
Pioneer Assurance	Fidelity Assurance	Pioneer Assurance	9.8 %	26.2 %	9.2 %	3.4 %	14.0 %	2002	5.7 %	6.9 %	6.6 %	6.3 %	8.0 %
Pan Africa Insurance	Apollo	APA INSURANCE	9.8 %	26.2 %	9.2 %	3.4 %	14.0 %	2003	5.7 %	6.9 %	6.6 %	6.3 %	8.0 %
ICEA Insurance	LION ASSURANCE	ICEALION	9.8 %	26.2 %	9.2 %	3.4 %	14.0 %	2012	5.7 %	6.9 %	6.6 %	6.3 %	8.0 %
CFC Life Assurance Company	Heritage All Insurance Company	Liberty Holdings Kenya	9.8 %	26.2 %	9.2 %	3.4 %	14.0 %	2012	5.7 %	6.9 %	6.6 %	6.3 %	8.0 %
Saham Group	Mercantile insurance	Saham	26.2 %	9.2 %	3.4 %	14.0 %	9.4 %	2013	6.9 %	6.6 %	6.3 %	8.0 %	4.7 %
British American Insurance Company	Real Insurance	Britam General	26.2 %	9.2 %	3.4 %	14.0 %	9.4 %	2013	6.9 %	6.6 %	6.3 %	8.0 %	4.7 %
Prudential Insurance Group	Shield Assurance Company	Prudential Life Assurance	9.2 %	3.4 %	14.0 %	9.4 %	5.7 %	2014	6.6 %	6.3 %	8.0 %	4.7 %	5.2 %
UAP Ltd	Old mutual ltd	UAPOLDMUTU AL	3.4 %	14.0 %	9.4 %	5.7 %	6.9 %	2015	6.3 %	8.0 %	4.7 %	5.2 %	4.7 %
Metropolitan life insurance	Canon life Assurance	Metropolitan life insurance	3.4 %	14.0 %	9.4 %	5.7 %	6.9 %	2015	6.3 %	8.0 %	4.7 %	5.2 %	4.7 %
Pan Africa Life Insurance	Gateway Insurance Company Limited	Pan Africa Insurance	3.4 %	14.0 %	9.4 %	5.7 %	6.9 %	2015	6.3 %	8.0 %	4.7 %	5.2 %	4.7 %
First Assurance	Barclays Africa	First Assurance	3.4 %	14.0 %	9.4 %	5.7 %	6.9 %	2015	6.3 %	8.0 %	4.7 %	5.2 %	4.7 %