A SURVEY ON CORPORATE GOVERNANCE PRACTICES IN INSURANCE INDUSTRY IN KENYA

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DECLARATION

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

Signed: ………………………………………… Date: 28/09/2007……

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

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TABLE OF CONTENTS

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ABSTRACT

This study was carried out to determine the corporate governance practices in the insurance industry in Kenya. The objective arose from the concern of the recent collapse of four insurance companies since year 2000. Bad corporate governance practices were mentioned as the possible causes of the collapse of the four companies.

The population of interest consisted of all the 42 registered insurance companies in Kenya as at 31st December 2006. The data was collected through questionnaire which was administered to the respondents on a drop-and-pick-later basis. The data collected was analysed using content analysis method and presented in form of frequency distribution tables, bar graphs and pie charts.

The study revealed some weaknesses in the corporate governance among the insurance companies in Kenya. The study found that 90% of the companies have top managers who were also directors and shareholders which heightened conflicts of interest. The study revealed that only 40% of the respondents have induction programmes for new directors while only 55% have training programmes for directors. This resulted in lowering effective contributions of the directors in running the insurance companies. The study showed that only 95% of the insurance companies comply 100% with the rules and regulations in the insurance Act. Lack of full compliance with the insurance Act weakens their accountability to the public and regulators. The study indicated that 10% of the companies do not have strong and independent internal audit functions, which weakens internal control systems in these companies.

The study concluded that steps should be taken to enhance good corporate governance practices in the insurance industry in Kenya. Such steps include: use of experience and track record in selection and appointment of directors; conduction of induction and training programmes to directors; separation of ownership and management; full enforcement of the rules and regulations in the insurance Act by the regulators; establishment of strong and independent internal audit functions in all insurance companies.

CHAPTER 1

1.0 INTRODUCTION

1.10 Background

Corporate governance has been defined by many scholars as the relationship of an organization to its shareholders in terms of directing and management of the organizations. It has been advocated as an effective system to better management of organizations in the last five years. The Financial Times (1997) defines corporate governance as the relationship of the enterprise to shareholders or in the wider sense as the relationship of the enterprise to society as a whole. The Financial Stability Forum (2001) offers a definition with a wider outlook and contends that it means the sum of the processes, structures and information used for the directing and overseeing the management of an organization. The OECD (2001) on the one hand, has defined corporate governance as a system on the basis of which business companies are directed and managed. It is upon this system that specifications are given for the division of competencies and responsibilities between individual parties, such as the board of directors, the supervisory board, the management and shareholders, and formulates rules and procedures for adopting decisions on corporate matters.

Arun and Turner (2002) contend that there exist narrow approaches to corporate governance which views the subject as the mechanism through which shareholders are assured that managers will act in their interests. Shleifer and Vishny (1997), Vives (2000), and Oman (2001) observe that there is a broader approach which views the subject as the methods by which suppliers of finance control managers in order to ensure that their capital cannot be expropriated and that they earn a return on their investment. There is a consensus, however that the broader view of corporate governance should be adopted in the case of insurance companies because of the peculiar contracts which demands that corporate governance mechanisms for the companies should encapsulate insured as well as shareholders. Macey and O'Hara (2001) and Arun and Turner (2002) argue that the special nature of insurance industry requires not only a broader view of corporate governance, but also government intervention in order to restrain the behavior of the companies' directors who are also the managers.

This study therefore adopts the broader view and defines corporate governance in the context of insurance industry as: The manner in which systems, procedures, processes and practices of an insurance company are managed so as to allow positive relationships and the exercise of power in the management of assets and other resources with an aim of advancing shareholder value and shareholder satisfaction together with improved accountability, resource use and transparent administration

1.1.1 Elements and Practice of Corporate Governance

Different authors and management specialists have argued that corporate governance requires laid down procedures, processes, systems, and codes of regulation and ethics that ensures its implementation in organizations. Some suggestions that have been underscored in this respect include the need for insurance companies to set strategies – which have been commonly referred to as corporate strategies - for their operations and establish accountability for executing these strategies. El-Kharouf (2000) while examining strategy, corporate governance and the future of the insurance industry, points out that corporate strategy is a deliberate search for a plan of action that will develop the organization's competitive advantage and compound it.

The Basel Committee on Insurance Supervision (1999) contends that transparency of information related to existing conditions, decisions and actions is integrally related to accountability in that it gives market participants sufficient information with which to judge the management of the insurance company. The Committee advances further that various corporate governance structures exist in different countries hence there is no universally correct answer to structural issues and that laws do not need to be consistent from one country to another. Sound governance therefore, can be practiced regardless of the form used by an insurance company. The Committee suggests four important forms of oversight that should be included in the organizational structure of any company in order to ensure the appropriate checks and balances and these include: oversight by the board of directors or supervisory board; oversight by individuals not involved in the day-to-day running of the various business areas; direct line supervision of different business areas, and; independent risk management and audit functions. They demonstrate the importance of key personnel being qualified and proper for their jobs and the potentiality of government supervision of an insurance company.

The Committee observes that from an insurance industry perspective, corporate governance involves the manner in which the business and affairs of individual institutions are governed by their boards of directors and senior management, affecting how the companies set corporate objectives (including generating economic returns to owners), run the day-to-day operations of the business, consider the interest of recognized stakeholders, align corporate activities and behaviors with the expectation that they will operate in safe and sound manner, and in compliance with applicable laws and regulations and protect the interests of policyholders and other claimants.

The Committee further enumerates the basic components of good corporate governance to include: the corporate values, codes of conduct and other standards of appropriate behavior and the system used to ensure compliance with them; a well articulated corporate strategy against which the success of the overall enterprise and the contribution of individuals can be measured; the clear assignment of responsibilities and decision making authorities, incorporating hierarchy of required approvals from individuals to the board of directors; establishment of mechanisms for the interaction and cooperation among the board of directors, senior management and auditors; strong internal control systems, including internal and external audit functions, risk management functions independent of business lines and other checks and balances; special monitoring of risk exposures where conflict of interests are likely to be particularly great, including business relationships with policyholders, large shareholders, senior management or key decisions makers within the firm.

Tsui and Gul (2000) argues that good corporate governance mechanisms including accounting and auditing standards are designed to monitor managers and improve corporate transparency. A number of corporate governance mechanisms have been identified analytically and empirically. These, according to Agrawal and Knoeber, (1996), may be broadly classified as internal and external mechanisms which enhance good corporate practices. For example, to monitor manager's behavior, an independent third party (the auditor) attests the accuracy of information provided by management to investors. An ideal control system according to them should regulate both motivation and ability.

Wambua carried out a study on corporate governance practices in the banking industry in Kenya in 1999 and concluded that: There was over whelming interest on the need for care for shareholders, strategic planning and resource allocation. The respondents were however less enthusiastic about the need for succession planning and top management supervision. It showed conflict of interests between the shareholders and the managers especially where the shareholders were also senior managers. The study though carried out within the wide financial sector did not fully address the apparent conflicts in the insurance industry.

In his discourse on corporate governance in banking industry in Kenya in 2002, Kimura concludes that many commercial banks and other financial institutions collapsed in 1980s and 1990s due to poor corporate governance practices by the directors and management.

He observed that there were many cases of ownership and control conflicts in the industry which he identified as the cause bad corporate governance practices in Kenya.

Okungu (2006) examined the depth of corporate governance in Kenyan banking industry and contends that there is a significant positive relationship between good corporate governance practices and financial performance in Kenyan banking sector. In his discourse on corporate governance in microfinance sector, Wainaina (2003) concludes that lack of regulatory framework in this sector has led to the low levels good corporate governance practice in that sector. Microfinance regulatory bill which, has since been published and now awaits enactment by the Parliament is been seen as one of ways of improving corporate governance in this sector.

A study by Prowse (1997) showed that research on corporate governance applied to financial intermediaries, more so insurance industry is indeed scarce. This shortage is confirmed by Oman (2001); Goswami (2001); Lin (2001); Malherbe and Segal (2001) and Arun and Turner (2002). They hold a consensus that although the subject of corporate governance in developing economies has recently received a lot of attention, it is still not yet rooted enough. In the literature, the corporate governance of insurance companies in developing economies has been almost ignored by researchers, an idea shared by Caprio and Levine (2002). Macey and O'Hara (2001) share the same opinion and add that even in developed economies, the corporate governance of insurance companies has only recently been discussed in the literature.

1.1.2 The Insurance Industry in Kenya

The Insurance industry in Kenya is governed and regulated by the Insurance Act Cap 487 which was created through the Act of Parliament in 1987. Prior to 1987, the Insurance industry was being regulated under the Companies Cap 486 of the laws of Kenya. Currently the Insurance industry in Kenya is highly regulated by the Government through the Commissioner of Insurance. Stringent conditionality, measures and processes have been put in place by the Act before one can be allowed undertake insurance business. The Insurance Act has given the Commissioner powers and authority to fine, suspend and even commence winding up process on the persons who contravene numerous rules and regulations. Some of the regulations include: minimum capital requirements, compositions of Board of Directors, minimum assets and investment levels and appointment of senior managers.

Recently the minimum share capital requirements were raised from kshs. 100m to kshs. 300m. for general insurance companies, ksh. 50m to kshs. 150m for long-term insurance companies and kshs. 150m to kshs. 450m for composite insurance companies. These were some of the measures that were taken by the government to make the Insurance companies more stable and at the same time address corporate governance issues that have been adversely affecting in industry for so long. Corporate governance has evolved as a result of the need to impose restraint and demand accountability by society that gives mandate to existence of these commercial enterprises since society has often suffered serious misfortune because of irresponsible corporate behavior. Society therefore, seeks to contain such irresponsibilities through various governance channels, Stile (1993), Newman, Logan and Herganty (1989).

1.20 Statement of the Problem

The Commissioner of Insurance Annual Accounts Report (2005) indicates that, some companies especially those doing life business have shown constant growth in profit and business volume while others have registered decline and are almost collapsing. As at December 2005, any insurer carrying on general or long-term business was required to have a solvency margin of at least 15% of the previous year's net premium. The report showed that 9 companies out of 42 did not meet the solvency margin requirement.

This study is concerned with moral and ethical issues that have dogged the insurance industry for the last 7 years. There is a growing concern about poor corporate governance practices in the industry and they have been sighted as one of the reasons for recent collapse some insurance companies. The insurance industry has undergone turbulent environment since for the last 7 years. From Commissioner of Insurance's year 2000, 2001, 2002, 2003, 2004 and 2005 reports, four insurance companies have collapsed and some have already been liquidated. These companies include Stallion Ins. Co ltd (2000), Liberty Ins. Co. ltd (2001), Lakestar Ins. Co ltd (2002) and United Ins. Co. ltd (2005). The properties of the policyholders were attached and auctioned as they were held personally liable for the accrued claims. Millions of shillings were lost and public confidence in the insurance companies was dented. Bad corporate governance and management mal-practices have been sighted as the main reasons behind their collapse. In some of these companies, the directors were at the same time senior managers.

O'Donovan defines corporate governance as an internal system encompassing policies. Processes and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity and integrity. Sound corporate governance is reliant on external marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes. He goes on to say that the perceived quality of a company's corporate governance can influence its share price as well as the cost of raising capital.

Mucuvi (2002) found out that there is generally a high level of awareness about corporate governance among the motor industry in Kenya. Her results indicated that a large number of firms in motor industry have taken deliberate steps to implement the corporate governance policies.

Many studies have been carried out on corporate governance in banking, sacco, motor and micro-finance industries in Kenya but not yet in insurance industry. This therefore sets the stage for the need for studying and enhancing good corporate governance practices in the industry. The study seeks to answer the questions: What factors influence corporate governance within the Insurance industry in Kenya? Does the relationship between corporate governance interventions and performance vary with the ownership and management separation? How are Insurance companies in Kenya responding to the call for higher standards of corporate governance and how are the regulations and supervision enhancing this?.

1.30 Objective of the Study

To determine the corporate governance practices in the insurance industry in Kenya.

1.40 Importance of the Study

Little is known about the implications of the relationships between the ownership and management in the insurance industry. Conflicts of interest and moral value decay have been rampant and the study would be of interest to the following groups of people:

- To the Government: The findings can be useful to the government for formulation of policies and relevant regulations to stabilize the insurance industry.
- To Public & Investors: The study can be used to protect the insured, claimants and other insurance beneficiaries by spurring more confidence and faith to the insurance companies.
- To researchers & academicians: This is for their better understanding of the nature of the insurance industry and for future reference in research work.
- To the Insurance companies: This study is useful to the insurers for their interest to understand their internal and external environment and their future survival.

CHAPTER 2

2.0 LITERATURE REVIEW

2.1 Genesis of Corporate Governance

In the modern era, companies have become indispensable partners in the development of the global economy. It is imperative therefore that their behavior is monitored to ensure that they are properly regulated and managed to harness their enormous collective resources towards promoting social economic well being of society, states and the world at large (Drucker 1974, Kigguddu 1989). Logeneck and Pringle (1981) documented issues to corporate governance in the 1970's highlighting the fact that governance issues came to the fore as a reaction to rising business scandals in the United States of America during that period. Action was taken to demand that top management show accountability and prudence in allocation of company resources, Deub and Neubauer (1993).

In 20th century in the immediate aftermath of the Wall Street Crash of 1929 legal scholars such as Adolf Berle, Edwin Dodd and Gardiner Mean's pondered on the changing role of the modern corporation in society. Berle and Mean's (1932) monograph "The modern Corporation and Private Property" continues to have profound influence on the conception of corporate governance in scholarly debates today. Lorsch and Maclver (2001) observed that many large corporations have dominant control over business affairs without sufficient accountability or monitoring by their board of directors.

The current preoccupation with corporate governance issues can be pinpointed at two events according to Guha (2003). The East Asian crisis of 1997 saw the economies of Thailand, Indonesia, South Korea, Malaysia and Philippines severely affected by the exit of foreign capital after property assets collapsed. He argues that lack of corporate governance mechanisms in these countries highlighted the weaknesses of the institutions in their economy. The second event was the American corporate crisis of 2001-2002 which saw the collapse of two big corporations: Enron and WorldCom and the ensuing scandals and collapse of other corporations such as Arthur Andersen, Global Crossing and Tyco. Guha concludes that unethical, moral decay and lack of honesty and accountability of the board of directors were the main reasons behind the companies collapse.

Gumport (2005) argues that corporate governance issues are receiving greater attention in both developed and developing countries as a result of the increasing recognition that a firm's corporate governance affects both its economic performance and its ability to access long-term low-cost investment capital. It is important to note that sound corporate governance practices and the need for greater transparency in the financial markets are vital to national economic welfare and is essential to maintaining a stable economic environment (May, 2000). May (2000) notes that while such goals of financial transparency are pursued as much as possible in a coordinated manner, the corporate governance objectives are faced with stumbling blocks. Standard agency theory of corporate governance, according to Shleifer and Vishny (1997), focuses on the separation of ownership and control and investigates the mechanisms via which the suppliers of capital influence managerial decisions with varying degrees of success. Caprio and Levin

(2002) develop this further by observing that small shareholders may seek to exert corporate governance by voting directly on major decisions, electing boards of directors, and signing incentive contacts with managers that link pay to performance.

2.2 Regulations as elements of Corporate Governance

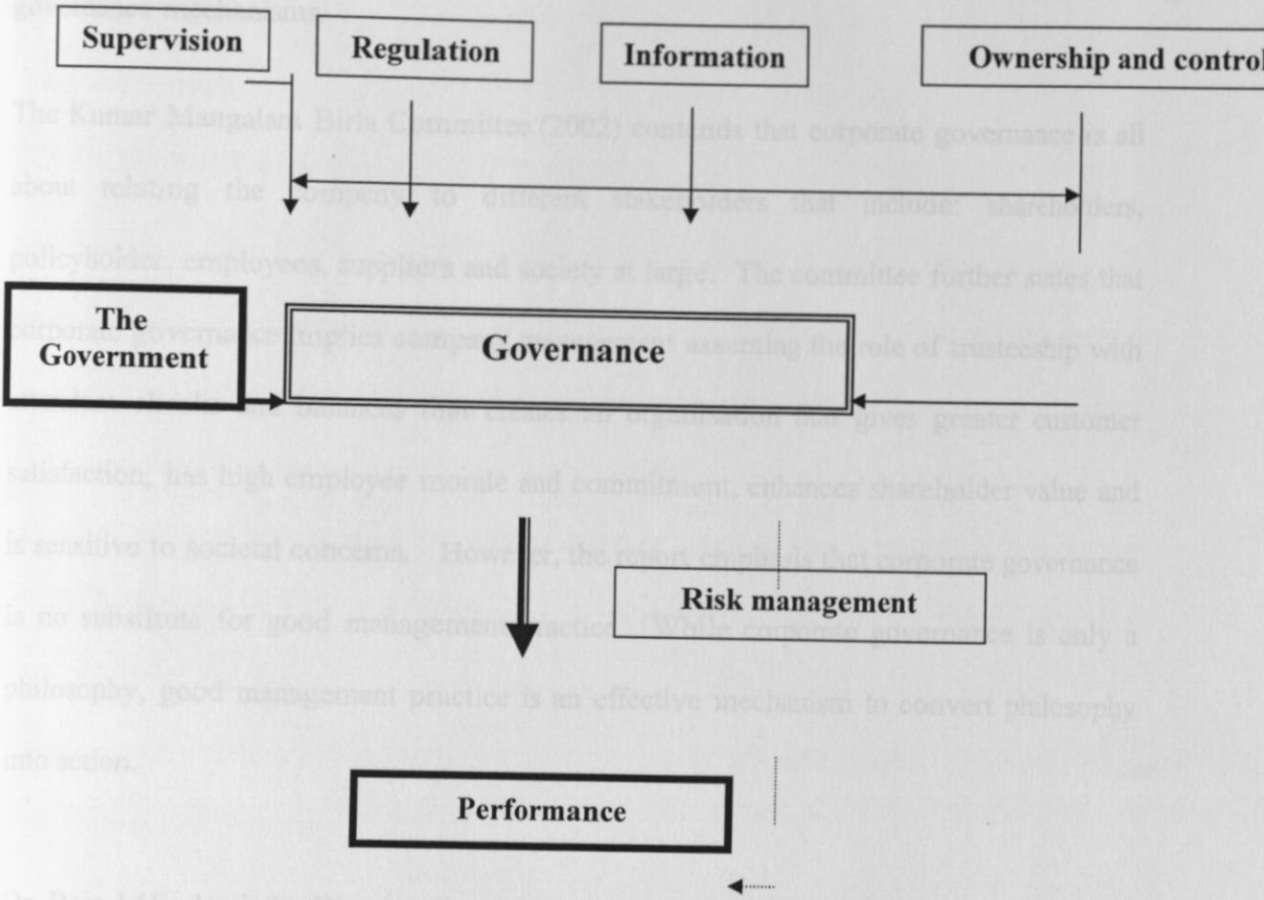
Arun and Turner (2002), observed that over the last two decades or so, governments around the world have moved away from using economic regulations towards using prudential regulation as part of their reform process in the financial sector. However, as Boot and Thakor (1993) demonstrated, governments themselves are frequently the biggest problem as regulators and supervisors since they typically have their own agendas that do not coincide with maximizing companies values.

However, Browbridge (2002) observe that the prudential reforms already implemented in developing countries have not been effective in preventing collapse of insurance companies and a question remains as to how prudential systems can be strengthened to make them more effective. In a rejoinder Arun and Turner- *posit*- argue that there has been grey areas in the ability of developing economies to strengthen their prudential regulation and supervision systems.

In their discourse on concepts and international observations on corporate governance of Insurance companies, Caprio and Levin (2002) have offered a conceptual framework for analyzing corporate governance in the industry. In this discourse, they observe that the companies are particularly opaque (informational barriers) hence it is very difficult for outsiders to monitor and evaluate insurance managers. This opaqueness makes it more difficult for policyholders, claimants and beneficiaries of insurance to write and enforce effective incentive contracts, to use their voting rights as a vehicle for influencing firm decisions, or to constrain managerial discretion through insurance covenants. They argue further that government regulations frequently exacerbate corporate control problems in the industry. According to Caprio and Levine (2002), large informational barriers imply that outside bidders will neither have sufficient information to initiate a take over, nor will outsiders generate a sufficient takeover threat to limit managerial discretion. In a synopsis, the enhancement of information disclosure system, creation of incentives for private and independent agents to monitor insurance companies, and strengthening legal and bankruptcy systems will fundamentally improve the infrastructure of corporate governance.

In another discourse, Berth *et al* (2001) demonstrate that regulation and supervisory systems that foster more accurate information disclosure empower private investor's legal rights, and do not offer very confidence to the insurance system performance and stability. Alchin (1950) and Stigler (1958) stress the importance of competition. On the same view, Berth *et al* (2001) emphasize that competition among insurance companies also do improve corporate governance within them. However, the competition amongst the insurance companies in Kenya has been criticized as wasteful as there is a lot of duplication and underhand mal-practices. From the foregoing discussion the study will adopt the following conceptual framework formulated by Centre for Corporate Governance.

The Conceptual framework



Within this framework, we argue that: First, governments construct the basic legal system underpinning corporate governance; Type of ownership and control, directly have a bearing on the shareholders (minority and concentrated Shareholders) on how they exert corporate governance through their votes; Information asymmetry between inside and outside investors create more difficulty for equity and policyholders to monitor managers and use incentive contracts. It makes it easier for mangers and large investors to exploit the benefits of control rather than maximize value. It also makes it difficult for potential outside bidders with poor information to generate a sufficiently effective takeover threat to improve governance substantially; Regulations frequently impede natural corporate governance mechanisms.

The Kumar Mangalam Birla Committee (2002) contends that corporate governance is all about relating the company to different stakeholders that include: shareholders, policyholder, employees, suppliers and society at large. The committee further states that corporate governance implies company management assuming the role of trusteeship with attendant checks and balances that creates an organisation that gives greater customer satisfaction, has high employee morale and commitment, enhances shareholder value and is sensitive to societal concerns. However, the report emphasis that corporate governance is no substitute for good management practice. While corporate governance is only a philosophy, good management practice is an effective mechanism to convert philosophy into action.

Dr. Bassel Hindawi, the Director General of the Insurance Commission in Jordan noted in 2001 that high corporate governance standards reflect positively on the management of insurance companies by efficient use of their resources, improve market competitiveness and strengthen the stability of financial markets, which subsequently, represents an element of investment. He observes states that corporate governance has three major dimensions: Ethical, Efficiency and accountability. The image of the insurance industry will depend on how it handles these three major dimensions. He further observed that corporate governance exists beyond corporate law. Its fundament objective is not the mere fulfilment of requirements of law but ensuring the commitment of the board in managing the company transparently. Corporate governance is not a static phenomenon but a dynamic mechanic of good management.

2.3 Parties to Corporate Governance

American Institute of Corporate Governance (2002) defines corporate governance as an internal system of encompassing policies, processes and people, which serves the needs of shareholders and other stakeholders by directing and controlling management activities with good business savvy, objectively and integrity. Sound corporate governance is reliant on external marketplace commitment and legislative, plus a healthy board culture which safeguards policies and processes. The institute observes that the shareholders delegate decisions rights to the managers to act in the principal's best interests. This separation of ownership from control implies a loss of effective control by shareholders over managerial decisions.

This view is also shared by Eugen Fama and Michael Jensen on their "The Separation of Ownership and Control" (1983). Board of directors often plays a key role in corporate governance. It is their responsibility to endorse organisation's strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability of the organisation to its owners and authorities. Of importance is how directors and management develop a model of governance that aligns the values of the corporate participants and then evaluate this model periodically for its effectiveness. The institute furthers observes that all parties to corporate governance have an interest, whether directly or indirectly. Partly as a result of this separation between the two parties, a system of corporate governance controls is implemented to assist in aligning the incentives of managers with those of shareholders. With the significant increase in equity holdings of investors, there has been an opportunity for a reversal of the separation of ownership and control problems because ownership is not diffuse. A key factor in an individual's decision to participate in an organisation through providing financial capital is the trust that he will receive a fair share of the organisations returns. If some parties are receiving more than their fair return, then participants may choose not to continue participate leading to organisation's collapse.

Schellener and Wood (2001) conclude that the board of directors is by law the ultimate holder of authority granted to a corporation by its charter. It has the responsibility to manage or direct the management of the corporation, it provides an additional check on managerial decisions. It represents a first line of defence against incompetent management and a primary objective of being shareholders' advocates.

In their studies Finkelstein and D'Aveni (1994) argued that the same person should not hold the CEO and chairman roles simultaneously as this would reduce the effectiveness of the board monitoring. Fama and Jensen (1993) established that the composition of the board of directors is a critical factor in entrenching the effectiveness of the board as an objective monitor of the management. The ability to effectively monitor management has been directly linked to board independence by the empirical evidence where the degree of independence is in turn related to its composition.

2.4 Principles of Corporate Governance

Corporate Governance Institute of India (2002) states that the key elements of good corporate governance include: honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect and commitment to the organization. The Institute goes on to state the importance of directors and management in developing a model that aligns the values of the corporate participants and then evaluating this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest and disclosure in financial reports.

According to Corporate Governance Centre (2004) the following are the major principles of good corporate governance practices: adequate corporate values; codes of conduct and other standards of appropriate behaviour and the system used to ensure compliance with them; clear assignment of responsibilities and decision making authorities; incorporating hierarchy of required approvals from individuals to the board of directors; strong internal control systems including internal and external audit functions and risk management functions; integrity and ethical behaviour at all levels;, disclosure and appropriate information flows and transparency to the general public; rights and equitable treatment of shareholders and their interests. The same principals have been sighted by the Basal Committee on Insurance Companies Supervision (1999). The committee observes that these principles of good corporate governance are the pillars of effective management practices and are applicable in both developed and developing countries.

The Committee points out the following issues involving corporate governance principles: Oversight of the preparation of the entity's financial statement; internal controls and the independence of the entity's auditors; review of the compensation arrangements for the chief executive officer and other senior staff; the way in which individuals are nominated for positions on the board; the separation of ownership, control and oversight ,management of risk; fitness and qualifications of the board members.

2.5 Mechanism and Controls of Corporate Governance

In "A Board Culture of Corporate Governance" by O'Donovan in 2003, corporate mechanisms and control are defined as deliberate checks and balances instituted to direct and manage an organisation in such a way that it achieves its set goals and objectives. He further argues that mechanism and controls are designed to reduce the inefficiencies that arise from moral hazards and adverse selections. He contends that internal corporate governance controls monitor activities and the take corrective action to accomplish organisational goals. Such controls include monitoring by the board of directors and setting of performance-based remuneration. External corporate governance controls encompass the controls external stakeholders exercise over the organisations. Such controls include: debt covenants; external auditors; government regulations; competition and scrutiny. O'Donovan concludes that these mechanisms and control are vital ingredients in enhancing good corporate governance practises even in developing countries. He argues that too much of corporate governance debate has centred on legislative policy, to deter fraudulent activities and transparency policy which misleads executives to treat the symptoms and not the cause.

The Kumar Mangalam Birla Committee 2003 on good corporate governance suggests four important forms of oversight that should be included in the organisational structure of any insurance company and these include: oversight by the board of directors or supervisory board, oversight by individuals not involved in the day-to-day running of the business areas, direct line supervisory of different business areas and independent risk management and audit functions. In summary, the Committee demonstrates the importance of key personnel being fit and appropriate for their jobs as well as presence of a strong internal structure of governance in any organisation.

However, the Committee cited some systemic problems of corporate governance which include: supply of accounting information which, provide a crucial link in enabling providers of finance to monitor directors; a barrier to shareholders using good information is the cost of processing it especially to a small shareholder. The traditional answer to this problem is the efficient market hypothesis; monitoring costs whereby shareholders must combine with others form a significant voting group which can pose a threat of carrying resolutions or appointing directors at a general meeting.

Colley, Doyle, Logan and Stettinius (2001) on self-regulation versus principles argue that rules can be more complex than principles in real practice. Rules reduce discretion on the part of individual managers as they demarcate a clear line between acceptable and unacceptable behaviour. They further contend that enforcement of the rules can affect the overall credibility of a regulatory system. Nevertheless, greater enforcement is not always better for if too far it can dampen valuable risk-taking.

2.6 Corporate Governance and Performance

In his "Global Investor Opinion Survey" of over 200 institutional investors first undertaken in 2000 and updated in 2002, Mckinsey found out that 80% of the respondents would pay a premium for well-governed companies. He defines a well-governed company as one that had mostly out-side directors, who has no management ties, undertakes formal evaluation of its directors and is responsive to investors' requests for information on governance issues. Other studies have linked broad perceptions of the quality of companies to superior share price performance. In a study of five years cumulative (1998-2002) returns of Fortune Magazine's survey of the most-admired firms, Antunovich et al found that those most-admired had an average returns of 125% whilst the least-admired firms returned 80%. In a separate study in 2002, Business Week enlisted institutional investors and financial experts to assist in differentiating between boards with good and bad corporate governance practices and found that, companies with the highest rankings had the highest financial returns.

Whittington (1993) on corporate governance and the regulation of Financial Reporting observes that the relationship between share ownership and firm performance is dependent on the level of ownership. He further suggests that increase in ownership above 20% cause management to become more entrenched and less interested in the welfare of their shareholders.

2.7 Corporate Governance in Developing countries

Meisel (2002) contends that establishing good corporate governance practices is essential to sustaining long-term development and growth in the developing countries as they move from closed, market unfriendly, undemocratic systems towards open, market friendly, democratic systems. He further says that good corporate governance system allows organisations to realise their maximum productivity and efficiency, minimising corruption and abuse of power and provide a system of managerial accountability.

According to Oman (2004), there are four priorities which developing countries should concentrate on while experiencing with new forms of corporate and public governance. The first is focus on improving the quality of information and increasing the speed at which it is created and distributed to public. The second is to allow individuals actors more autonomy while at the same time maintaining or increasing accountability. Thirdly, if a hierarchical organisation used to orient private activities toward the general interest, new countervailing powers should be encouraged to fill this role. Finally, the part the state plays and how government officials are selected must be considered if a developing economy is to achieve sustainable economic growth.

The Securities and Exchange Commission of Pakistan (2003) has established code of corporate governance for insurance industry in order to promote good business practices and bring uniformity throughout the insurance industry in Pakistan. The code primarily aims to establish a system whereby a company is directed and controlled in accordance with the best practices to protect the interests of stakeholders including the shareholders. It emphasizes on openness and transparency in corporate affairs and requires directors to discharge their fiduciary duties in a transparent, informed and diligent manner.

2.8 Effects of Good Corporate Governance Practices

Recently the Centre for Corporate Governance launched the Institute of Directors in a bid to help directors in Kenya as the country implements good corporate governance practices. Capital Market Authority (2002) guidelines on good governance practices recommended separation of the CEO and chairman position. In the guidelines, the following were indicated as the effects of good corporate governance practices: promotes efficient use of resources both within the company and the larger economy; helps to ensure the company is in compliance with the laws, regulations and expectations of the society; supports efforts to reduce corruption in business dealings; assists companies and economies in attracting lower-cost investment capital by improving both domestic and international investor confidence.

CHAPTER 3

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The study used a descriptive research design. Descriptive design was chosen because it has considerable ability to generate answers to the questions "what, who, when, where and how". It is also useful when the intention is to gain detailed and in-depth information and a rich understanding of the phenomenon being studied.

3.2 Population of study

The target population consist of 42 insurance companies in Kenya as per appendix 1. Out of these, 39 of them are locally owned and the other 3 are incorporated abroad or joint ventures with local investors. These companies have a wide geographical representation in the country with a branch found at many district headquarter. 21 of them do general business, 6 do life insurance and 15 do composite (both) businesses. Since there are only 42 registered insurance companies as at December 2006 in Kenya, the whole population was taken. A comprehensive list of all insurance companies in Kenya has been drawn (see appendix I).

3.3 Data Collection

Since the research is dealing with qualitative phenomena, interrogative study was adopted in collecting data. A standardized questionnaire containing both open-ended and closed ended questions was be used. The open-ended questions were meant to allow the respondent to give answers based on their discretion but with emphasis on relevance of the study topic. Closed ended questions were specific to what response the researcher was seeking towards the findings.

On corporate governance practices, data on the following was collected: Methods of appointment of Directors, professional qualification of directors, effectiveness of the boards in terms of leadership, integrity, enterprise and decision making and number of board meetings. On regulatory and supervision systems, data on: various governing bodies and authorities, compliance of the rules and regulations and their effectiveness insurance industry was collected. From the financial statements information such as gross turnover, net profit and earnings per share from the selected insurance companies was also collected. Information on the roles and responsibilities of the board and their effectiveness was also gathered. This was to help in determining if there exists any relationship between corporate governance practices and financial performance of the selected companies. The respondent of the questionnaire was the Chief Executive Officers of the insurance companies. This is because they have the overall overview of the operations and management of their companies.

3.4 Data Analysis

The data collected was analysed using content analysis. The data was computed and analysed with the help of frequency distribution tables, bar graphs and pie charts. The primary objective of this analysis was to provide in summary, the form of distribution a variable took. The current corporate governance conducts being practiced by the insurance companies were measured against the universal principles of corporate governance. Such principles include; separation of ownership and management; appointment of independent and professionally qualified board members; presence of strong internal and external auditors; compliance with Insurance Act's cap 487 rules and regulations; disclosure and appropriate information flows and transparency to the general public. Each one of these principles was tested and analysed against the prevailing practices by the management and the boards of the insurance companies. The tools of analysis included frequency distribution tables, bar graphs, 0-10 measure scale and pie charts.

CHAPTER 4

4.0 Research Findings

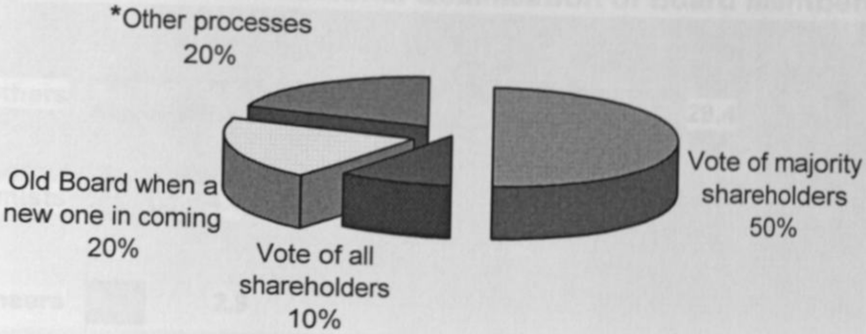
4.1 Introduction

This chapter contains the research findings on the boards composition, their qualifications, roles, responsibilities, and effectiveness. The findings also include compliance levels, financial and values performances. There were 42 licensed insurance companies in Kenya as at December 2006 with 21 of them writing general insurance, 6 writing life insurance while 15 are composite and all of them were studied. The companies have been in Kenya for a period ranging from 3 to 86 years. Out of the 42 companies 39 of them are locally owned and the other 3 are incorporated abroad.

4.2 Appointment of Board Members

The study indicated that the number of board members ranged from 6 to 13. It further showed that (50%) of the companies appointed their Board Members by vote of majority shareholders, 10% by all, 20% by old board and 20% by other processes – see figure 4.1 below. From the diagram, it is very clear that most of the boards appointed their members through majority shareholders.

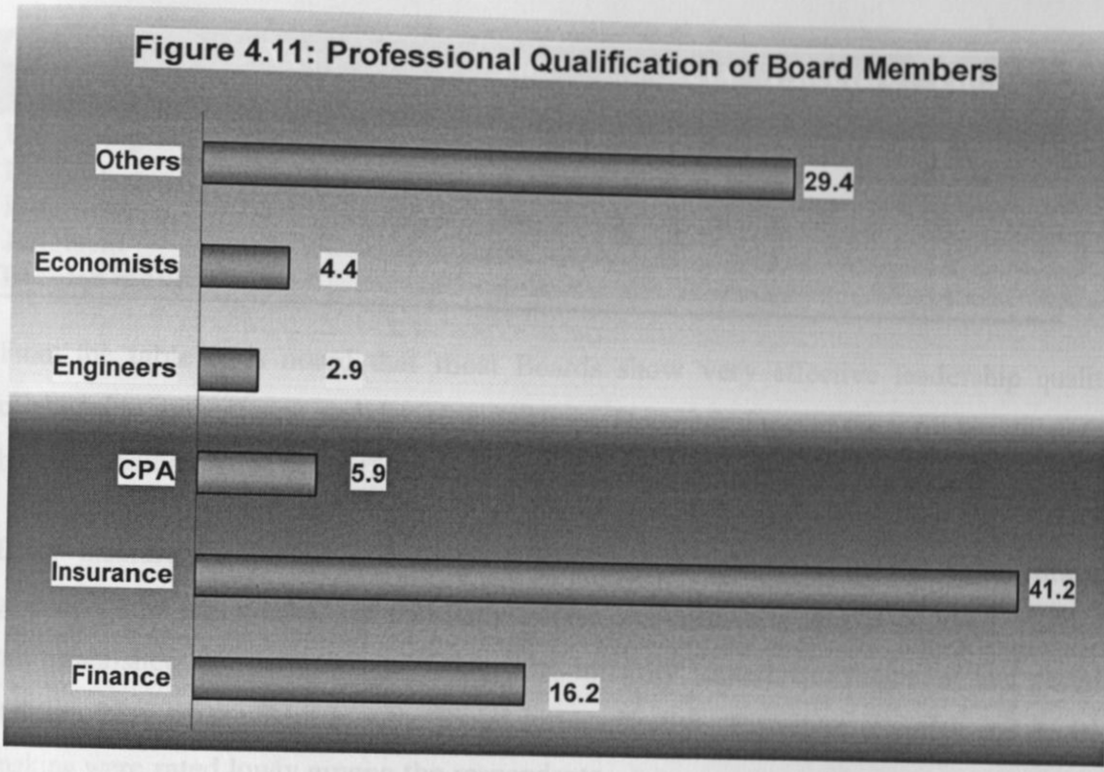
Figure 4.1: How the Board is Appointed



* The other processes taking 20% include: Nomination by the Board and the approval of appointment is done by the Shareholders and appointment by the Head office in the case of foreign insurance companies.

It is expected that a formal and transparent procedure in the appointment of directors to the board and all persons offering themselves for appointment, as directors should disclose any potential area of conflict that may undermine their position or service as director. The appointment procedures recorded include: Vote of majority shareholders; Nomination by the old Board; Vote of all share holders; Nomination by the Board and the approval of appointment is done by the Shareholders.

Of all the 42 licensed insurance companies, 20% conceded that there exist conflicts of interest among the directors. The most striking one being that some board members provide contractual services to the companies. The solution prescribed being that they normally disqualify themselves from deliberations of the tender awards. Regarding the composition of the Boards in terms of professional qualifications, there exists a professional mix which includes Insurance specialists, Banking and finance specialists, Certified Public Accountants, Engineers, Architects, Economists, Management and Insurance specialists. Figure 4.11 details this breakdown in proportions.



* The others as mentioned include: Architects, Management and lawyers specialists.

From figure 4.11 it is noted that majority of Board members of various companies are professionals in the areas of insurance followed by finance.

Men form the majority of board members as they range from 6 to 11 while female members range from 0 to 3. The study also showed that 50% of the companies have no female Board members at all. At least one of the companies reported that there are areas of conflict or overlap between the responsibilities of the board and management. These areas of conflict include: All the Board Members being managers; The Chairman of the Board being the Managing Director.

Regarding the Board's effectiveness in terms of leadership, integrity, enterprise, judgment and decision making, majority rated their Boards to be very effective as shown in table 4.1:

Table 4.1: Board's Effectiveness

Quality	Very Effective	Not very Effective	Effective	Total
Leadership	8	4	3	15
Integrity	5	8	2	15
Enterprise	7	6	2	15
Judgment	7	5	3	15
Decision making	4	6	4	15

From the table it is noted that most Boards show very effective leadership qualities compared to enterprising and decision making. However, most of those underwriting PSV business indicated not very effective in terms of integrity and decision making.

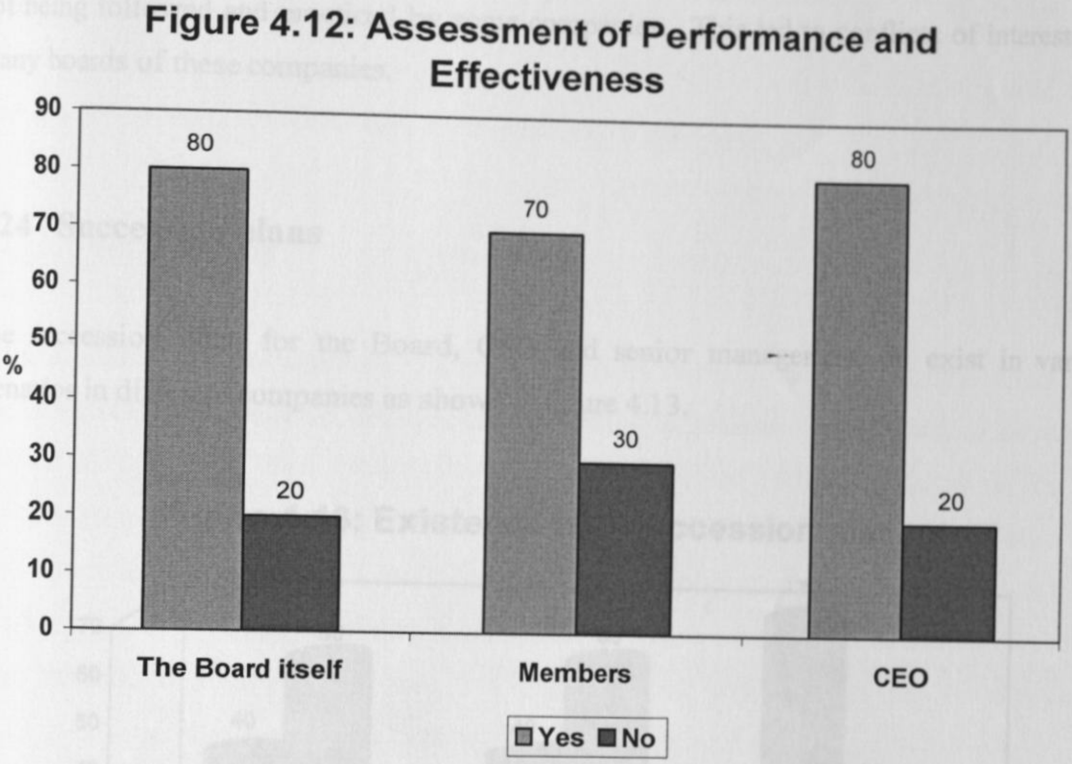
Every insurance company should be headed by an effective board to offer strategic guidance, lead and control the company and be accountable to its shareholders. The study has established that in terms of leadership, integrity, enterprise, judgment and decision making, 95% of the Boards were found to be effective. However, integrity and decision making were rated lowly among the respondents.

4.21 Board Meetings

The study revealed that (30%) of the boards have 4 meetings in a year. An average of 7 meetings per year with a range of 4 to 12 meetings was recorded for all the companies. In all the cases, the directors receive board papers at least one week before Board meetings. It was reported that 80% of the boards receive their papers one week in advance while in the 10% receive the papers two weeks before the meetings. Several ways through which the Board deliberations are communicated to shareholders and stakeholders were indicated. These include: Circulation of minutes; at the Annual General Meetings; Quarterly publications

4.22 Assessment of Boards Effectiveness

Figure 4.12 summarises the extent of the assessment of performance and effectiveness of the Boards, individual board members and the Chief Executive officers.



These assessments are normally done annually except for two companies which do them quarterly. Only 40% of them do make reports from these assessments, 80% of which are discussed at the Board meetings and the other 20% at the Annual General Meetings.

4.23 Induction and Training of Boards

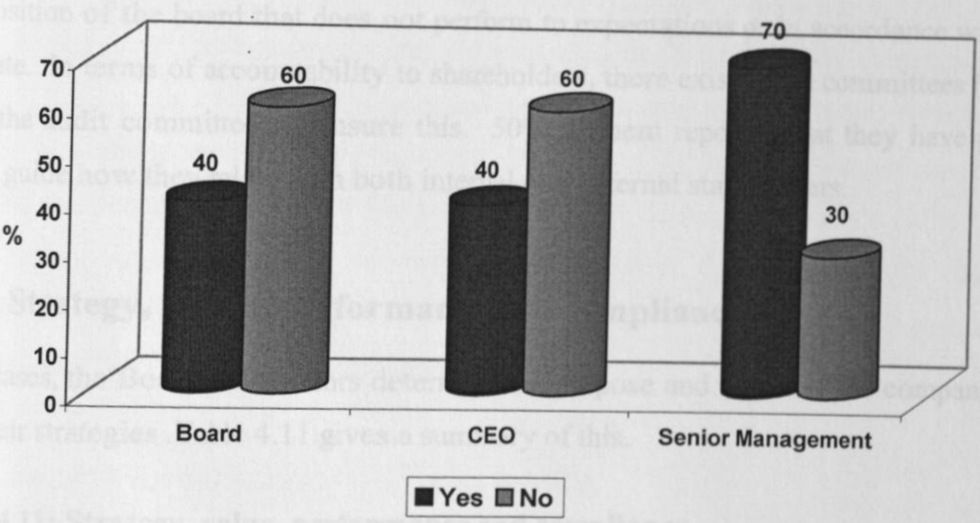
- Only 40% of the companies have induction programmes for new Board members.
- 55% have training or development programmes for directors.
- 80% have training or development programmes for executive management.

According to the Commissioner of Insurance, the boards of directors are expected to assume a primary responsibility of fostering the business of the companies in consistent with their fiduciary responsibility to the shareholders. In all cases, Board of Directors determines the purpose and values of the companies and also their strategies. The study found that there were conflicts of roles and responsibilities between directors and managers especially where some of the managers are also shareholders or directors. The guidelines issued by the Commission of Insurance on separation of ownership and management were not being followed and practiced by some companies. This led to conflicts of interests in many boards of these companies.

4.24 Succession plans

The succession plans for the Board, CEO and senior management do exist in varied scenarios in different companies as shown in figure 4.13.

Figure 4.13: Existence of a succession plan



It is apparent that some companies have succession plans for senior management compared to that of the Board and the CEO. Some of the succession plans recorded include: External and internal training for management; An arrangement where every head of a department has a deputy; Existing executive under the CEO; In one bank, the succession plan for the Board is that the next of kin of each member is nominated by the member in readiness to take over.

The succession plans for the Board, CEO and senior management do exist in varied scenarios in different companies. It is apparent that some companies have succession plans for senior management compared to that of the Board and the CEO. Some of the succession plans recorded include, external and internal training for management, an arrangement where every head of a department has a deputy, existing under the CEO. In three companies, however, the succession plan for the Board is that the next of kin of each member is nominated by the member in readiness to take over.

4.25 Shareholding

In three companies, the shareholders are not able to exercise the authority to ensure that only competent and reliable persons are elected or appointed to the board of directors. Neither do they have the power to ensure that the board is held accountable for the effective running of the companies, so as to achieve its objectives nor to change the composition of the board that does not perform to expectations or in accordance with their mandate. In terms of accountability to shareholders, there exist board committees (in most cases the audit committee) to ensure this. 50% of them reported that they have policies which guide how they relate with both internal and external stakeholders.

4.26 Strategy, values, performance and compliance

In all cases, the Board of Directors determine the purpose and values of the companies and also their strategies .Table 4.11 gives a summary of this.

Table 4.11: Strategy, value, performance and compliance

Indicator	In all cases	Sometimes	Not at all	Total
The purpose and values	6	2	1	9
The strategy	6	3	0	9
Implementation of the strategy	5	4	0	9

In ensuring that the procedures and values that protect the assets and reputation of the companies are put in place, 67% of them reported that this is the responsibility of everybody in the management position including the board and the CEO, 22% said it is the CEO while 11% said it is the Board.

In relation to the responsibility of monitoring and evaluation of the implementation of the companies' strategies, policy and management performance, 67% reported it that it lies on everybody in the management position including the board and the CEO, while 22% and 11% said it lies on the Board and CEO, respectively. Regarding who reviews the viability and financial sustainability of the companies, 56% reported that it is the responsibility of everybody in the management position including the board and the CEO while 22% indicated that it is the board and the Chief Executive.

All the companies reported that they have measures in place to ensure that they comply with all relevant laws, regulations, governance practices, accounting and auditing standards. Some of these measures include annual audit, Insurance Act, Commissioner of Insurance inspections and governance and control committee functions. 44% of them reported that these measures are enforced by everybody in the management position including the board and the CEO, the board (22%), all departmental heads (22%) and the Chief Executive (11%). All the companies reported that their boards have risk management on the agenda. Again in all the cases the directors are allowed to seek professional advice which legal, regulation and audit advice.

4.27 Supply and disclosure of information

In all the companies, the boards are supplied with relevant, accurate and timely information to enable them discharge their duties. The study established that the directors receive board papers at least one week before Board meetings. The information is relevant and given the timeframe of 1 to 2 week, the study considers it to be timely. However the study was not able to establish the accuracy of this information. There are also several ways through which the Board's deliberations are communicated to shareholders and stakeholders which include: circulation of minutes at the Annual General Meetings and quarterly publications.

Within the legal frame work, the board is expected to annually disclose in its annual report, its policies for remuneration including incentives for the board and senior management, particularly the quantum and component of remuneration for directors including non executive directors on a consolidated basis in the categories of executive directors fees, executive directors emoluments, non executive directors fees and non executive directors emoluments. When all the annual reports were perused, none of the companies has complied with this governance practice. Most of the companies simply state the director's remuneration or staff cost, but they do not give a break down as required, others do not state it at all.

Only one company was transparent enough to give – in the annual report - a list of the major shareholders, share options and other forms of executive compensation that have to be made or have been made during the course of the 2006. None of the companies gave aggregates of directors' loans – which is considered a standard transparency and an indicator of good corporate governance.

4.3 Corporate Social responsibility

Only 60% of the insurance companies have corporate social responsibility programmes which include: support of charitable events, community service and environmental conservation programmes. The insurance companies in Kenya need to embrace corporate social responsibility functions as a way giving back to the community the resources and profits they have acquired through the same community. This would help in creating and fostering positive relationship between the companies and communities.

4.4 Legal framework

The insurance companies operate under the following legal frameworks:

- The Insurance Act.
- The Companies Act.

The companies have regulatory and supervisory systems which are operated under their umbrella association called The Association of Kenya Insurers – AKI. 97% of the respondent indicated that they comply 100% with the rules and regulations under the Insurance Act. 95% of the respondents said that they comply 100% with the business ethics and claims settlement. Compliance with set rules and regulations means that the companies are being accountable to the created legal framework which, in turn boosts the public confidence in them.

4.5 Separation of ownership and management

90% of the respondents indicated that they have senior managers who are also shareholders of the companies. However, only 75% have managed to resolve the apparent conflicts of interest by establishment code of ethics. It is apparent that this is a problem of separation of ownership and management in the insurance industry in Kenya. This may be a reason as to why four insurance companies have collapsed since 2001 and 9 others have their solvency margin below the required rate.

4.6 Internal control mechanisms

10% of the respondents indicated that they do not have strong internal audit departments. However, all the respondents indicated that they have external auditors as per requirement Insurance Act and the Company Act cap 487. Only 80% of the respondents have audit committees in place headed by non-executive directors.

The insurance companies are supposed to have strong internal control mechanisms to safeguard the interest of the minority shareholders from the excesses of the management. The study revealed absence of internal audit departments in some insurance companies. Even those that have these departments, they are not strong enough. Lack of audit committee was reported in many of the respondents. This indicates weak internal control mechanism especially in private limited liability companies.

4.7 Financial performance and governance practices

The study revealed that those companies which indicated high gross turnover and profits were also found to have high qualified directors, existence of code conduct and separation of ownership and management. Those underwriting PSV business were found to have huge cashflow but also reported huge claims between 2004 – 2006. Separation between ownership and management was found to be a big problem especially the small companies which are family controlled.

CHAPTER 5

5.0 Conclusions and Recommendations

5.1 Conclusions of the study

This study revealed some weaknesses in the corporate governance among the insurance companies in Kenya. This is particularly so in operationalizing the principles of good corporate governance and ensuring that these principles are practiced and upheld.

Separation of ownership and management was found to be major problem amongst the insurance companies in Kenya. In many instances, top managers were also directors and shareholders at the same time. Separation of ownership and management should be upheld and practiced by all the insurance companies as laid out in the insurance act and the guidelines issued by the Commissioner of insurance.

The study revealed that there are no minimum professional and academic qualifications set for the members of the boards of directors. In some cases board members were selected or hand picked by the majority shareholders instead of proper election. Minimum professional and academic qualifications and ethical standards should be set out to form criteria for election of board members. Experience and track record should be critical ingredient in selection and appointment of the board members.

The study revealed that some companies do not have internal audit functions which indicates a weak internal control mechanism. To minimize operating risks, the appropriate infrastructure, control systems and people must be put in place. This would include establishment of strong internal audit functions, segregation of duties, risk monitoring methods adequate financial and managerial information flows and reporting.

Succession plans, induction and training for top managers and directors were not exercised by some insurance companies. There should be deputy managers or training programmes in place for effective execution of succession plans. Induction and training programmes for directors should be implemented to enhance their contributions to the insurance companies.

5.2 Limitations of the study

Some of the insurance companies were reluctant to give detailed information on their operations especially in those areas that would expose their weaknesses such as how they resolve the ownership and management conflicts. Without such information, I was not able to analysis in great details the extent of ownership-management conflicts. The other problem was that the study was limited to insurance industry only and did not cover the other sectors of the economy.

5.3 Recommendation for further research

The study has explored the current corporate governance practices in the Kenya insurance industry. A replica study could be carried out after a few years to establish whether there has been changes on the corporate governance practices in the industry over time. Perhaps focus should be on the insurance companies underwriting PSV business as five of them have collapsed in the last seven years.

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APPENDIX: 1 LIST OF ALL REGISTERED INSURANCE COMPANIES

1. A.I.G GLOBAL INSURANCE COMPANY LTD
2. AFRICAN MERCHANT INSURANCE COMPANY LYD
3. APA INSURANCE COMPANY LTD
4. APOLLO INSURANCE COMPANY LTD
5. BLUE SHIELD INSURANCE COMPANY LTD
6. BRITISH AMERICA INSURANCE COMPANY LTD
7. CANNON ASSURANCE COMPANY LTD
8. CFC LIFE ASSURANCE COMPANY LTD
9. CONCORD INSURANCE COMPANY LTD
10. CO-OPERATIVE INSURANCE COMPANY LTD
11. CORPORATE INSURANCE COMPANY LTD
12. DIRECTLINE ASSURANCE COMPANY LTD
13. FIDELITY SHIELD INSURANCE COMPANY LTD
14. FIRST ASSURANCE COMPANY LTD
15. GATEWAY INSURANCE COMPANY LTD
16. GEMINIA INSURANCE COMPANY LTD
17. GENERAL ACCIDENT INSURANCE COMPANY LTD
18. INSURANCE COMPANY OF EAST AFRICA LTD
19. INTRA AFRICA ASSURANCE COMPANY LTD
20. INVESCO ASSURANCE COMPANY LTD
21. JUBILEE INSURANCE COMPANY LTD
22. KENINDIA ASSURANCE COMPANY LTD
23. KENYA ORIENT INSURANCE COMPANY LTD
24. KENYA ALLIANCE INSURANCE COMPANY LTD
25. LION OF KENYA INSURANCE COMPANY LTD
26. MADISON INSURANCE COMPANY LTD
27. MAYFAIR INSURANCE COMPANY LTD
28. MERCANTILE INSURANCE COMPANY LTD
29. MONARCH INSURANCE COMPANY LTD
30. OCCIDENTAL INSURANCE COMPANY LTD
31. OLD MUTUAL LIFE ASSURANCE COMPANY LTD
32. PACIS INSURANCE COMPANY LTD
33. PAN AFRICAN LIFE ASSURANCE COMPANY LTD
34. PHOENIX OF EAST AFRICA ASSURANCE COMPANY LTD
35. PIONEER GENERAL ASSURANCE COMPANY LTD
36. ROYAL INSURANCE COMPANY LTD
37. STANDARD ASSURANCE COMPANY LTD
38. TAUSI INSURANCE COMPANY LTD
39. THE HERITAGE ALL INSURANCE COMPANY LTD
40. TRIDENT INSURANCE COMPANY LTD
41. TRINITY LIFE ASSURANCE COMPANY LTD
42. UAP PROVINCIAL INSURANCE COMPANY LTD

Appendix II

THE QUESTIONNAIRE

A SURVEY OF CORPORATE GOVERNANCE PRACTICES IN INSURANCE INDUSTRY IN KENYA

Date: ____________________________________

Name of Insurance Company ____

A: Demographic data

QA1. For how long has your company been in operation in Kenya? [____________ Years]

QA2. (a) Please tick the nature of services offered by your company

[i] General insurance business [____________]
[ii] Life insurance business [____________]
[iii] Composite insurance business [____________]

B: Management and the Board

QB1. What is the total number of the Board of Directors (Tick the appropriate one)

[i] 2 – 5 [__________]
[ii] 6 – 10 [__________]
[iii] 11 – 15 [__________]

QB2. How is the board appointed? **(Tick one)**

[i] by the vote of majority shareholders [________]
[ii] by the old board when a new one is coming into office [________]
[iii] a head hunt by the chairman [________]
[iv] other process [__________] [please state] ____________________

QB3. What is the composition of the board in terms of professional qualification? **(Give numbers)**

[1] Insurance [______

[2] Banking and finance specialists [______

[4] Engineers [______

[6] Other professions [list and give numbers ______

QB4. What is the composition of the board in terms of gender? **(Give numbers)**

[1] male [______

[2] female [______

QB5. How effective do you consider the Board to be in exercising the following so as to achieve the company objectives: **(Tick the appropriate one)**

Key: [1] very effective [2] not very effective [3] effective [4] below average

	[1]	[2]	[3]	[4]
(i) Leadership				
(ii) Integrity				
(iii) Enterprise				
(iv) Judgment				
(v) Decision making				

QB6. How frequently does the Board meet in a year? (Tick one of the following)

(i) 1 – 3 times [______]

(ii) 4 – 7 times [______]

(iii) 8 – 12 times [______]

QB7. Please describe how the board communicates its deliberations to shareholders and stakeholders ______

QB8. (a) How frequently does the board assess the performance and effectiveness of the following?

(Please tick the applicable one)

	Annually	Quarterly	Half yearly
(i) itself			
(ii) individual members			
(iii) the Chief Executive			

QB9. Are there any induction programmes in place for new Board members?

[1] Yes [__________] [2] No [__________]

If yes, briefly explain how it works______________________________

QB10. Are there continuous members' skill development programmes for the Board?

[1] Yes [__________] [2] No [__________]

If yes, briefly explain how it works______________________________

QB11. Is there any training programme for the management and other staff?

[1] Yes [________] [2] No [______]

If yes briefly explain how it works______________________________

____

QB12. Does the company have a succession plan for the senior management?

[1] Yes [________] [2] No[______]

If yes, briefly explain how it works______________________________

QB13. Please, briefly give measures that can be taken by shareholders to ensure that only competent and reliable persons are elected or appointed to the Board of Directors

____

____

____

D: Performance and Compliance

(Please tick the relevant response here blow)

QD1. Would you say the company complies with rules and regulations in the following:

Key: [1] in all cases [2] sometimes [3] not at all

[3]	[1]		[2]
(i) Insurance Act cap 486			
(ii) Business ethics and morals			
(iii) Settlement of claims			

QD2. Who monitors and evaluates the implementation of the company's strategies, policies, plans and management performance?

[1] the board [ ]
[2] the chief executive [ ]
[3] the external auditors [ ]
[4] all departmental heads [ ]
[5] everybody in the management position including the board and the CEO [ ]

QD3. Please kindly state the measures the company uses to ensure that it complies with all relevant laws, regulations, governance practices, accounting and auditing standards?____

____

____

____

QD4. Who enforces these measures?

[1] the board [ ]
[2] the chief executive [ ]
[3] the external auditors [ ]
[4] all departmental heads [ ]
[5] everybody in the management position including the board and the CEO [ ]

QD5. Does your company have an internal audit department ____________
If yes, what are the measures taken to ensure that the department is strong and not influenced by the management.

E: Financial and Values performance
(Please tick the relevant response hereblow)

QE1. Would you say the Board of Directors determines the following?:

Key: [1] in all cases [2] sometimes [3] not at all

	[1]	[2]	[3]
(i) The purpose and values of the company			
(ii) The strategy to achieve the company's goal			
(iii) Implementation of the company's values			

QE2. What are some of the key performance indicators that the company has in place?

____

____

____

QE3. How has been the company's performance in the following: (**indicate amounts**)

	Year 2006	Year 2005	Year 2004
Gross premium (shs)			
Net profit (shs)			
Incurred claims (shs)			

QE4. Are there members of the board who are also managers in the company? __________

If yes, how are the conflicts of interests resolved?

____

____

____

____

____