A Survey of Corporate Governance Practices among Insurance Companies in Kenya

By

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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 3/10/02

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This project has been submitted for examination with my approval as a university supervisor

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TABLE OF CONTENTS

DECLARATION 1
ACKNOWLEDGEMENTS 3
DEDICATION 4
CHAPTER 1 - INTRODUCTION 5
1.1 Background 5
1.2 Research problem 7
1.3 Objectives of the study 9
1.4 Significance of the study 10
1.5 Hypothesis 10
1.6 Limitations and scope of the study 11
CHAPTER 2-LITERATURE REVIEW 12
2.1 The Concept of Corporate Governance 12
2.2 The Genesis of the current interest in Corporate Governance 13
2.3 The Corporate Governance debate 15
2.4 Channels of Corporate Governance 17
2.5 Overview of developments in Corporate Governance 24
2.6 The role of the Insurance Companies 26
2.7 The issues of Corporate Governance in the Insurance Industry 27
CHAPTER 3-RESEARCH METHODOLOGY 32
3.1 The population 32
3.2 Data collection 32
3.3 Data analysis 33
CHAPTER 4 - DATA ANALYSIS AND RESEARCH FINDINGS 34
CHAPTER 5 - DISCUSSION, SUMMARY AND CONCLUSION 46
5.1 Discussion 46
5.2 Summary 49
5.3 Conclusion 51
REFERENCES 53
APPENDIX A- Questionnaire 57
APPENDIX B- List of licensed insurance companies 63

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DEDICATION

To my family,

Mary and Caroline

CHAPTER 1 - INTRODUCTION

1.1 Background

The study of corporate governance has generated a lot of debate all over the world. However much of the debate has concentrated in Europe and the United States of America. The rest of the world, until recently has had lukewarm embracement of this debate. Specifically in this country, it was not until the late 1990s that we started hearing of this debate in open forums.

Cadbury (1992) defines Corporate Governance as "the system by which companies are directed and controlled". It also refers to corporate governance as "the way in which the affairs of the corporation are handled by corporate boards and officers". Hampel (1998) observes that "good governance ensures that constituents (stakeholders) with a relevant interest in the company's business are fully taken into account". Monks (1998) also shares the foregoing views seeing corporate governance as "the relationship among various participants in determining the direction and performance of the companies consistent with the public good'.

Wambua (1999), carried-out a study of governance practices in the banking industry in Kenya whose findings were as follows: There was overwhelming 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.

The study also reported that majority of the boards met the minimum requirements, the unitary boards appeared very popular and that committees adopted appeared to reflect appropriate responsibility.

Communities are becoming increasingly concerned about how companies are run; this has been as a result of the realization of the effect of company decisions on the operating environment. Besides, society has come to appreciate that it has certain rights as to the way companies are managed. Moreover, society and companies are mutually interdependent hence the serious need for accountability on the part of the companies, failure to which certain negative consequences will ensue.

This can be supported by the conventional wisdom that poor governance and company profitability are inversely related and the general understanding that good governance usually translates to companies' long-term existence and generation of profit. Corporate governance is an important concept in the fight against unacceptable corporate behavior often leading to the demise of many business enterprises, Stiles (1993), Newman Logan and Hegarty (1989) and Demb and Neubauer (1992).

Corporate governance nurtures all progressive traits and at the same time discourages irregularities in corporations, Cadbury (1995). The corporate governance debate has of late taken center stage owing to: the prevailing hard economic times exposing corporate weaknesses, while the environmental turbulence has exposed companies to major challenges in the form of business risks. In light of the operating environment, the boards cannot therefore afford to overlook corporate frauds, mismanagement and unjustified executive management pay etc.

1.2 Research problem

In the local Insurance industry, the governance debate has been raging on for a long time with some stakeholders arguing that most underwriters are extortionists fleecing the insured off their hard-earned money by way of premiums, with no intention of indemnifying them in the event of eventualities. Indeed the Commissioner of insurance's report to the treasury for the year 1999 reported that, 452 claims related complaints were received at the office of the Commissioner of Insurance, out of which only 95 were resolved in the year, Insurance Annual Report (1999).

The underwriters on the other hand have retorted that the premium rates charged are way below the technically feasible rates to even justify a breakeven point. Statistics from the Insurance Annual Report (1999) indicate that the general insurance business incurred net claims of KShs 6.9 billion in 1999, as compared to earned premium of KShs 11.09 billion translating into a loss ratio of 62.63% as compared to 73.68 % in 1998.

Industry lobbyists also contend that the industry is riddled with a lot of moral hazards that make underwriting business prone to both padded and fraudulent claims hence becoming extremely unprofitable. To attest to this in part, statistics from the Insurance Annual Report (1999) indicate that the industry registered an aggregate underwriting loss of KShs 137.6 million in 1999 compared to a loss of KShs 59 million in 1998.

The industry has also had to contend with numerous claims particularly in the underwriting of group personal accident, workmen's compensation, employers' liability (common law) and motor classes coupled with extremely poor cash flows because of a poor record of remittance of premiums by the intermediaries, especially the broking fraternity. It would be worthwhile to note that as at 31st December 1999, KShs 5.2 billion

was tied up in outstanding premiums, compared to KShs 4.9 billion in 1998, a whooping 32.4% of the gross premium income written in the year. Insurance Annual Report, (1999).

Others contend that the industry is facing the problem of market over capacity, hence the ridiculous rate under-cutting currently being witnessed. Indeed the 1999 annual industry report to the treasury indicates that the general business average premium booked in 1999 was KShs 434 million, with only 15 out of thirty-six companies, having exceeded this average.

The shareholder may argue that the managers, to whom they have entrusted the running of the organizations, may not be working in their best interests and are geared to serving their own interests to the detriment of their welfare. Such arguments may be based on allegations of unprofessional acceptance and pricing of risks, poor claims management systems, inappropriate investment decisions and temptations to award themselves high remuneration packages.

As at 31.12.1999, an insurer carrying on long term business was required to have a solvency margin of at least kshs1million. On the other hand, those carrying out general insurance business had to maintain a solvency margin of not less than kshs10 million or 15% of the previous year's net premium whichever was higher.

Those carrying on both types of business were required to maintain separate solvency margins for each type of business. The Insurance Annual Report (1999) indicates that a total of five companies did not meet the solvency margin requirements in 1999. It was also noted that management expenses, standing at KShs 5.33 billion at the close of

1999 were increasing at a higher rate than the average rate of growth in premium income, probably an indication of conflict of interest.

The survey carried out in the banking sub-sector by Wambua (1999) was largely meant to document the governance practices in that industry. The above survey, though carried out within the wider financial sector, did not fully address the apparent conflicts in the Insurance industry, leaving a research gap.

This study was therefore designed to fill the gap by seeking to determine the level of governance practices within the insurance industry, determining whether there exists any relationship between the ownership of the companies and type of business written on one hand, and the nature of governance practices. Last but not least, it also sought to determine whether there was a relationship between governance practices and financial performance of these companies.

1.3 Objectives of the study

- To identify the level of governance practices in the insurance companies operating in Kenya.
- To determine whether there exists any relationship between the corporate governance practices on one hand and ownership and the type of business written by the insurance companies operating in Kenya on the other hand.
- To determine whether there exists, any relationship between corporate governance practices and financial performance of insurance companies operating in Kenya.

1.4 Significance of the study

- The study will provide an insight in to the current governance practices in the industry for further research.
- The study will also provide a starting point for stakeholders interested in enhancing corporate governance in the industry.
- The study will be of specific significance to the Kenya government in formulating future policies and regulations affecting the insurance industry.
- The study will also be of significance to the insuring public in that they will have an insight in the levels of good governance in the industry and which, it is hoped, will assist them in decision-making.

1.5 Hypothesis

First hypothesis

Ho That no relationship exists between corporate governance practices in the industry and ownership of the respective companies.

H1 That a relationship exists between corporate governance practices in the industry and ownership of the respective companies.

Second hypothesis

Ho That no relationship exists between corporate governance practices in the industry and type of business written by the respective companies.

H1 That a relationship exists between corporate governance practices in the industry and type of business written by the respective companies.

Third hypothesis

Ho That no relationship exists between corporate governance practices in the industry and the financial performance of the respective companies.

H1 That a relationship exists between corporate governance practices in the industry and the financial performance of the respective companies.

1.6 Limitations and scope of the study

In this study, only thirteen insurance companies responded positively, the rest either out-rightly declined to participate or ignored the request for participation despite repeated follow-ups.

CHAPTER 2-LITERATURE REVIEW

2.1 The Concept 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 and energy towards promoting the social and economic wellbeing of societies, states, and the world at large, Drucker (1974), Kiggundu (1989).

Corporate governance has evolved as a result of this need: to impose restraint and demand accountability by society that gives mandate to the existence of these commercial enterprises, since society has often times suffered serious misfortunes because of irresponsible corporate behavior. Society therefore seeks to contain such irresponsibility through various governance channels, Stiles (1993), Newman, Logan and Hergaty (1989).

Governance can only be seen in relative and not in absolute terms, given the relative stages of development various countries find themselves in, hence the difference in the interpretation of what is good governance and what is not. It is also affected by personality differences among individuals, occasioned principally by factors such as education, culture and social background, legal systems and beliefs.

Managers, left on their own may want to pursue their own goals thereby hurting the owners they were meant to protect in the first place. The owners on the other hand, may wish to maximize returns on their investments, while other stakeholders may have interests akin to the owners.

Likewise, employees, creditors, suppliers and government will have their respective incongruent goals. Left alone, all these stakeholders would want to maximize their own goals; a situation that is not tenable, as in most cases the individual stakeholder preferences are at conflict with each other.

The subject of corporate governance which is well developed in the concept of agency theory, as expounded by Jensen and Meckling (1976), ensures that systems are put in place to not only ensure that management does not act in their own selfish interests. It also endeavors to ensure maximization of the shareholders' value.

Jensen and Meckling (1976) applied the logic of agency theory to issues of minimizing the intra-corporate conflicts, while at the same time taking cognizance of the role the political process plays in resolving potential complications, by focusing on the important concept of exploiting self-interest in the attainment of corporate goals.

However, to fully appreciate the scope of corporate governance a couple of other factors are important: accountability and transparency. The former implies that one has to give an account of what has been done, how it has been done and the results thereof, while the latter calls for some fair measure of public scrutiny to corporate activities in which there is a significant degree of public interest.

2.2 The Genesis of the current interest in Corporate Governance

Longeneck and Pringle (1981) documented issues relating to corporate governance in the 1970s, 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, Demb and Neubauer (1993); Longeneck and Pringle (1981).

Financial failures and questionable business practices in the 1970s and 1980s led to a number of initiatives, the Treadway Commission, which was formed in 1985 and reported in 1987, for example, found out that almost 50 per cent of fraudulent financial reporting resulted in part from breakdown in internal controls.

It recommended integrating the many different internal control philosophies then current. The agenda for those in the field of corporate governance has been to develop a variety of rewards and punishments to better align the managers' interest to those of shareholders and, to a lesser extent other stakeholders.

By the late 1980s, the public and corporate boards begun to demand a more active role in corporate governance having recognized that their intervention could soften the impact of corporate restructuring on workers, communities, operations and profits. The foregoing developments led to the modern field of corporate governance, which examines the legal cultural and institutional arrangements that determine the direction and performance of corporations. The participants include the shareholders, the board members, the management of the firm, and other participants including advisors, creditors, employees, customers, suppliers, the government and its citizens.

2.3 The Corporate Governance debate

Fortune magazine conducts an annual survey of blue chip companies in which respondents rate them on eight criteria: management quality, product quality, financial soundness, investment value, innovation, asset use, community involvement and environmental responsibility, and ability to attract, develop and retain talented people. Roots, (1998), concludes that there is a consistent high correlation between the fortune rankings and high shareholder returns.

Considerable literature has been developed to describe how the boards can better discharge their directorial responsibilities. They include among others, placing a limit to the number of boards each member may serve, Lipton and Lorsch (1992) suggest three. Requiring that directors have meaningful financial commitment in the corporations in whose boards they seat. Selecting directors by nomination committees comprised of independent directors. Limiting the number of insiders allowed on the board, designing a lead director when the CEO and the chairman are the same person, Lipton (1992) and holding a regularly scheduled board evaluation.

There is empirical evidence to suggest that good corporate governance not only creates value, it reliably and consistently creates more value than other methods of investing. It is also imperative, to note that there can be no successful systems of corporate governance without committed and knowledgeable long-term shareholders, management with preconditions and incentives for long-term performance and with such management being accountable to shareholders, Allen (1994).

The concept of corporate governance has to date, not changed a lot. However, the governance debate has gained a lot of prominence in various forums, including boardrooms, associations and media houses across the world. Various writers have documented this debate, Demb and Neubauer (1992).

The search for good corporate governance has been unsuccessful in ensuring that top management do act responsibly as to date companies are still unable to run at optimal levels nor have they optimized the utilization of the corporate resources, Drucker (1974). Stiles (1993), has written extensively about high profile corporate scandals leading to collapses, the BCCI, the Maxwell etc, unjustified executive pay awards, and cover-ups resulting from creative accounting.

The emphasis in the United Kingdom has largely been based on declining competitiveness of their companies especially as compared to those of Japan, Germany and the newly industrialized countries. Hence the commissioning of the Cadbury committee, and the adoption of its recommendations. Similar concerns have taken root in United States of America largely in response to Japan's spectacular economic break-through. This has given rise to extensive discussions on corporate governance, Salmon (1995), Prevezer and Dimsdale (1994).

The governance debate is gaining currency in the developing countries albeit at a worryingly slow pace. The continuing recurrence of misallocation of corporate resources in the third world is probably a hint as to failure in governance. This therefore, sets the stage for the need for enhancing corporate governance in these countries and in their organizations.

2.4 Channels of Corporate Governance

One of the tenets of corporate governance is accountability, which of necessity requires some kind of an agent to monitor how the managers are performing. Relevant agents have been developed including shareholders, legislative codes and regulatory mechanisms as well as the board of directors all of which, are geared to ensuring accountability by influencing the top management, Demb and Neubauer (1992).

2.4.1 The shareholders

The shareholders, especially institutional ones, have tended to be quite instrumental in corporate governance mainly due to the substantial proportion of shares that they hold in corporations, which justify the need for their representation on the boards hence their ability to influence the top management.

Roe (1994) observes that institutional investors have tended to demand to be informed of company activities beforehand while, others such as pension funds and insurance companies are quite often instrumental in dislodging incompetent management teams.

2.4.2 Legislative codes and regulations

These mechanisms do contribute to corporate governance in that, they are normally tailored to contain company excesses and to guarantee responsible corporate behavior. They include the rights of shareholders, and the various avenues of seeking legal redress in the event of the breach of the rights. Regulatory mechanisms cover such areas as employment conditions, environmental concerns, taxes etc.

Salmon (1993), in his review of the foregoing two channels, observes that they are riddled with inherent shortcomings in that, they largely depend on the Judicial system, act from outside the company and attempt to contain the corporate malpractice when it is too late to make any significant difference.

2.4.3 The Governance role of the board of directors

The issue of the separation of company ownership and management of companies has characterized the modern corporation, while the boards of directors, have for a long time been identified as the representatives of the shareholders. However, recent observers now concur that the current boards of directors do represent an array of other stakeholders as well.

It is due to this representation that the board acts as a governance organ. It has also been observed that boards of directors have an advantage over the other channels of governance, in that they are internally recognized and bear legal authority to oversee the company. They are also in a position to take proactive steps to avert potentially harmful corporate behavior and are therefore potentially superior to the other organs of governance. It is because of these reasons, that this study sought to concentrate on the board of directors as a governance organ.

2.4.4 The responsibilities of the board

The corporate governance framework should ensure strategic guidance of the company, effective monitoring of management by the board and the board's accountability to the company and all shareholders. Together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate

return for the shareholders, while preventing conflicts of interest and balancing competing demands on the company.

In order for boards to effectively fulfill their responsibilities, they ought to have some degree of independence from management. Another important board responsibility is to implement organizational systems designed to ensure that the corporation obeys applicable laws. In addition, boards are expected to take due regard of, and deal fairly with, other stakeholder interests including those of employees, creditors, customers, suppliers and local communities. Observance of environmental and social standards is relevant in this context.

2.4.4.1 Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders. This includes preventing the management from being entrenched.

2.4.4.2 Where board decisions may affect different shareholder groups differently, the board should treat all shareholders equitably.

2.4.4.3 The boards should ensure compliance with applicable law and take into account the interests of stakeholders.

2.4.5 The functions of the board

The board should fulfill certain key functions, including:

1.0 Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and plans; setting performance objectives; monitoring

implementation and corporate performance; and overseeing major capital expenditure, acquisitions and divestiture. Donaldson (1995) argues that the board should approve major changes in strategy and company policy. He contends that the board should exercise its responsibility for strategic oversight and that a formal strategic process should be adopted to discuss the company strategy path in-depth. Stadtler (1993) on the other hand argues that a review of strategy as presented by management, is adequate and therefore sees no need for an in depth analysis of resource allocation. Melvin (1986) reckons that if the board deliberates on resource allocations, (especially of major investments), then fewer mistakes will be made. However, Patton and Baker (1987), express dissenting views especially in light of the great number of questionable decisions, which have been made with the support of the board. Melvin (1986), still insists that there is need for the board to be involved in resource allocation. Boards, according to him should scrutinize the corporate budget proposals and indeed challenge the rational behind them. Salmon (1986) argues that periodical reviews also compel management to conform.

2.0 **Selecting, compensating, monitoring and where necessary, replacing key executives as well as overseeing succession planning.** Patton and Baker (1987) argue that maintaining superior corporate leadership is the responsibility of the board. It is also the responsibility of the board to remove incompetent management Drucker (1974). Salmon (1993) contends that if the board does not dominate the process of selecting the CEO, then the current CEO will most probably appoint a successor in his own image. He therefore advocates for a formal succession planning requiring thinking through the company structure and the potentials of serving senior managers and taking action to satisfy future management needs. Lorsch (1995) asserts that the task of selecting top management rests with the board

and recommends that succession planning be handled by the nomination committee comprised of mainly non -executive directors.

3.0 **Reviewing key executive and board remuneration, and ensuring a formal and transparent board nomination process.**

4.0 **Monitoring and managing potential conflicts of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.** Legal responsibility calls upon the board to monitor, supervise and where necessary control management activities. Board monitoring, however should not interfere with management capacity to run the company, Lorsch (1995). There should be, he suggests a policy clearly setting a demarcation line limiting the responsibilities of the directors and those of management.

5.0 **Ensuring integrity of the company's accounting and financial reporting systems, including, independent audit, and that appropriate systems of control are in place in particular, systems for monitoring risk, financial control, and compliance with the law.**

6.0 **Overseeing the process of disclosure and communications.**

2.4.4.5 Features of the board

The features of the board including composition, committees, size and structure should easily allow the board to carry out the various governance activities. However, the contribution of each of the features is largely dependent on the mode of adoption.

1.0 Composition

Boards have been defined as small formal groups composed of inside and outside directors. Theoretically, non-executive directors, it has been suggested, have the

potential of providing independence and objectivity in judgment. Conversely, executive directors usually display great insight and grasp of critical issues facing the company. Both can make significant contributions during board meetings, Patton and Baker (1987).

There is almost a consensus in favor of majority non-executive directors after all, the primary purpose of the board is to secure appraisal and independent check on senior management of the company. Cadbury (1992) recommends that at least one third of the board composition should go to non-executive directors.

2.0 Board committees

Committees are drawn from the full board and hence are smaller than the full board, meet more frequently, and therefore can transact business much faster than the full board. The use of board committees facilitates performance of a more in-depth analysis of a particular matter than would otherwise be practicable for the entire board. Use of the executive committee for example, permits emergency action to be authorized between regular board meetings pending review and ratification by the full board.

An active committee structure is recommended particularly for the large boards while appointment to the committees should take cognizance of the individual talents, experience and expertise of the respective directors. In addition, a formal method of rotating the directors within the committees would be advisable. Committees are special task forces that are mandated to perform specific duties and include executive, finance, nomination, remuneration, supervisory, and audit committees among others, Donaldson (1995).

3.0 Size of the board

Salmon (1993), recommends that there is need for a balance between large and small boards, arguing that when membership goes beyond fifteen it turns into a crowd and will diffuse and cut into productive debate. He recommends that boards should be composed of eight to fifteen members, while Demb and Neubauer (1993), suggest a range of eight to ten members.

Patton and Baker (1987), contend that large boards are less effective than small ones. But Demb and Neubauer (1993), are of the opinion that smaller boards more often than not transform into clubs with directors being unable to challenge their colleagues courtesy of the friendly atmosphere that eventually evolves and hence the need for a balance.

4.0 Structure

Structure has been defined as the style that governs the meetings of the boards, the choice being between the two-tier boards, usually when within the board there are supervisory and executive committees, and unitary boards, where the entire board, meets as a single unit. According to Demb and Neubauer (1993), the unitary structure boards are more popular.

This structure is however, not without limitations as it provides an ideal setting for a domineering CEO to usurp board power by withholding vital information from non-executives while, at the same time intimidating his fellow company officers. The two-tier structure on the other hand, sacrifices information dissemination while retaining a firm

grip over management through the supervisory committee composed of non-executives, Demb and Neubauer (1993).

2.5 Overview of developments in Corporate Governance

The World Bank and the Organization for Economic Cooperation and Development (OECD) established the Global Governance Forum which was mandated to build a consensus in favor of coming up with an appropriate policy on regulatory and corporate reforms. It was also charged with a mandate to coordinate and disseminate corporate governance activities, provide corporate development and capacity building in the associated fields of corporate governance, and to train the various professionals and other agents essential to bringing about a culture of compliance.

The International Corporate Governance Network (ICGN) was also established to promote and coordinate research and development in corporate governance. Also established was the Commonwealth Association for Corporate Governance (CACG), which came up with the corporate governance guidelines within the commonwealth. The guidelines were adopted at the November 1999 commonwealth heads of government meeting in Durban South Africa as a guide for all commonwealth countries to develop or enhance their own national corporate governance principles.

In Africa, the Africa Capital Markets Forum has been undertaking a study on the state of corporate governance in Africa. The King's Committee Report and Code for Corporate Governance in South Africa published in 1994, continues to stimulate corporate governance debate in Africa.

In East Africa, regional conferences were held in Kampala, Uganda in June 1998 and September 1999 to create awareness and promote regional cooperation in matters of corporate governance. Uganda and Kenya have made considerable progress in formulating national codes of best practice for corporate governance, while Tanzania is still at the formative stage.

In the later part of 1998 and early 1999 consultative corporate sector seminars were held in Kenya, which were the precursor to The Private Sector Initiative for Corporate Governance. This was envisioned to formulate and develop a code of best practices for corporate governance in Kenya.

It was also mandated to explore ways of facilitating the establishment of a national body to promote corporate governance in this country, and to coordinate developments in the area of corporate governance in Kenya and with other initiatives in East Africa, Africa, the Commonwealth etc.

In October 1999, the corporate sector formally adopted a national code of best practices for corporate governance mainly to guide governance in Kenya. It also gave mandate to the Private Sector Initiative to establish the Corporate Governance Foundation and collaborate with the Global Corporate Governance Forum, the relevant commonwealth association, the African Capital Markets Forum and Uganda and Tanzania in promoting good corporate governance.

Not much has been documented about the governance practices in the insurance industry in Kenya. However, it can be noted that the foregoing discussion on this subject

and the various initiatives aimed at popularizing good governance practices in the recent years are of much relevance to the industry.

2.6 The role of the Insurance Companies

The insurance industry plays a key role in the economic development of this country. Insurance is the tool used by investors to take care of uncertainties in their investment ventures. In addition Insurance is an investment vehicle through which individual investors can generate long-term savings by making periodical payments. Insurance companies can be classified into those carrying out general insurance business, life and pensions business or both.

The Kenyan insurance industry needs to keep pace with the rest of the insurance world if they are to offer quality service to their customers. In this respect, there is need for them to identify and train high caliber manpower, use modern information technology and undertake business process re-engineering in order to develop a strong competitive edge in the face of rising competition.

The industry players also need to examine their retention and underwriting capacities, entailing product innovation in line with market needs and global trends and building up shareholder funds through increases in share capital as well as retained profits. This will strengthen their capital base with the resultant increase in retention and underwriting capacity.

The Insurance industry will also need to uphold professionalism in order to ensure equitable treatment of the insured. In the face of rising claims in life and general business, proper risk pricing is paramount for the sustainability of the industry in the long

run. The latest industry figures obtainable from the Commissioner of Insurance of Kenya are for 1999. They however, do give valuable indications as to the size and structure of the industry.

The gross premium income for the industry in 1999 amounted to Ksh21 billion (KShs 19.36 billion in 1998), the general insurance business comprised a high of 76.3% of total gross premium income, and life insurance sector making up the remaining 23.7%. The Industry, a subset of the financial sector, grew by 8.52% in 1999, which was largely attributable to higher business retention in the year.

The companies underwriting general insurance business in Kenya were thirty six of which, the larger eleven displayed premium income in excess of KShs. 500million each per annum and with only three companies earning more than KShs 1 billion in premiums. The life insurance business sector in Kenya was comprised of twenty-four companies. Annual premium income for the largest three companies in 1999 amounted to at least KShs 500million each.

2.7 The issues of Corporate Governance in the Insurance Industry

1.0 Leadership: Insurance companies should be headed by effective boards exercising leadership, enterprise, integrity and judgment in directing the company so as to achieve continuing prosperity and to act in the best interest of the company in a manner based on accountability, transparency and responsibility.

2.0 Appointment to the board: Appointment to the board ought to ensure that a balanced mix of proficient individuals is made and that each of those appointed is able to add value and bring independent judgment to bear on the decision making process.

3.0 Strategy values: The board of directors are expected to determine the purpose and the values of the company, the strategy to achieve that purpose and implement its values in order to ensure that the company survives and thrives. The board should also ensure that procedures and values that protect the assets and the reputation of the corporation are in place.

4.0 Structure and organization: The board should ensure that a proper management structure is in place and to make sure that the structure functions to maintain corporate integrity, reputation and responsibility

5.0 Corporate performance, viability and financial sustainability: The board is expected to monitor and evaluate implementation of strategy, policies, management performance criteria and plans of the organization. The board is expected to also constantly review the viability and financial sustainability of the enterprise at least annually.

6.0 Corporate compliance: The board should monitor and evaluate the company's compliance with relevant laws, regulations, and governance practices, accounting and auditing standards.

7.0 Corporate communication: The board needs to ensure that the company communicates with all stakeholders effectively.

8.0 Accountability to members: The board is expected to serve the legitimate interests of all members and account to them fully.

9.0 Responsibility to stakeholders: The board should identify the company's internal and external stakeholders, agree on policies on determining how the company relates to and with stakeholders in creating wealth, jobs and the sustainability of a financially sound company. It should ensure that the rights of stakeholders are respected, recognized and protected.

10.0 Balance of power: It is the responsibility of the board to ensure that no person or group of persons has unfettered power and that there is an appropriate balance of power on the board to enable it exercise objective and independent judgment.

11.0 Internal control procedures: The board must regularly review systems, processes and procedures to ensure effectiveness of internal controls so that its decision making capability and the accuracy of its reporting and financial results are maintained at the highest level at all times.

12.0 Assessment of performance of the board of directors: For effective governance to take place, the board needs to regularly assess its performance and effectiveness as a whole and that of the individual members. An effective board will recognize its weakness and put in place mechanisms for self-evaluation and possible categories of evaluation may include the role, the working style and the directors themselves.

The evaluation may be performed by the members of the board, management or by outside consultants. The evaluation should ideally cover topics such as attendance to board and committee meetings, participation in board discussions, preparedness for meetings and availability to management etc.

13.0 Induction, development and strengthening of skills of board members:

The weighty responsibilities placed upon a director, the level of commitment called for, and the fast changing corporate environment, dictate that the companies must prepare those expected to assume these roles, and calls on all members to develop and strengthen governance skills. The board should accordingly organize systematic induction and continuous development of its members.

14.0 Appointment and development of executive management: The board will appoint the CEO and participate in the appointment of all senior management staff and ensure motivation and protection of intellectual capital to the company. It should also ensure availability of adequate training for management and other employees and put in place a succession plan for senior management.

15.0 Adoption of technology and skills: The board must recognize that to survive and thrive it has to ensure that technology, skills and systems used in the company, are adequate to run the company and that the company regularly reviews the same to remain competitive.

16.0 Management of corporate risks: The board will identify key risk areas and key performance indicators of the company's business and constantly monitor the factors.

17.0 Corporate culture: The board should define, promote and protect corporate ethos, ethics and beliefs on which the company premises its policies, actions and behavior in its relationship with all who deal with it.

18.0 Social and environmental responsibility: It is the responsibility of the board to recognize the need for the company to operate within the mandate entrusted by society and the need for it to be socially responsible.

19.0 Recognition and utilization of professional skills and competencies: The board will recognize and encourage professional development and have the right to consult with the company's professional advisors and to consult with independent advisors at the company's expense.

20.0 Recognition and protection of members' rights and obligations: The members of the company have a right to receive any information that would materially affect their membership, their ability to participate in any meeting and to participate in the election of directors. They should also be facilitated to fully participate in all other resolutions of interest to them as members.

CHAPTER 3-RESEARCH METHODOLOGY

3.1 The population

The population was all the insurance companies operating in Kenya under the Insurance Act Chapter 487 of the laws of Kenya and as licensed by the Commissioner of Insurance to underwrite insurance business in Kenya. See appendix B for a listing of all the insurance companies operating in Kenya in the year 2000. This being a survey, all the companies were surveyed.

However, in this study only thirteen insurance companies responded positively, as the rest either out-rightly declined to participate or ignored the request for participation despite repeated follow-ups. These responses represent 34.2% of the total number of underwriters in the industry.

3.2 Data collection

Both primary and secondary data was used in the study. A questionnaire was used to collect both qualitative and quantitative data on governance practices. Respondents, who were mainly, the chief operating officers and chief finance officers, were requested to comment on the current governance practices in the respective insurance companies and use was made of both open and close-ended questions. See appendix A for the questionnaire.

Supplementary information was obtained from the Office of the Commissioner of Insurance. This is compiled from regulatory returns to the Commissioner's Office and consolidated in the annual report by the Commissioner to the Treasury. The annual report for 1999 was used.

To analyze the financial performance of the respective companies, use was made of secondary data mainly from audited Annual Accounts and Reports of the respective companies, and the 1999 Annual Report by the Commissioner of Insurance on the industry.

3.3 Data analysis

Before processing the responses, the completed questionnaires were edited for completeness, and consistency. Descriptive statistics was used in analyzing the data collected. The descriptive statistics included proportions, modes, and frequency distribution. The performance of the respective companies was analyzed over the last three years i.e. from 1998 to 2000 using financial performance measurement ratios.

The Financial performance of the respective companies was assessed using the ratios outlined below and trends analyzed over the three-year period and average indicators computed. The ratios were categorized under profitability and evaluation. Evaluation ratios included: earnings per share and dividend per share while profitability ratios included: return on investments, return on capital employed, return on shareholders equity.

CHAPTER 4 - DATA ANALYSIS AND RESEARCH FINDINGS

The study set out to document the level of governance practices in the industry, to determine whether there exists any relationship between these practices and ownership as well as type of business. It also sought to find out whether there exists any relationship between governance practices and financial performance of the respondent companies.

To this end, data was collected and analyzed. Financial ratios were computed from data extracted from annual accounts of the companies and study findings. A link was also drawn between the literature reviewed in chapter two and the research findings of the study.

Of the companies surveyed, 77% of them were private limited liability companies with the rest i.e. 23%, representing public limited liability companies. The survey found out that over 92% of these companies were founded between 1930 and 1990. While the rest were in existence before 1930.

With regard to ownership, the survey established that, 54% of the companies were jointly owned between local and foreign investors, while the remaining 46% were locally owned. Regarding the number of employees employed by each of the companies, the survey found out that 42% of the companies had between 51 to 100 employees, 33% had between 101 to 150 and only 25% of the companies had over 151 employees.

With respect to the type of business underwritten, it was established that majority of the companies surveyed, representing 61.3 % wrote both general insurance as well as life and pensions business. 31% of the respondent companies were found to exclusively underwrite general insurance business, while the remaining 7.7 were only in life and pensions business.

Synthesis of Corporate Governance practices

Overview

To enhance governance there is need for boards to meet regularly. To this end, the study found out that most of the board members, accounting for 77% of the respondents, met at least four times in a year. Only 7.7% of the respondents met only once per year. This represented companies with most of their board members residing abroad.

However, with respect to committee meetings and in particular audit committees, the study found that 69% of the respondents never held any meetings in the year. Conversely, it was noted that boards of directors took their meetings seriously as was evident from the study findings that 92% of the respondents reported that all board meetings held in the year had full attendance. In addition, all the participants reported that members were sent written notification of the agenda well before the board meetings.

It is the responsibility of the board to monitor and evaluate implementation of strategy, policies, management performance criteria and plans of the organization. In this survey, the boards were reported to be dealing mainly with matters relating to corporate strategy, review of performance of management and issues relating to approval of

budgets. Other issues dealt with by the boards included recommendation of dividends, review of investment strategies, appointment of auditors, approval of annual accounts and review of the remuneration to top management.

Apart from being expected to handle the weighty responsibilities of governance, directors are expected to have a lot of the commitment to the companies. It is against this background that the study found that 92% of the respondent companies did not have in place, an agreed procedure for directors to obtain independent professional advice. In addition, 92% of the companies did not have a written procedure on granting access of the services of the company secretariat to the board members.

In addition, 92% of the respondents conceded that their directors did not receive any form of training during the year. The survey also established that there was no company that combined the role of the chief executive officer with that of the chairman of the board and hence there was no need for providing for a lead director as suggested by Lipton (1992).

Regarding the issue of board balance, the study found out that 85% of the boards had at least one-third of their members being non-executives. This is in line with the recommendation for boards to guard against any person or group of persons having unfettered power and that there should be an appropriate balance of power on the board to enable it exercise objective and independent judgement, Cadbury (1992).

With respect to the information supplied to the board, it was found out that it contained reports on strategy, management performance, and company budgets. However the study was unable to establish if there was an over or under provision of information to

the directors. It was however, established that most of the supplied information was current with all of it being relevant to the deliberations at hand.

With regard to the issue of appointment to the board, it has been suggested that this process should ensure that a balanced mix of proficient individuals is made and that each should add value and bring independent judgement to bear on decision making. In this study, 92% of the respondents reported that this process was the prerogative of the shareholders. Indeed none of the respondent companies had a board nomination committee. It also came out clearly that there were no regular meetings between the top management and shareholders.

To ensure the effectiveness of internal controls, enhancement of their decision-making capability as well as ensuring accuracy of the reports produced by companies, it has been suggested that boards should regularly review organizational systems, processes and procedures. The study revealed that, to assess the effectiveness of the systems of internal controls, most directors relied on reports supplied by management, a few of them engaged external consultants to review the systems, with the use of the audit committees, being almost non-existent.

77% of the respondents reported that they did not have an internal audit function in their institutions adding that they were either in the process of recruiting suitable personnel or that they were dependent on the external auditors. The survey also established that 61% of the respondent companies did not have audit committees. However, for those companies that had audit committees, it is gratifying to note that, 60% of the committees were made up of at least three non-executive directors.

Ownership and Governance

The study established that out of the companies surveyed, only 23% were public. All quoted public limited liability companies surveyed held at least four board meetings in a year, while the private limited liability companies held an average of 3.6 meetings in a year. Public limited liability companies were also reported to be holding more regular audit committee meetings than private limited liability companies. It was established that 67% of the public liability companies held regular audit committee meetings.

It was apparent that all companies addressed the issue of quorum equally well irrespective of type of ownership, in that all board meetings had full attendance. However, the study found out that very few of the companies, provided any training to the directors during the year.

With regard to board balance, most companies met the requirement of reserving at least two thirds of the board membership to non-executives, while all public limited liability companies surveyed were reported to have an internal audit function. However, in the case of the privately owned companies the study established that only 70% of them had the function.

With respect to audit committees, all the public companies had the committees, while only 20% of the privately owned companies had this function. It was also established that only 67% the locally owned companies had an internal audit function and that only 17% of them had audit committees in their boards. Conversely, 57% of the jointly owned companies were reported to have audit committees in their boards.

Type of business and Governance

Most of the companies surveyed were reported to be doing both general and life and pension insurance business commonly known as composite business, accounting for 61% of the responses, those in general insurance business accounted for only 31% and the remaining 8% were doing life and pension business only.

All the companies doing composite business held an average of 3.25 board meetings in a year, while those in general business held an average of 3.5 meeting in a year. However companies in life and pensions business only, were reported to have held 5 meetings in a year. The study also established that all board meetings held in the year were fully attended by the members.

As regards audit committee meetings companies in life and pensions business only, did not hold any audit committee meetings, only 25% of those in general business only, held any audit committee meetings while only 38% of those doing both held any audit committee meetings. All confirmed that the issue of quorum had to be addressed before the business for the day could commence.

Almost all of the respondents were unanimous that they had no agreed procedure of obtaining independent professional advice. 92% of the companies, irrespective of type of business written, were reported to have had no procedure of granting access to board members the services of the company secretariat.

With regard to training, only 25% of those in composite business offered training to their directors. 100% of those in life and pensions business offered training both locally and

overseas while those in general business only, did not offer any training to their directors.

Regarding representation in the board, all organizations in general business and life and pensions business separately met the two-thirds non-executive majority requirement. However only 75% of those in composite business met the requirement.

All companies doing life and pensions business exclusively, were reported to have an audit function, while 25% of those in general business only had the function and those carrying out composite business did not have an internal audit function.

The study also revealed that companies doing general insurance business did not have any audit committee, 50% of those in composite business had such committees while all those in life and pension exclusively had audit committees in their boards.

Financial performance and Governance

A number of financial ratios were calculated based on secondary data extracted from audited annual accounts of the surveyed companies and average indicators computed for the period 1998 to 2000. The ratios were categorized under profitability and evaluation ratios. Those under profitability included: return on investment, return on capital employed and return on equity, while evaluation ratios included earnings per share and dividend per share.

Profitability ratios in this case show the efficiency with which the firm uses its various funds to generate a return to the providers of the funds. The higher the ratios the more

profitable the company is. Evaluation ratios on the other hand, indicate the theoretical value of the company. They can also be considered to show the overall performance of the company.

Overall Position

The surveyed companies registered, average earnings per share, which shows the earnings expected by shareholders for every share held, of kshs24.08, with the ratios for individual companies ranging from a low of khs1.68 per share to a high of kshs129.10 per share. However 46% of the respondent companies registered earnings per share ratios of less than kshs10, while 77% of the respondents recorded ratios of less than kshs20. Only 16% had ratios higher than kshs50.

The surveyed companies recorded dividends per share, which shows the amount shareholders expect to receive for every share held, of kshs18.31. The individual ratios ranged from a low of khs0.7 per share to a high of kshs94.5 per share. It is worth noting that 77% of the respondent companies registered dividend per share ratios of less than kshs10, while 85% of the respondents recorded ratios of less than kshs20. Only 15% recorded ratios higher than over kshs40 per share.

With respect to profitability in relation to investments, the surveyed companies registered a return on investments of 4%. The ratios for individual companies ranged from 1% to 10%. 69% of the respondent companies registered ratios of less than 6% with 92% of the respondents recording ratios of only up to 7%.

The surveyed companies registered an average return on capital employed of 9% while the ratios for individual companies ranged from a low of 1% to a high of 18%. It was noted that 69% of the respondent companies registered ratios of not more than 10% while none of the respondents recorded ratios of more than 20%.

The surveyed companies registered an average return on equity of 23%, with ratios for individual companies ranging from a low of 9% to a high of 57%. It was noted that 84% of the respondent companies registered ratios of not more than 31% while none of the respondents recorded ratios of more than 57%.

Financial performance and ownership

Profitability in relation to investments

Private limited liability companies registered a return on investment of 4.6% while public limited liability companies recorded a return of only 2.6%. The ratios for private limited liability companies ranged from 1% to 10%. It was noted that 97% of the respondent private liability companies registered ratios of up to 7% while none recorded ratios of more than 10%. On the other hand, the return on investment ratios for public limited liability companies ranged between 2% to of 3%.

With respect to return on capital employed, out of the surveyed companies, private limited liability companies registered an average return of 9.37%, while public limited liability companies recorded a return of 8.26%. The ratios for private limited liability companies ranged from 2% to 18%. It was noted that 14% of the respondent private limited liability companies registered ratios of up to 10% while none recorded ratios of more than 18%. Ratios for public limited liability companies ranged from 8% to 9%.

Private limited liability companies registered a return on equity of 21.6% while public limited liability companies recorded a return of only 9.6%. The ratios for private limited liability companies ranged from 10% to 57%. It was found out that 63% of the respondent private liability companies registered ratios of up to 31% while none recorded a return of more than 57%.

On the other hand, ratios for public liability companies ranged from 9% to 10%. Jointly owned companies reported a return on investment of 5%, return on capital employed of 11% and return on equity of 24% while local companies reported returns of 4%, 7% and 16% respectively.

Evaluation ratios

From the survey, private limited liability companies registered average earnings per share ratio of kshs27.6, while public companies recorded an average ratio of only kshs4.6. However, the ratios for private limited liability companies ranged from a low of kshs1.7 to a high of kshs129.1.

It was noted that 72% of the respondent private limited liability companies registered ratios of up to shs20, while 90% recorded ratios of not more than kshs55. On the other hand, ratios for public limited liability companies ranged from kshs4.4 to kshs4.8.

With respect to dividend per share, the study showed that out of the surveyed companies, private limited liability companies registered average dividend per share ratio of kshs22.5 while public companies recorded an average ratio of only kshs1.5.

However, the ratios for private limited liability companies ranged from a kshs1.27 to kshs94.5.

It was noted that 75% of the respondent private limited liability companies registered ratios of up to shs20, while 88% recorded ratios of not more than kshs45. On the other hand, ratios for public limited liability companies ranged from kshs1.29 to kshs1.75. Jointly owned companies recorded earning per share ratio of kshs37.45 and dividends per share ratio of kshs22.5, while local companies reported ratios of kshs12.6 and 4.3 respectively.

Financial performance and type of business

Profitability in relation to investments

Out of the surveyed companies, those carrying-out life and pensions business exclusively, registered an average return on investment of 7% while those in general business recorded an average return of 5% with those carrying out composite business recording a return of 4%.

With respect to return on capital employed, those carrying out life and pensions business registered a return of 18% while those in general business recorded a return of 6% and those carrying out composite business recorded a return of 6%.

With regard to return on equity, those carrying out life and pensions business registered a return of 24% while those in general business recorded a return of 13% and those carrying out composite business recorded a return of 22%.

Evaluation ratios

Out of the surveyed companies, those carrying out life and pensions business only, registered earnings per share ratio of kshs18.5, while those in general business recorded an average of kshs11.9 with those carrying out composite business recording a return of kshs30.9 per share.

With regard to dividend per share, those carrying out life and pensions business registered a return of kshs5.25 while those in general business recorded a return of KShs 2.6 with those carrying out composite business recording a return of KShs 20.95.

CHAPTER 5 - DISCUSSION, SUMMARY AND CONCLUSION

5.1 Discussion

A good majority of the boards met at least four times in a year, while majority of the boards did not have any audit committees and therefore did not hold any relevant meetings. There was a consensus on the notification of the agenda to members well before the board meetings were held. Most boards were also reported to have addressed matters to do with review of business strategy, review of management performance and budget approvals.

Other issues addressed, were recommendation of dividends, appointment of auditors and approval of annual reports and accounts. There was almost a consensus on lack of agreed procedure for directors to obtain independent professional advice and granting access of the services of the company secretariat to directors.

There was almost a consensus on the lack of provision of training to directors. On board balance, a good majority of the boards met the two-third non-executive to executive membership recommendation, while information supplied to directors mainly contained information on corporate strategy, management performance and corporate budgets.

Appointment to the boards came out clearly as a preserve of the shareholders. The study revealed that there were no regular interaction between top management and the shareholders and that majority of the companies did not have an audit function with some reporting that they were in the process of recruiting suitable candidates, and others reporting that they depended on external auditors.

Ownership and Governance

The study established that boards of public limited liability companies met more frequently, than boards of private limited liability companies. They also had more regular audit committee meetings. However, all companies appeared to take the issues of board quorums and timely supply of information seriously. Most companies also met the two-thirds non-executives rule.

All public companies had an internal audit function, while most of private companies did not have the function. All public companies also had audit committees in their boards while very few of the private companies had the function. A comparison between local and foreign ownership, revealed that most locally owned companies did not have internal audit functions and that only a handful of their boards had audit committees, as opposed to the foreign owned where the converse was found to be true.

Business type and Governance

The study revealed that those companies doing life and pensions business only, held more board meetings followed by those in general business and those in composite business in that order. However, all these meetings were fully attended. The issue of quorum was also fully addressed by all the companies. With respect to all committee meetings, most companies reported very dismal performance with the best, composite companies, registering 38% and those in general 25% and those in life and pension recording nil.

However, there was almost a consensus on lack of agreed procedure for directors to obtain independent professional advice and granting access of the services of the company secretariat to the directors. With respect to provision of training, all companies doing life and pension business only, offered training to their directors, while only 25% of those in composite business did so. However, none of those in general offered any training. On board balance, a good majority, irrespective of type of business written, met the two-third non-executive membership recommendation.

As far as the internal audit function is concerned, all companies in life and pensions business only, had the function, while only a small proportion of those in general and composite business had the function. All companies in life and pensions business had audit committees in their boards while half of those in composite business had the committee in their boards.

Financial performance and Governance

Private limited liability companies reported a higher return on investment than their public limited liability counterparts. While with respect to return on capital employed private limited liability companies again out-performed the public limited liability companies registering a rate of return of 9.4% versus 8.3%.

Moreover, private limited liability companies reported a rate of 21.6% with respect to return on equity as compared to 9.6% only, for the public limited liability companies. With regard to earnings per share, private limited liability companies again reported a rate of kshs27.6 as compared to only kshs4.6 for their public limited liability counterparts. They

also reported a higher dividend per share (kshs22.5) than the public liability companies, which reported a rate of only kshs1.5.

5.2 Summary

Most companies were reported to have addressed the issue of meetings adequately. They also handled most of the key governance issues in their meetings including review of business strategy, review of management performance and budget approvals, among others, fairly well. The study however, revealed that majority of the companies failed in as far as audit committees were concerned.

They also failed in the area of providing for a formal procedure for directors to obtain independent advice and granting of access of the services of the company secretariat to the directors and providing adequate training to the directors. However, most companies met the one third non executive majority requirement on board balance and providing timely and relevant information to the board.

On the issue of appointment to the board this was clearly a prerogative of the shareholders with no respondent company reporting presence of a nomination committee. The matter of review of internal control systems appeared to have been relegated to the periphery with majority of board members depending on reports provided by management, while others counted on the services of external auditors. A good majority of respondents did not have an internal audit function in place.

Ownership and Governance

Public limited liability companies held more meetings, both for the full board and for the committees. There was however, no discernible difference between public and private limited liability companies with respect to issues of quorum and timely provision of information. The locally owned companies appeared to be lagging behind with respect to matters relating to the matter of review of the internal control systems as compared to their jointly owned counterparts.

Business type and Governance

Companies carrying on composite business performed best in the area of holding meetings followed by those in general business and those in life and pensions business in that order. All companies appeared to have addressed the issue of attendance to meetings and quorums adequately.

Conversely, all companies performed dismally with respect to the matter of putting in place a procedure for directors to obtain independent professional advice and granting access to the services of the company secretariat. With regard to training, companies doing life and pensions business exclusively, were reported to have provided adequate training to their directors, while only 25% of those in composite business provided any. Those in general business totally failed in this area.

All companies writing life and pensions business exclusively, were reported have an internal audit function in place, while only half of those in general business had this function.

Financial performance and Governance

The financial ratios established that private limited liability companies performed better than public limited liability companies hence contradicting the findings on the governance practices as earlier discussed. As regards type of business written and governance, companies in life and pensions performed best, followed by those in composite and those in general business in that order. This is consistent with the findings on governance practices. Jointly owned companies also reported better performance as compared to the locally owned companies which is again in line with the survey findings.

5.3 Conclusion

Most companies appear to have addressed governance issues fairly well. However, weaknesses were noted in the areas of review of internal controls, provision of training to directors and provision of access to independent advice and to services of the company secretary. With regard to ownership and governance, it would appear public companies had an upper hand in embracing governance issues as compared to the private limited liability companies.

It would also appear that the jointly owned companies had an edge over their locally owned counterparts in governance practices. With respect to governance and type of business written, it was apparent that companies underwriting life and pensions business only, had an edge in embracing governance issues, followed by those in composite business and those in general business in that order.

The financial ratios established that private limited liability companies performed better than public limited liability companies, hence contradicting the findings on the governance practices as earlier discussed. As regards type of business written and governance, companies in life and pensions performed best, followed by those in composite and those in general business in that order. This is consistent with the findings on governance practices. Jointly owned companies also reported better performance than locally owned companies which is again in line with the survey findings.

Overall, it would appear that there is a positive relationship between the level of governance and the ownership in as far as companies were categorized into locally or jointly owned on one hand and type of business written by the surveyed companies. There also appears to be a positive relationship between governance and financial performance in as far as type of business written is concerned. However, there appears to be no relationship between governance and financial performance in as far as the respondent companies were classified as either privately or publicly owned.

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APPENDIX A- Questionnaire

Section 1

Company data

Designation of Respondent. Chief Executive Officer-------------------

Deputy Executive Officer------------------

Other Specify—————————

TYPE OF COMPANY Private Limited Liability Company—————

Public Limited Liability Company-----------------

Mutual Insurance Company----------------------

Cooperative Insurance Company—————

1) Name of the Company.

2) Year of establishment

3) Ownership of the Company

Foreign ( ) local ( )

Jointly owned ( )

4) Current number of employees

5) Type of business underwritten

General ( ) Life And Pensions ( )

Composite ( )

SECTION 11

1.0 The Board

1.1 How often are board meetings held in a year? Once---- twice---thrice----four times-----five times------ Explain---

----

1.2 How many meetings of each of the full board, and audit committee have been held during the current financial year? --

----

1.3 Were the respective meetings, attended by all executive and non-executive directors? Yes[ ] No [ ] If not why?---

----

1.4 How is the issue of quorum addressed before the board proceeds to the day's business?---

----

1.5 Is there a written schedule of matters specifically reserved for decision by the board? Please specify and explain---

----

1.6 What other matters does the board normally deal with? -----------------------------

----

1.7 Have there been any exceptionally significant issues addressed by the board during the current year? --

----

1.8 What is the agreed procedure for directors to obtain independent professional advice? --

----

1.9 Has any director used the procedure in the current financial year? ------------------

----

1.10 Are there written procedures granting access by members of the board to the company secretary's services and advice? --

----

1.11 Has any director made use of this service during the year? ---------------------------

----

1.12 Are their procedures for the board to consider removing the company secretary if necessary? Explain ---

----

1.13 Is there any evidence to suggest that any directors have not brought an independent judgment to bear on issues of strategy, performance, resources and standards of conduct? Please comment on each issue separately. ----------------

----

1.14 What training is available to directors? Kindly expound. -----------------------------

----

1.15 Do executives and non-executives receive different training? -----------------------

----

1.16 What training has been have undertaken during the current financial year? ------

----

2.0 **Chairman and CEO**

2.1 Is there a corporate policy to combine the roles of chairman and the CEO? Yes [ ] no [ ]. If yes, how is it justified? --

----

2.2 Are the posts of chairman and CEO combined due to circumstances specific to the company? Yes [ ] No [ ]. If yes, how is it justified? --------------------

----

3.0 **Board balance**

3.1 What is the number and proportion of non-executives on the board? --------------

----

3.2 Where non-executives directors comprise less than one third of the board, are there steps being taken to recruit more?--

----

3.3 What are the criteria for defining an independent non-executive director? --------

----

3.4 To what extent are non-executive directors independent by these criteria? --------

----

4.0 **Supply of information**

4.1 What information does management supply to the directors? ----------------------

----

4.2 How old is it when received by the board? Do members of the board rate it as appropriate to their needs? Explain---

----

4.3 How does the chairman ensure that all directors are properly briefed on issues arising at the board meeting? Explain--

----

5.0 Appointment to the board

5.1 Is there a nomination committee? What are its terms of reference? ----------------

----

5.2 Are the majority of members of the nomination committee non-executive? -------

----

5.3 If there is no nomination committee, what is the procedure for appointments to the board? ---

----

6.0 SHAREHOLDER RELATIONSHIP

6.1 Is there regular, systematic contact at senior level with institutional shareholders to exchange views and information on strategy, performance, board membership and quality of management? Please explain each item separately------------------

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7.0 ACCOUNTABILITY AND AUDIT

7.1 Financial reporting

7.1.1 Does the annual report contain a statement of directors' responsibility for preparing the accounts and external auditors' statement concerning their reporting responsibilities? --

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7.1.2 How much information is provided about the assumptions or qualifications supporting the directors' going concern statement if any? ----------------------

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7.2 Internal audit

7.2.1 How do directors review the effectiveness of the company's system of internal control? Explain--

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7.2.2 How often are internal controls reviewed? Explain--

7.2.3 Is there an internal audit function? Yes [ ] No [ ] If no, explain the board's policy and procedure for reviewing the need for one?----------------------------------

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7.3 Audit committee and auditors

7.3.1 Does the board have an audit committee? Is the audit committee made up of at least three non-executive directors? --

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7.3.2 Does the audit committee have written terms of reference, which deal clearly with its authority and duties? --

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8.0. Please give additional relevant information with respect to the governance practices in your organization ---

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9.0. Please indicate if you may be interested in a copy of the findings of this study

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APPENDIX B- List of licensed insurance companies

1 Alico
2 Apollo Insurance
3 Blue Shield Insurance
4 British American
5 Cannon Assurance
6 Concord
7 Cooperative Insurance Co.
8 Corporate
9 Fidelity Shield
10 First Assurance
11 Gateway Insurance Co.
12 Geminia
13 General Accident
14 Heritage All
15 Intra Africa Insurance
16 Invesco Assurance
17 Insurance Company Of East Africa
18 Jubilee
19 Kenindia
20 Kenya Orient
21 Kenyan Alliance
22 Lakestar Insurance
23 Lion Of Kenya
24 Madison
25 Merchantile Life & General
26 Monarch Insurance
27 Occidental
28 Old Mutual
29 Pan Africa
30 Phoenix
31 Pioneer
32 Royal Insurance Co.
33 Stallion Insurance
34 Standard Assurance
35 Tausi
36 Trident
37 UAP Provincial
38 United Ins. Co.