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

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OCTOBER 2016

DECLARATION

This management research project is my original work and has not been presented for examination to any other university.

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This management research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this research project to my parents Boniface and Ruth for the support, encouragement and mentorship during the entire MSC course. I will forever be grateful.

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LIST OF ABBREVIATIONS AND ACRONYMS

CAR - Capital Adequacy Ratio

CBK - Central Bank of Kenya

CMA - Capital Markets Authority

COMESA - Common Market for East and Southern Africa

EAC - East Africa Community

IRA - Insurance Regulatory Authority

GDP - Gross Domestic Product

GWP - Gross Written Premiums

MIP - Medical Insurance Providers

M&A - Mergers and Acquisitions

NIM - Net Interest Margin

NSE - Nairobi Securities Exchange

NWP - Net written Premiums

ROA - Return on Assets

ROE - Return on Equity

ROI - Return on Investment

R&D - Research and Development

SPSS - Statistical Package for the Social Sciences

USA - United States of America

ABSTRACT

A merger can be looked at as the process in which two or more business operations are combined into one business entity with the same management and ownership. From a legal stance, mergers can be looked at as the consolidation of two or more entities into one entity. An acquisition on the other hand, involves purchase of a controlling interest by a company in the share capital of a second existing company. Various motivations for mergers include synergy, diversification, acquiring market share, reduction of cost as well as gaining access to resources. Mergers and acquisitions are as a strategic tool in the modern corporate world and the trend has been witnessed in the insurance landscape with Kenya being no exception. Prior studies have not been conclusive on how mergers and acquisitions impact the financial performance of business entities. The study set out to determine the effects of mergers and acquisitions on the financial performance of insurance companies in Kenya. The population of the study was the mergers and acquisitions that took place between years 2010 and 2013 thus a census approach was adopted. Two year pre-merger and post-merger data was collected from secondary sources and compared to determine whether there was significant change in performance after the merger. The study employed various measures of financial performance which included return on assets, return on capital employed, net income margin, net working capital and leverage. The study established that after the merger, return on assets and return on capital employed significantly improved and concluded that mergers and acquisitions improve the financial performance of insurance companies in Kenya. The key limitation of the study was that the two-year duration for which was analysed in too short to conclusively determine the impact of mergers and acquisitions on the financial performance of the merging firms.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Mergers and acquisitions are corporate restructuring activities conducted in a bid to enhance the firms' returns or increase the efficiency of their operations. There are enormous benefits attributed to mergers and acquisitions and this factor has increased the attractiveness of mergers and acquisitions globally hence the recent trend towards mergers and acquisitions. Generally, merging firms operate in the same industry or under same market conditions and structures (Franke, 2005). Baldwin (1998) argued in his study that firms that merge enhance their bargaining power over suppliers and thus compel the supplier(s) to supply inputs, goods and services to the merged firm at favorable cost. As a result of higher prices being charged to customers and low cost inputs enable the merging firms to make abnormal profits hence their success.

Hernandez and Juan (2010) conclude that, as the operating environment changes firms realize that they lack the requisite strengths to compete favourably and survive as well as the limited time at their disposal for them to develop such strengths and capabilities. This realization is often coupled with the fact that opportunities present themselves only for a limited period waiting for the aggressive parties to capitalize on them. By efficiently doing so, these parties benefit immensely from the M&A. Therefore, with such realization, organizations scout for target firms with the appropriate capabilities and strategic strengths and acquire them.

There are various theories that explain the motivation for mergers and acquisitions as advanced by different finance and economics scholars as they aim to demystify the rationale for mergers and acquisitions. This study has identified five theories behind M&A. These

include the theory of synergy, theory of economies, diversification effect theory, tax effect theory and disciplinary theory.

In response to changes in the operating environment, various financial institutions such as insurance companies have merged or taken over other existing operations (acquisitions) (Akinyomi and Olutoye, 2014). Since 2010, 10 merger and acquisition deals have been conducted in the Kenyan insurance industry with about 50% of these taking place in 2014 and 2015 only.

1.1.1 Mergers and Acquisitions

A merger can be looked at as the process in which two or more business operations are combined into one business entity with the same management and ownership. Legally, a merger is a consolidation of two or more entities into one entity (Cartwright and Schoenberg, 2006). An acquisition on the other hand, is the acquisition of a majority stake by a company in the shares of a second company (Freidheim, 1998).

Boateng and Bjortuft (2008) define a merger as the result of the combination of businesses occurring where two entities in similar or different business lines resolve to join forces to boost operations. On the other hand, acquisitions can be seen as business combinations in which one company takes over the control and operations of another existing company. For a merger deal to be successful, capabilities and knowledge must be transferred for cost effectiveness, synergy and efficiency (Krug and William, 2009). There are several motivations behind mergers and acquisitions in the modern corporate world (Rani, Yadav and Jain, 2013).

Mergers and acquisitions take place in three key forms; horizontal mergers, vertical mergers and conglomerate mergers. The horizontal form of merger takes place in firms that operate in the same industry; usually competitors offering similar goods or services (Martin, 2015). Marembo (2012) defines horizontal mergers as the acquisition of competitors in the same business line in order to increase market share and reduce competition in one strike. Vertical mergers on the other hand take place among business entities producing totally different goods or services that are input into the process of producing another product (David, 2009). Finally, conglomerate mergers occur between firms that produce unrelated products (Halpern, 1983).

Different organizations are faced with different motivations for M&A. The main motivations advanced for mergers and acquisitions are: gaining market power, enhance innovation, and hence minimize product development risks, efficiency maximization via economies of large scale production and reshaping a business' competitive scope (Hitt, Harrison & Ireland, 2009). Other factors in favour of mergers and acquisitions include providing short-term financing solutions to challenges arising out of information asymmetries, revitalize the company through knowledge and skills necessary for survival in the long term and to benefit from synergies.

Botchway (2010) indicated that M&A is a critical vehicle in facilitating corporate growth and productivity. M&A facilitate synergies between merged organizations, generate efficiencies and increase competitiveness (Houston and Ryngaert, 1994).

1.1.2 Financial Performance

Financial performance in the context of an organization can be evaluated by many different parameters that result in different interpretations of success. Robert (2004) argues that each of these perspectives of organizational performance can be viewed as unique.

Performance must be evaluated in the context of the phenomenon of interest (Hofer, 1983). In the context of organizational performance, financial performance refers to a measure of the change in the financial status of the company, or the financial results arising from managerial decisions. Since the evaluation is done in context, the measures of performance are selected based on the circumstances of the organization(s) being observed.

Lole (2012) defines financial performance as one of the various mathematical tools used to evaluate how efficiently a firm employs resources in enhancing profitability and firm value. Some of the common measures of financial performance considered in the study include operating income, earnings before interest and taxes and net asset value. Other important measures are return on assets and return on investment that indicate how efficiently a firm is utilizing assets and invested funds to generate profits. Return on equity shows how much shareholders are realizing from investing funds into the firm. Analytical reviews were performed on pre-merger and post-merger financial performance measures of merged insurance companies operating in the Kenyan insurance industry.

Akguc (1995) defines a ratio as a simplified numerical relationship between two elements of financial statements. Insurance underwriting ratios and profitability ratios are crucial in demystifying the effects of mergers and acquisitions on the financial performance of insurance companies. Underwriting ratios comprise of retention ratio, loss ratio, expense

ratio, combined ratio, operating ratio and net written premiums to policyholder surplus. Some profitability ratios used as measures of financial performance are; return on assets, asset turnover ratio, return on equity, return on revenues and investment yield. This study will compare the premerger and post-merger net income margin, return on assets, return on equity, return on capital employed, leverage and net working capital ratio to determine the effects of mergers and acquisitions on the financial performance of insurance companies in Kenya.

1.1.3 Mergers and Acquisitions and Financial Performance

There have been prior studies examining the relationship between mergers and acquisitions and financial performance in an attempt to determine the post-merger effect on financial performance. Elsevier (1992) studied the after-merger financial performance of large bank mergers in the USA between 1982 and 1987. Merged firms exhibited significant improvements in asset productivity and higher operating cash flow returns relative to their peers (Peck and Temple, 2002).

However, Saple (2000) observed in his study that mergers did not improve financial performance as measured by profitability after adjusting for the industry average. Researchers have still not been able to give a concrete result on the relationship that exists between mergers and acquisitions and financial performance. This study thus aims at synthesizing and analyzing the results thus providing the hypothesis as to the study topic.

Some theories have been put forward that explain the relationship between M&A and financial performance. One, is the production theory that relates M&A to the cost, revenue and profit function of a firm in terms of benefits attainable from economies of scale. Cummins & Xie (2008) explain that albeit the gain from economies of large scale production may

not be outright, economies of scale provide a potential motivation for M&A. Two, is the market imperfections theory, that according to Cooper et al., (2000), M&A present value as a result of existing market imperfections and/or information asymmetries. Other theories are the market power theory; in which merging firms earn higher economic rents as a result of having higher market power (Choi and Weiss 2005) and the corporate control theory that states that M&A improve managerial efficiency (Jensen, 1988 and Shleifer and Vishny, 1997).

1.1.4 Insurance Companies in Kenya

The insurance industry in Kenya is governed by the Insurance Act (CAP 487 of the Laws of Kenya) as the principal legislation and regulated by the Insurance Regulatory Authority (IRA). Compared with its regional counterparts and peers, the market is relatively mature and dominates insurance activities across East Africa Community and Common Market in East and Southern Africa regions (IRA Annual Report 2014).

The insurance industry is composed of a number of players, including insurance companies, reinsurance companies, insurance intermediaries (brokers, medical insurance providers and agents) and insurance service providers (claims settling agents, loss assessors, surveyors, investigators and risk managers) all of whom are licensed and regulated by IRA. As of today, there is a total of 54 regulated insurance underwriters operating in the Kenyan insurance market including 51 insurance companies and 3 reinsurance companies. Of the 51 insurance companies, 25 insurers are licensed to underwrite general (non-life) insurance business, 15 underwrite long term (life) business while 11 companies operate as composites (underwriting both life and non-life business).

The number and structure of the insurance underwriters in the market has significantly changed in the last five years with new global giants entering the market for example The Prudential Group, Allianz Insurance Group and the Barclays Group. Other restructuring activities within the industry have been M&A in addition to portfolio transfers amongst existing players which have greatly impacted the insurance landscape in Kenya (IRA Annual reports). The various insurance M&A in the Kenyan insurance industry within the last 5 years are outlined in Appendix 1.

1.2 Research Problem

There has been a recent upsurge in M&A activity within the Kenyan insurance market which is attracting attention, specifically in trying to understand the various motivations for merges and how mergers and acquisitions affect performance and efficiency. This study sets out to investigate the effects of mergers and acquisition on the financial performance of insurance companies in Kenya and explores changes induced by mergers on financial performance. The study is motivated by the fact that there is a relative deficiency of empirical evidence demystifying the specific impact of mergers and acquisitions involving Kenyan insurance companies.

A number of studies on merger and acquisition activities in the Kenyan context provide mixed results. For instance, Marembo (2012) studied the impact of mergers and acquisitions on the financial performance of commercial banks and established that merging or acquiring other firms did not achieve strong, efficient and competitive markets since performance was dependent on several factors. However, Marangu (2007) resolved in his study that significant improvement in performance of the non-listed insurance firms resulted from merging compared to the non-listed insurance firms that had not merged within the same period.

The aim of M&A restructuring deals is to realize economic gains (Straub, 2007). He further argues that the value of the merged firms should be worth more than the individual firm's value for the M&A deal to be justified. Some resultant benefits of mergers and acquisitions include economies of scale, combination of complementary resources, tax benefits and elimination of inefficiencies (Lole, 2012).

Various past studies have produced inconclusive evidence and have failed to show a distinct relationship between mergers and acquisitions and financial performance. This study focuses on a comprehensive approach in order to establish whether mergers and acquisitions of Kenyan insurance companies result to improved financial performance. In light of the foregoing, the following research question was raised, what is the impact of M&A on the financial performance of insurance companies in Kenya?

1.3 Research Objective

To determine the effect of mergers and acquisitions on the financial performance of insurance companies in Kenya.

1.4 Value of the study

Corporate managers need to understand, anticipate and manage business dynamics inherent in various alliances in the networked business environment of today. This study will be helpful to managers in predicting and managing business dynamics to ensure sustained business profitability and in understanding the point in the industry life cycle at which a firm should exit.

The government and government agencies would borrow from this research in making informed policy pronouncements aimed at developing and growing the insurance industry

while maintaining financial stability within the financial market. Further, the study may aid drafting of anti-trust policies and law for curbing monopolistic practices and other unfair competition practices to ensure a level playing field for both small and large insurance firms.

Investors would benefit immensely from the insight provided in this study in making investment decisions relating to the companies studied. This study will provide crucial information to guide buy or sell decisions involving the stocks of companies that are restructuring or anticipate restructuring activities. Individual corporations that are anticipating restructuring deals through M&A in future will be able to learn from experiences of firms under study.

Scholars who may be interested in further research on the effect of mergers and acquisitions on the financial performance of insurance companies will be able to gain insight into the study subject and investigate any research gaps not addressed by this study. Further, the study limitations in this research may be controlled for in further studies to enhance the conclusiveness of the evidence resulting from such studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on the relationship of mergers and acquisitions on the financial performance. The chapter also provides a conceptual framework on mergers and acquisitions as well as the determinants of financial performance.

The chapters further reviews both theoretical and empirical literature as done by prior studies.

2.2 Theoretical Review

There are various theories that explain the motivations for mergers and acquisitions. This study has identified five theories behind mergers and acquisitions which are; theory of synergy, theory of economies, diversification theory, tax effect theory and disciplinary theory. These theories are explained in detail below;

2.2.1 Theory of Synergy

This theory suggests that mergers and acquisitions occur widely because mergers are able to benefit the acquiring and target firms with synergies that enhance firm value in the longer term (Hitt et al., 2001). Synergies refer to the net incremental positive gains that result from the combination of firms through mergers or acquisitions (Ross, Westerfield & Jordan, 2010).

McLaney (2009) noted that synergy benefits accrue to the shareholders of the target as well as to those of the bidder. He goes on to explain that target shareholders are prepared to sell their shares only where they are offered something in excess of what is perceived to be the current value of those shares. Some savings often arise from the combination of key business units and cost or revenue centers and major functions like accounting, budgeting, and marketing. Thus, the realization of increased revenue and operating efficiency is known as synergism (Lumby & James, 2003).

2.2.2 Theory of Economies

Marney (2011) explains that there exists economies of scope with M&A, that is, the ability of firms to use resources to create value in a new way at lower costs. The most common economies are reductions of duplicate fixed costs of production and management (Braely et al., 1991). Brigham and Daves (2010) explain that synergy can arise from two main factors: one, operating economies that result from economies of scale in management processes, marketing, production, distribution and two, financial economies such as lower transaction costs.

Joaquim (1987) describes economies of large scale production as the cost minimization benefit that arises from the size of organization, output quantity, or the extent (scale) of operation. Here, unit cost of output generally decreases with larger scales of operation since the fixed costs are shared out to more units of output. Ross et al., (2010) explain that economies relate to the average unit cost of production of goods and services. Trautwein (1990) looks at two key types of economies of scale, these are; internal economies which refer to the cost reduction that benefits firms irrespective of the industry, environment or market it operates in. Two, is external economies which are advantages to firms that operate in specific industry or sector.

2.2.3 Diversification Effect Theory

Diversification refers to the concept of risk reduction for a given level of return or the increase in return for a given level of risk (Ephraim, 2002). Through the diversification effect of combination, mergers can benefit all firms by reducing the variance in expected returns (percentage fluctuation). If the incomes of one of the firms generally rise as those of the second firm fall, at any one time a fall in one of the firms' income streams will be offset by the countering movement in incomes of the other firm in the merger. Diversification will

exist as long as the correlation between the two firms' incomes is not perfectly positive (James, 2006). The main question with diversification is whether the firm can achieve diversification more cheaply than the individual investors can on their own (Ephraim, 2002).

Horne (2001) argued that this theory assumes that investors evaluate risk solely in relation to the total risk of the firm. He realized that there is an advantage of reducing the variability of earnings if there are any real reasons associated with the cost of bankruptcy like legal costs and loss of customers. By reducing the likelihood of large losses (relative to assets), diversification reduces the probability of bankruptcy and therefore reduces the chance that bankruptcy costs will be incurred (for any given level of borrowing by the merged companies). This is advantage is often reflected in the value of the firms' stock.

2.2.4 The Tax Effect Theory

Tax benefits are a major motivation for acquisitions. Tax advantages accruing from acquisitions include use of past tax losses to offset future taxable incomes, accumulated tax shields as well as deployment of surplus funds (Ross et al., 2010). The first tax consideration relates to the offsetting of gains and losses for tax purposes. Chesang (2002) argues that cumulative tax liability of the merged unit is expected to fall below the combined tax liabilities of the separate pre-merger firms. With mergers, the net losses arising from the operations of one company are used to offset the gains of the second firm. The result is that lower taxes or no taxes will be paid by the combined company (Stanley and Geoffrey, 1992).

In the case of the unused tax shield, Ephraim (2002) explains that companies may possibly have allowable tax deductions but may not generate profits large enough to exploit all the possible tax deductions. A good example of tax shield is interest payment on debt. Consolidation with a high profitability company makes use of such tax shields. Brigham and

Daves (2010) argue that highly profitable companies facing higher tax rates can benefit immensely from acquiring companies with accumulated tax losses which are converted into tax savings and hence enhance profitability and firm value of the merged entities. The surplus funds arising from such savings can be utilized to retire debt, dividend payments, investments as well as expanding operations.

2.2.5 Disciplinary Hypothesis

According to Kemal (2011), corporate mergers and acquisitions can also take place as a result of the shareholder-management agency problem. Corporate managers are more interested in advancing their welfare rather than shareholder wealth maximization objective which is the overriding goal of corporations. Disciplinary hypothesis of mergers explains on such crop of management teams who are more interested in personal goals than firm value maximization. Managers who do not maximize the value of the firm would deviate and focus on other goals. The disparity in focus between management goals and firm value maximization objective hinders the operating efficiency and hence the financial performance of firms is adversely affected.

Some acquisitions promise strategic capabilities. Firms in mergers are able to take advantage of the dynamic and competitive environment and this enhances flexibility with regard to their future operations (Ross et al., 2010). Braely and Myers (1991) states that poorly performing firms that have quality assets are key targets for optimistic buyers that are constantly looking out for such targets. Therefore this theory suggests that acquiring firms merge with poorly performing targets and improve their performance as new management realizes the full potential of a target's assets.

2.3 Determinants of Financial Performance

Various stakeholders, especially investors, analyze the various determinants of financial performance in making key investment decisions. A major factor determining financial performance of a firm is its position in the market that gives it competitive advantage. Other key factors that determine financial performance are risk and growth prospects. Since market value is influenced by the company's operating results, the level of risk exposure can cause variations in its market value.

Company size as well influences the financial performance of the firm. Size can influence firm performance positively, since larger firms can leverage on their size to obtain better deals in financial as well as product or other factor markets (Mathur & Kenyon, 1997). Large organizations are able to access financial resources at a lower cost as well. Large corporations also diversify their assumed risks effectively and respond more quickly to changes in the operating environment and market.

Some prior studies (Batra, 1999; Lumpkin & Dess, 1999) indicated that the age of the firm influences its financial performance. Sorensen & Stuart (1999) on their study confirmed that old firms tend to have organizational inertia that makes them inflexible and unable to adapt to changes in the operating environment. New and small firms consequently take away market share despite disadvantages such as limited access to financing, unpopular brands and corporate reputation and image.

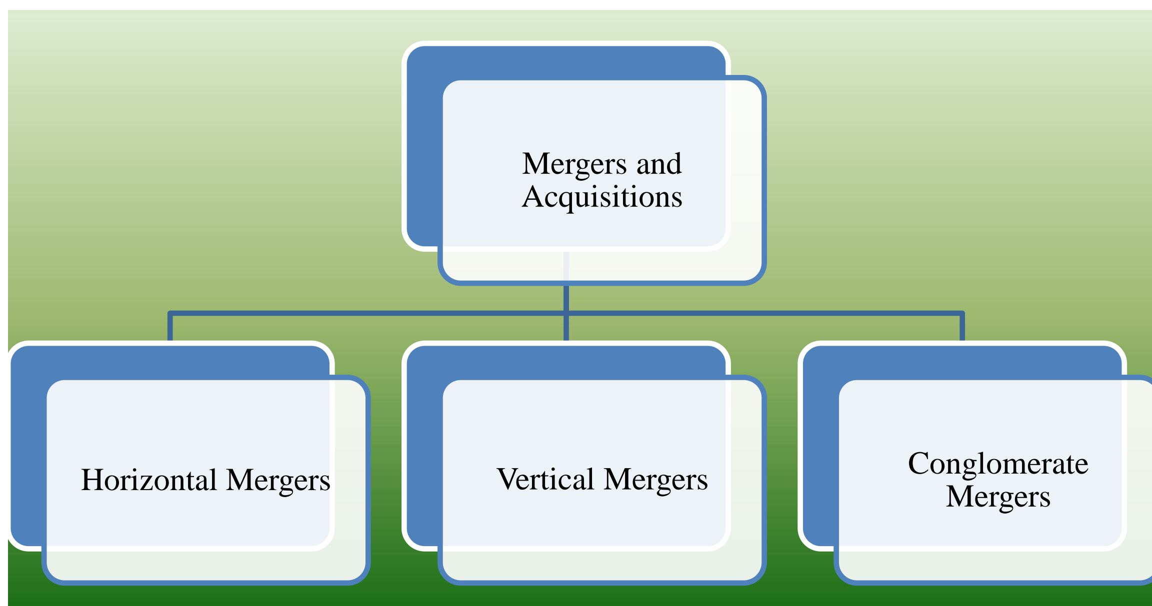
Capital structure, the mix of various sources of financing of a firm, is a crucial determinant of financial performance (Kakani & Reddy, 2001). Modigliani-Miller's hypothesis stated that the capital structure is irrelevant for firm performance since an optimal capital structure does

not exist for all companies. Recent finance theories however state that the capital structure of a firm is relevant for determining its financial performance. Increased use of debt, despite the tax advantages arising from interest shield, raises the risk of bankruptcy. Other aspects of the corporate entity influenced by the capital structure include governance, since debt-holders become key stakeholders of a firm as leverage increases.

2.4 Types of Mergers and Acquisitions

Business firms engage in a spectrum of restructuring activities in a bid to enhance their competitive advantage in exploiting potential opportunities (Trautwein, 1990). Mergers and acquisitions play a vital role in the growth and expansion of firms. Some of the key measures of a firms' prowess is growth and expansion as they are key for firms to compete for managerial talent within the corporate world. Kumar and Bansal (2008), identify three forms of mergers and acquisitions; horizontal mergers, vertical mergers and conglomerate mergers.

Figure 1: Types of Mergers and Acquisitions



2.4.1 Horizontal Mergers

Marembo (2012) defines a horizontal merger as one involving the consolidation of two or more companies operating in similar sectors and at the same level or stage of production. He recognizes that the larger firm formed through such a merger benefits from economies of large scale production such as reduced unit cost of production as well as minimizing the fixed costs in the production process.

Despite the benefits harnessed through such mergers, some jurisdictions with anti-trust law may regulate the formation of horizontal mergers due to their potentially adverse competitive impacts (Markham, 2010). Merging horizontally decreases the number of firms operating in a certain sector making collusion for monopoly profiting possible.

2.4.2 Vertical Mergers

These are mergers between companies producing different goods or services for a specific finished product (Mboroto, 2010). The merging firms operate at different levels within an industry's supply chain. The main aim of vertical mergers is to increase efficiency within the production chain. Some reasons advanced for vertical mergers include technological economies, elimination of contracting costs, efficiency in the production planning process and sharing of specialized assets (Muia, 2010).

According to Pettinger (2011), various benefits of vertical mergers and acquisitions exist. One is the economies of large scale production including risk bearing economies as well as financial economies where lower prices to consumers are as a result of lower costs. Two, firms in vertical mergers maintain control of suppliers and hence higher bargaining power of suppliers which enhances their competitive advantage. Three is the overlap of technology and expertise which leads to higher efficiency levels and improvement in the quality of output.

2.4.3 Conglomerate Mergers

Conglomerate mergers involve the consolidation of firms operating in different businesses and necessarily need not be vertical mergers (Mahesh and Prasad, 2012). They further identify three types of conglomerate mergers based on the motive for each. First, is a product-extension merger that is aimed at broadening the product lines of firms in related businesses. Two, is a geographic market-extension merger which involves firms with operations in totally distant geographic areas and lastly, a pure conglomerate merger that involves merging of firms in unrelated business activities.

Benefits harnessed through conglomerate mergers include increased efficiency and diversification of risk (Gugler, et al., 2003). In conglomerate mergers, different business units come up with different business projects competing for the firm's capital and funds are allocated to the projects that yield the highest return. Acquiring firms in different markets and geographical regions enables companies to diversify their risks such as product demand seasonality risk.

2.5 Empirical Review

2.5.1 Global Studies

Fatima and Shehzad (2014) studied the impact of mergers and acquisitions on financial performance of insurance companies in Pakistan. In their study, six financial ratios were analyzed. Ten insurance companies which got into mergers from 2007 to 2010 were selected as the sample for analysis. 3 year pre-merger and 3 year post-merger data points were taken for all the 10 cases and their averages compared. Their null hypothesis was that mergers and acquisitions enhanced profitability and efficiency through synergy. The alternative hypothesis was that the effects of M&A on financial performance were not clear. Based on the given

evidence, they rejected the alternative hypothesis regarding profit after tax, return on assets, leverage and earnings per share. They accepted their null hypothesis and concluded that from their analysis, the objectives of mergers were not clearly achieved, synergy was not created, neither were economies of scale achieved.

Joshua (2011) evaluated the impact of merger and acquisition on financial efficiency of insurance companies in Nigeria. In his study, he used operating profits, net income and net assets of sample companies to determine financial efficiency by comparing data before and after merger the merger. The study established that there was higher post-merger financial efficiency compared to the pre-merger periods.

Viverita (2008) studied the impact of mergers and acquisitions on banks in Indonesia. From a comparison of seven year pre-merger and post-merger financial performance data, the study revealed that mergers increased a bank's profit potential. The study results indicated improvements in return on asset, return on equity, net interest margin, capital adequacy ratio and non-performing loans after the mergers and acquisitions. However, mergers could not improve the financial institutions' ability to perform intermediary functions as indicated by falling loan to deposits ratio.

Saboo and Gopi (2007) investigated how mergers impacted the operating and financial performance of acquiring firms in India by comparing financial ratios before and after merger. They determined the pre-merger and post-merger differences in financial ratios for the firms that had restructured through domestic acquisitions and those that had gone for international/cross-border acquisitions. The results showed variations in how financial performance was impacted depending on acquisition type. According to the findings of the

study, mergers impacted positively on the financial performance of firms that had acquired domestic targets and a slight negative impact on firms involved in cross-border acquisitions.

2.5.2 Local Studies

Kivindu (2013) conducted a study to determine the effects of M&A on bank profitability in Kenya by conducting a pre-merger and post-merger comparison of profitability for 24 banks that had undergone through mergers and acquisitions in Kenya. The study employed a descriptive research design and the population of interest comprised the 24 banks that merged or had been acquired in Kenya during the study period. The study analysed ROA, ROE equity, profit before tax and capital adequacy ratio. The study results revealed that institutions with weak capital base consolidated in an effort to achieve synergies and thus enjoy economies of scale that would improve their profitability as opposed to listing in stock exchanges that attracted substantial costs. In addition, mergers and acquisitions improved the profitability of the post-merger firms through improved capital base, efficiency and competitiveness.

Marembo (2012) conducted a study to establish the impacts of mergers and acquisitions on the overall financial performance of banks in Kenya. The study focused on the comparative analysis of 27 bank's financial performance for the pre-merger acquisition period with the objective of getting an indication of the relative financial performance of the acquiring firm as well as the target firm. The study compared the premerger and post-merger financial ratios including earnings per share, return on equity, return on assets and capital adequacy ratio. The findings of the data analysis showed that a bank's financial performance improves with the mergers/acquisition. This is because the merger/acquisition brings about higher capital and customer base which are important ingredients in firm performance. With increased commercial bank's stability and ability to lend the company in turn makes higher profits. The

study also determined that the merger activity alone could not achieve efficiency in terms of performance since some other factors came into play in determining the financial performance of firms.

Tuni (2011) studied the impacts of M&A on profitability of financial institutions in Kenya. The study zeroed on two overriding objectives: To determine the profitability of merged institutions before and after the merger/acquisition and to determine the impact of M&A on the profitability of the financial institutions. A sample of 20 financial institutions was selected from the population of interest of 70 institutions that had merged. 10 years' financial statements from the 20 financial institutions were used to calculate and analyze the performance indicators being earnings per share, ROA and ROE. It was found that before the merger, 7, 8 and 7 institutions had positive ROA, ROE and EPS respectively. On the year of the mergers and acquisitions, there was a change on the performance exhibited by these indicators. After the mergers and acquisitions, 6, 8 and 8 financial institutions posted an improvement in ROA, ROE and EPS respectively

Ndora (2010) studied the effects of mergers and acquisitions on the financial performance of insurance companies in Kenya. A sample of six insurance companies that had merged between the year 1995 and 2005 were used from a population of 42 registered insurance companies in the country as at that time. To measure financial performance, profitability ratios, solvency ratios as well as capital adequacy ratios were computed for the firms. ROA, operating profit, and ROE were analyzed. The information for the five years before and after the merger was compared and the results tabulated. The findings indicated an improved post-merger financial performance of the firms compared to the pre-merger period financial

performance of the merging firms. The study concluded that M&A resulted in increased financial performance of an insurance company.

Misigah (2013) studied the effect of mergers and acquisitions on the growth of banks in Kenya. The study population comprised of 15 banks that had merged between the year 2000 and 2010. Comparative analysis was used to compare the effects of mergers on growth in assets, profitability and shareholders' value during the pre-merger and post-merger period. Results from respondents indicated that the main reason why the bank undertook merger was growth in shareholders' value and growth in profitability. The banks achieved these objectives as growth was significant as a result of the mergers and profitability was achieved through the synergistic effect.

2.6.1 Summary of Literature Review

The literature review section of this study explored the various theories advanced for mergers and acquisitions including the theory of synergies, economies, diversification effect theory, tax effect theory and the disciplinary hypothesis theory. This chapter further delineates the various determinants of financial performance to include firm size with larger firms achieving better financial results, the age of the company, capital structure and the working capital of the firm. The chapter also presented empirical studies of the research done by other scholars on the topical area of mergers and acquisition both at the local and global scene.

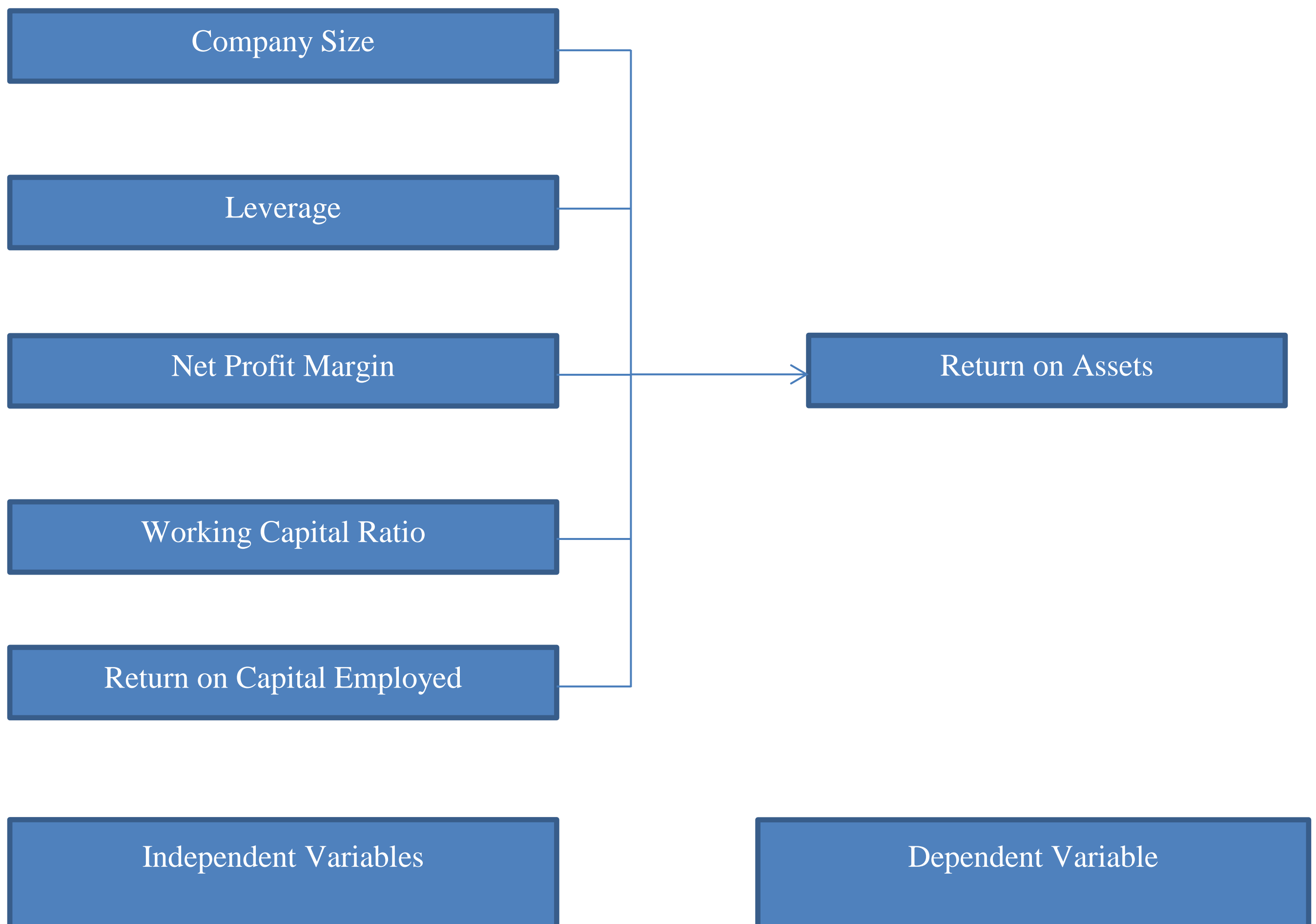
The literature review reveals evidence of substantial research on mergers and acquisitions done in the past but falls short in addressing the effects of mergers and acquisitions on the financial performance of insurance companies in Kenya. In addition the findings appear to vary from one industry to another. The literature reviewed reveals research gap on the effect

of mergers and acquisitions on the financial performance of insurance companies in Kenya and this is what this study seeks to bridge.

2.6.2 Conceptualization

The following variables are considered relevant in the Kenyan context and data can readily be collected. These variables will be explained in the methodology.

Figure 2: Conceptual Framework



CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out the methodology applied in conducting the study. Specifically, it outlines the research design, the population of interest, data collection instrument and the data analysis tool employed in the study.

3.2 Research Design

Research design is the ultimate blueprint for data collection, measurement and analysis (Kothari, 2004). This research employed a descriptive research design. Descriptive research study design describes the characteristics of a population or phenomena (Zikmund 2003), presenting a picture of the specific details of a situation or relationship.

3.3 Population

Mbwesa (2006) study defined population as the entire group of objects or events that have common or similar characteristics which are observable. The population of the study was made up of all the insurance companies that had merged and/or had been acquired over the duration of six years between 2010 and 2015.

The period of interest saw 10 mergers and acquisitions being notified to the IRA with half of these occurring after 2013. Since the study compared two year pre-merger data and two year post merger data, only mergers concluded by the end of 2013 were considered hence the study adopted a census analysis of mergers and acquisitions occurring between 2010 and 2013. Five merger and acquisition deals were considered as outlined in Appendix 2.

3.4 Data Collection

The study used secondary data from financial statements of the merged companies before and after the merger. The secondary data was obtained from insurance company statutory filings with the IRA, IRA annual and semi-annual publications and published insurance companies' financial statements. From these sources, panel data (time series and cross sectional data) was collected.

A two year premerger and two year post-merger data was collected including revenues (NWP), operating profit, net income, total assets, operating assets, current assets, current liabilities, total debt and shareholders' equity. Out of this data, the following pre-merger and post-merger period ratios were computed; net profit margin, ROA, ROE, ROCE, leverage and current ratio.

3.5 Data Analysis

To analyze the data, pre and post-merger performance ratios were computed for the entire set of sample companies which had gone through M&A during the selected period and their means, variances and standard deviations used for descriptive statistics. The pre and post M&A performance ratios were compared to see if there was any statistically significant change in performance of the after M&A firms using paired sample t-test. Also Pearson Correlation coefficient test and regression were employed to assess the significance level. The data was analysed using SPSS (version 21) and MS-Excel (2010).

3.6 Analytical Model

This study used multiple linear regression to determine the extent to which total variation in the dependent variable (financial performance) was influenced by the variation in the independent variables. This was used to test significance of the independent variables in

determining the variations in the dependent variable in both the pre-merger and post-merger periods. The multiple linear regression model used was as follows:

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

Where:

Y= Financial performance (measured by return on assets)

α = Constant (free term of equation)

β_i = Coefficients of independent variables i (which measure the responsiveness of Ý to unit change in variable X).

X_1= Company size (log total assets)

X_2= Leverage (measured by total debt/ average total assets)

X_3= Net income margin (measured by net income/sales)

X_4=Working capital ratio (measured by (CA-CL/total sales))

X_5= Return on capital employed (measured by EBIT/operating assets)

μ = Error term

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATIONS

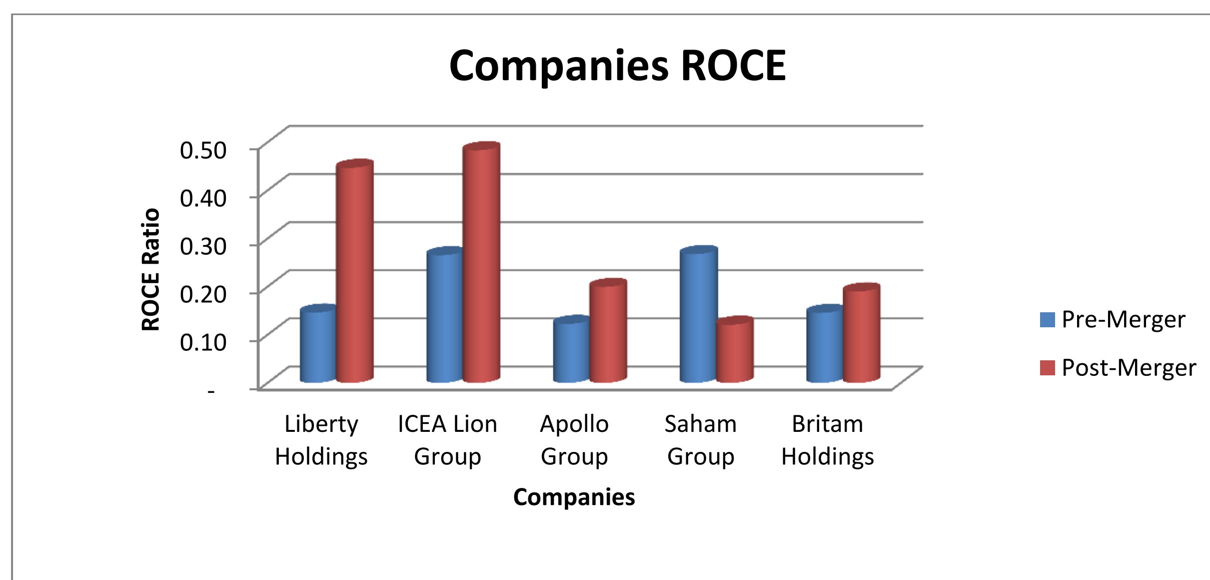
4.1 Introduction

This chapter focuses on the analysis of the secondary data collected from the various sources including company financial reports and regulatory filings to establish the effect of mergers and acquisitions on the financial performance of insurance companies in Kenya. The results were analyzed using descriptive statistics, tabulated and graphically presented as shown in the following sections.

4.2 Descriptive Statistics

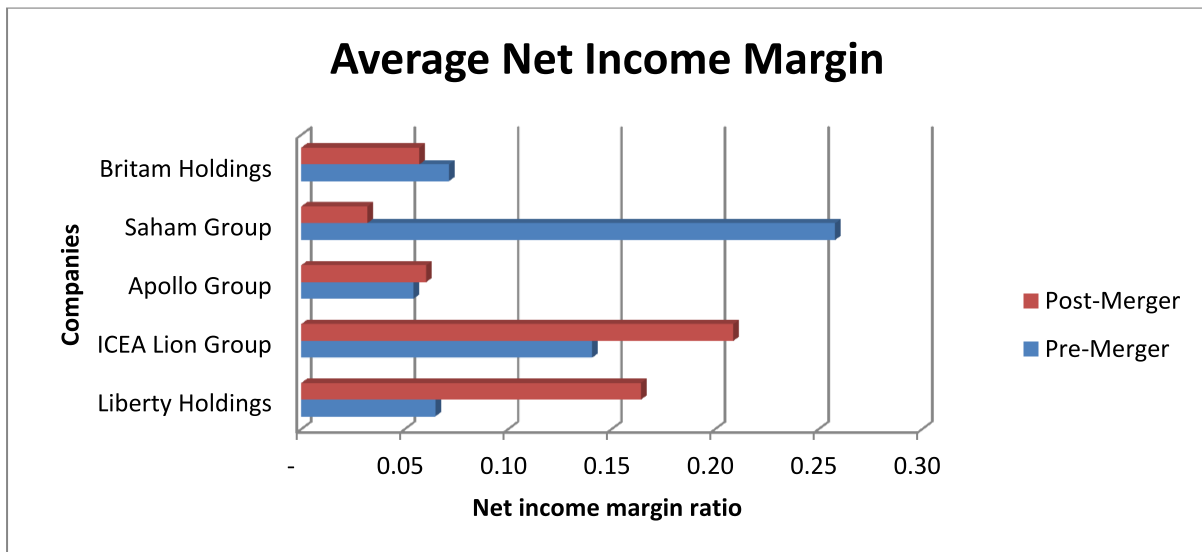
This section presents the descriptive results of this study, measures of central tendency, the trends analysis including companies average return on capital employed, net income margin, log of total assets, net working capital, leverage ratio as well as return on assets ratio, correlation and regression analysis.

Figure 3: Companies' Return on Capital Employed Trend



From the analysis of the companies' return on capital employed before and after merger, it was found that all the mergers and acquisitions except the Saham Group resulted in an increase in return on capital employed after the merger. ICEA Lion Group and Liberty Holdings recorded the highest return on capital employed of 48% and 45% respectively after the merger whereas Britam Holdings and Saham Group recorded the lowest return on capital employed at 19% and 12% respectively. The largest increase in return on capital employed was experienced by Liberty Holdings from 15% to 45% followed by ICEA Lion Group whose return on capital employed changed from 27% to 48% after the merger. Only Saham Group experienced a decline in return on capital employed falling from 27% to 12% after the merger.

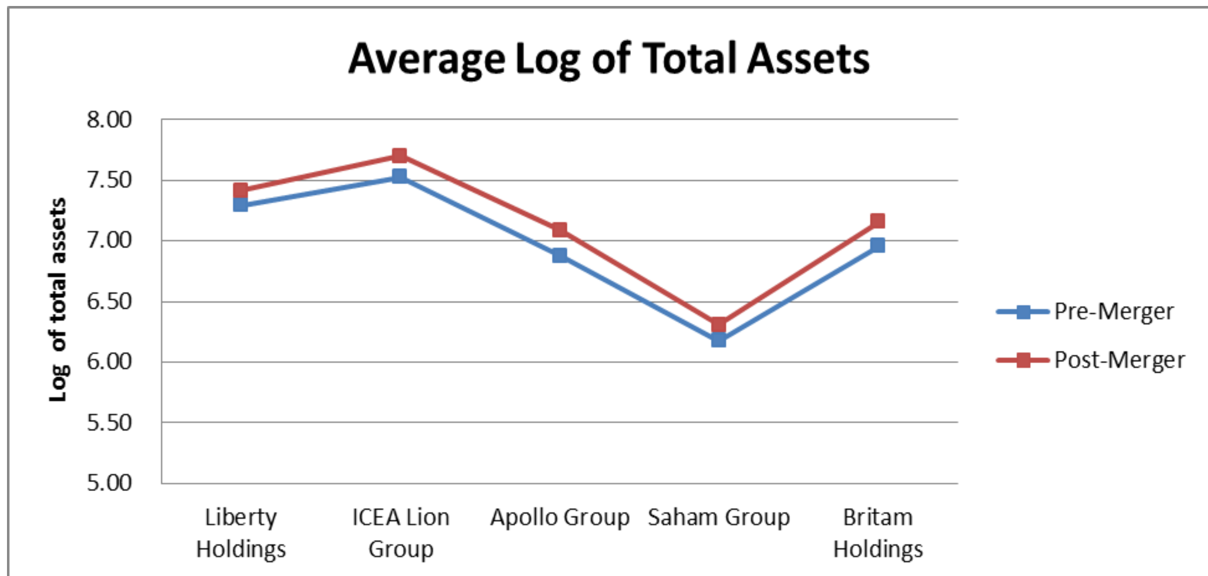
Figure 4: Average Net Income Margin Trends



From the analysis of the companies' net income margin movement before and after the merger and acquisition, it was found that ICEA Lion Group and Liberty Holdings had the highest net income margins after the merger of 21% and 16% respectively. The Saham Group realized the lowest net income margin after merger at 3% while Britam Holdings and Apollo Group both recorded net income margins of 6% post-merger. The largest increases in net

income margins were realised by Liberty Holdings (6% to 16%) and ICEA Lion Group (14% to 21%) where mergers resulting in a decline in net income margins were those of Saham Group (26% to 3%) and Britam Holdings (7% to 6%). The Apollo Group registered a marginal increase in net income margin from 5% before the merger to 6% after the merger.

Figure 5: Average Log of Total Assets Trends



The analysis of the companies' log of assets before and after merger showed that the average log of total assets increased for all the companies post-merger. In a descending order, the changes in log of total assets for the merged companies was; Apollo Group (6.88 to 7.09), Britam Holdings (6.96 to 7.15), ICEA Lion Group (7.52 to 7.70), Saham Group (6.18 to 6.31) and Liberty Holdings (7.30 to 7.41).

Figure 6: Average Net Working Capital Trends

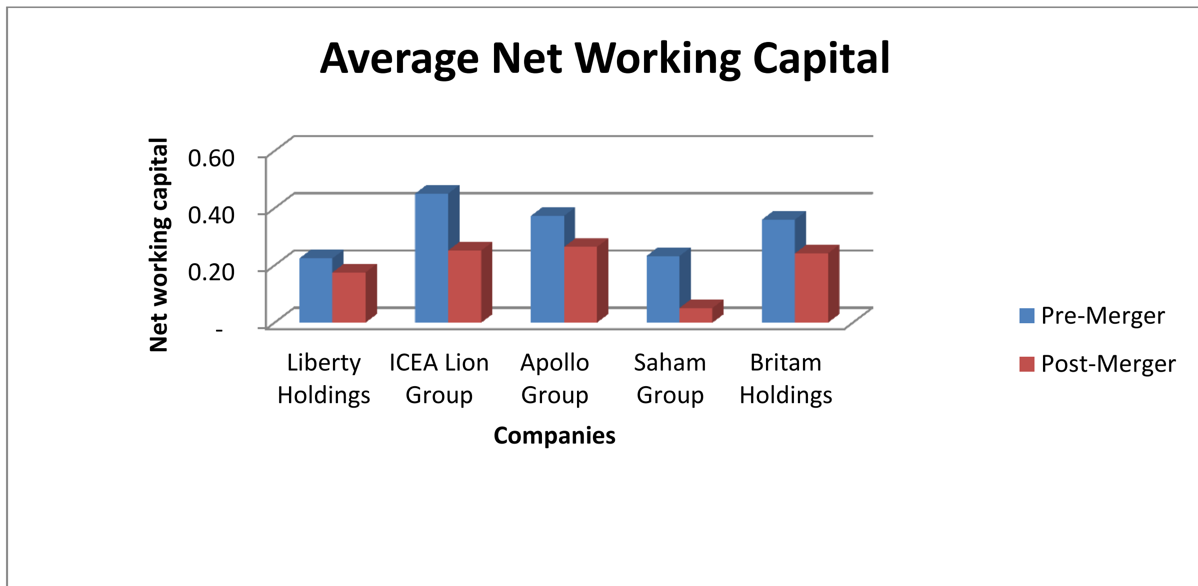
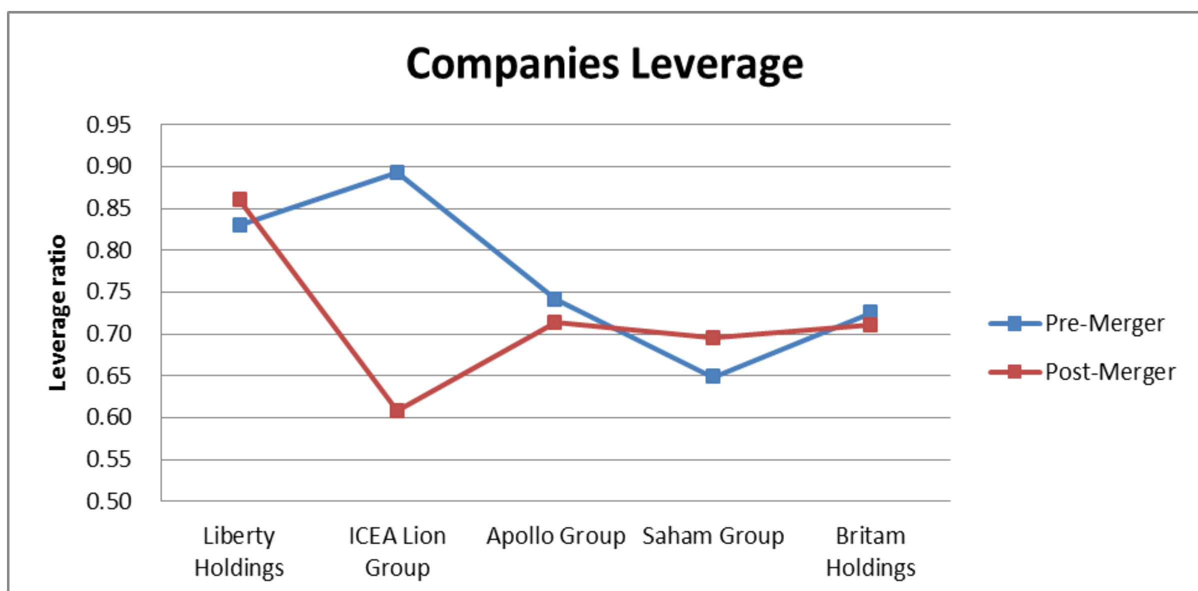


Figure 6 above shows that before the merger and acquisition ICEA Lion Group, Apollo Group and Britam Holdings had the highest net working capital of 45%, 37% and 36% respectively while after the merger Apollo Group, ICEA Lion Group and Britam Holdings recorded the highest net working capital of 26%, 25% and 24% respectively. The analysis further revealed that all the merging companies registered declines in their resultant net working capital ratios.

Figure 7: Average Companies' Leverage Trends



The analysis of the companies' leverage revealed that the post-merger leverage was highest in Liberty Holdings (86%), Apollo Group and Britam Holdings both with a leverage ratio of 71%. Leverage increased in Saham Group (65% to 70%) and Liberty Holdings (83% to 86%) while decreases in leverage were experienced in ICEA Lion Group (89% to 61%), Britam Holdings (73% to 71%) and Apollo Group (74% to 71%).

Figure 8: Return on Assets Trends

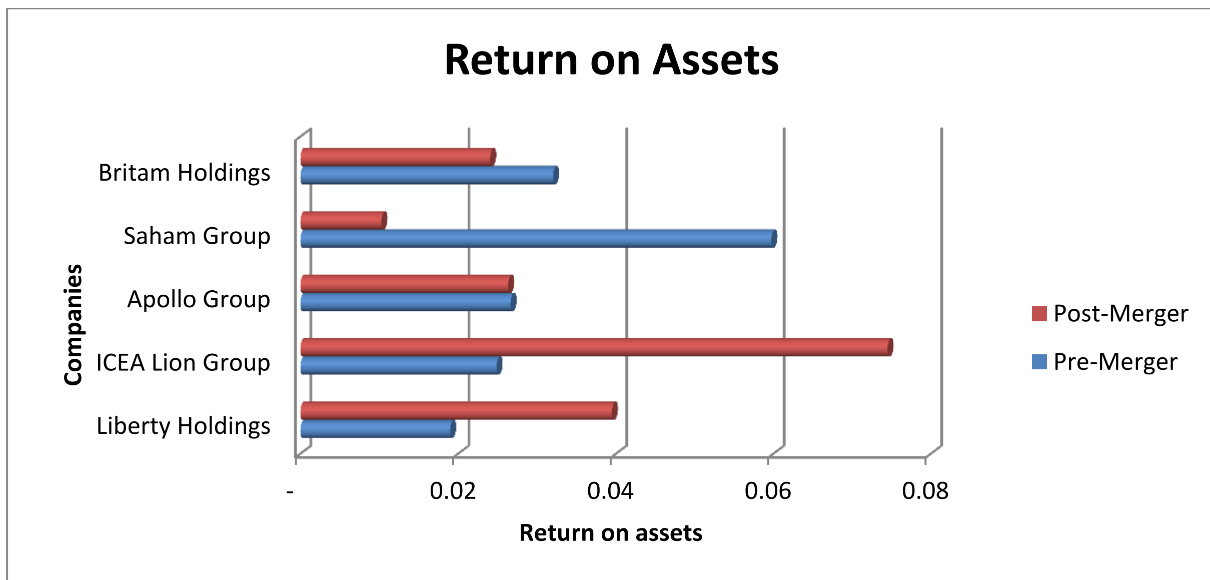


Figure 8 above shows that after the merger and acquisition ICEA Lion Group and Liberty Holdings experienced the highest increase in return on total assets from 2% to 7% and 2% to 4% respectively. The other three mergers resulted in decreased return on total assets; Saham Group (6% to 1%), Britam Holdings (3% to 2%) and Apollo Group (2.7% to 2.6%).

4.3 Sampled T-statistics

The results of the paired sampled t-statistics were as tabulated in the ensuing table.

Table 1: Sampled T-statistics before and after Merger

	Mean		Std. Deviation		T-statistics		Std. Error Mean	
	Pre-merger	Post-merger	Pre-merger	Post-merger	Pre-merger	Post-merger	Pre-merger	Post-merger
ROCE	.1920	.2880	.07225	.16483	5.942	3.907	.03231	.07372
NPM	.1180	.1040	.08614	.07701	3.063	3.020	.03852	.03444
LOG ASSETS	7.0100	6.9760	.51039	.41180	30.711	37.879	.22825	.18416
NWC	.3040	.1960	.09864	.08735	6.891	5.017	.04411	.03906
LEVERAGE	.7620	.7180	.09654	.08983	17.649	17.872	.04317	.04017
ROA	.0320	.0340	.01643	.02302	4.355	3.302	.00735	.01030

From the analysis the findings clearly show that before the merger average return on capital employed mean difference was 19.2% with a standard deviation of 7% and mean difference of 28.8% and standard deviation of 16% after the merger. Net income margin had a mean difference of 11.8% and standard deviation of 8.6% and mean difference of 10.4% and standard deviation of 7.7% after the merger. Leverage recorded the highest mean difference of 76% and standard deviation of 9.6% before the merger and 71.8 weighted mean differences and 8.9% standard deviation after the merger.

4.4 Pearson Correlation Analysis

The results of the correlation analysis are displayed in tables 2 and 3.

Table 2: Correlation Analysis before the Mergers

		ROCE	NPM	NWC	LOGASSETS	LEVERAGE	ROA
ROCE	Pearson Correlation	1	.860	.349	-.277	.125	.417
	Sig. (2-tailed)		.061	.564	.652	.842	.485
	N	5	5	5	5	5	5
NPM	Pearson Correlation	.860	1	-.075	-.715	-.375	.816
	Sig. (2-tailed)	.061		.904	.175	.534	.092
	N	5	5	5	5	5	5
NWC	Pearson Correlation	.349	-.075	1	.522	.571	-.438
	Sig. (2-tailed)	.564	.904		.367	.314	.461
	N	5	5	5	5	5	5
LOGASSETS	Pearson Correlation	-.277	-.715	.522	1	.890*	-.981**
	Sig. (2-tailed)	.652	.175	.367		.043	.003
	N	5	5	5	5	5	5
LEVERAGE	Pearson Correlation	.125	-.375	.571	.890*	1	-.838
	Sig. (2-tailed)	.842	.534	.314	.043		.076
	N	5	5	5	5	5	5
ROA	Pearson Correlation	.417	.816	-.438	-.981**	-.838	1
	Sig. (2-tailed)	.485	.092	.461	.003	.076	
	N	5	5	5	5	5	5

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

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

From the analysis of the correlation analysis before the mergers and acquisitions, it was found that there exists a strong positive correlation between net income margin and return on capital employed (p= 0.860, p>0.05). The results also revealed that there exists a weak positive correlation between return on capital employed and net working capital (p= 0.349, p>0.05). There exist a weak negative relationship between return on capital employed and log of total assets (p= -0.277, p>0.05). There exists a strong positive relationship between return on asset and return on capital employed (p= 0.417, p>0.05). There also exists a strong positive correlation between return on assets and net income margin (p= 0.816, p>0.05) and a

strong negative correlation between return on assets and net working capital, log of assets and leverage (p= -.438, p>0.05), (p= -.981, p>0.05) and (p= -0.838, p>0.05) respectively.

Table 3: Correlation Analysis after the Mergers

		ROA	ROCE	NPM	LOG ASSETS	NWC	LEVERAGE
ROA	Pearson Correlation	1	.899*	.948*	.361	.557	-.297
	Sig. (2-tailed)		.038	.014	.551	.329	.627
	N	5	5	5	5	5	5
ROCE	Pearson Correlation	.899*	1	.986**	.532	.388	.114
	Sig. (2-tailed)	.038		.002	.356	.518	.855
	N	5	5	5	5	5	5
NPM	Pearson Correlation	.948*	.986**	1	.433	.404	-.053
	Sig. (2-tailed)	.014	.002		.466	.500	.933
	N	5	5	5	5	5	5
LOG ASSETS	Pearson Correlation	.361	.532	.433	1	.710	.523
	Sig. (2-tailed)	.551	.356	.466		.179	.366
	N	5	5	5	5	5	5
NWC	Pearson Correlation	.557	.388	.404	.710	1	-.202
	Sig. (2-tailed)	.329	.518	.500	.179		.745
	N	5	5	5	5	5	5
LEVERAGE	Pearson Correlation	-.297	.114	-.053	.523	-.202	1
	Sig. (2-tailed)	.627	.855	.933	.366	.745	
	N	5	5	5	5	5	5

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

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

From the analysis of correlation analysis after the merger, the findings clearly shows that there exists a strong positive correlation between return on assets and return on capital employed, net income margin, log of assets and net working capital (p= 0.899, p>0.948), (p= 0.177, p>0.05), (p= 0.361, p>0.05), (p= 0.557, p>0.05). There exists a weak negative correlation between return on assets and leverage (p= -0.297, p>0.05). The findings also show that there exists a strong correlation between return on capital employed and net income margin, log of assets and net working capital (p= 0.986, p>0.05), (p= 0.532, p>0.05), (p=

0.388, p>0.05). There also exists a strong correlation between net income margin and log of assets and net working capital (p= 0.433, p>0.05) and (p= 0.404, p>0.05). There exists a strong positive correlation between log of assets and networking capital and leverage (p= 0.710, p>0.05) and (p= 0.523, p>0.05).

4.5 Test of significance

Tables 4 and 5 summarize the results from the pre-merger and post-mergers regression analyses respectively.

Table 4: Test of Significance before the Mergers

Model[a]		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.151	.000		.	.001
	ROCE	.107	.000	.472	.	.061
	LOGASSETS	-.008	.000	-.240	.	.050
	NWC	-.021	.000	-.129	.	.035
	LEVERAGE	-.104	.000	-.610	.	.011

a. Dependent Variable: ROA

Using a significance level of 5%, any independent variable having a significance value greater than 5% is considered not statistically significant. This study found that log of assets, net working capital and leverage are statistically significant with return on capital employed with significance of more than 5% is not statistically significant.

Table 5: Test of Significance after the Mergers

Model[a]		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.304	.000		.	.002
	NPM	.315	.000	1.055	.	.036
	LOG ASSETS	-.068	.000	-1.219	.	.042
	NWC	.296	.000	1.122	.	.231
	LEVERAGE	.159	.000	.622	.	.055

a. Dependent Variable: ROA

Using a significance level of 5%, any independent variable having a significance value greater than 5% is considered not statistically significant. This study found that net income margin, return on capital employed and net working capital are statistically significant with average companies leverage with significance of more than 5% is not statistically significant.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the key findings from the study on how mergers and acquisitions affect the financial performance of insurance companies in Kenya. Further, it delineates areas for policy improvements as regards mergers and acquisitions in insurance as well any areas for further research. The various study limitations are highlighted in this chapter as well.

5.2 Summary

The objective of this study was to establish the effect of mergers and acquisitions on the financial performance of insurance companies in Kenya. From the analysis, it was found that before the merger, the return on capital employed mean difference was low with a standard deviation of 7%. Leverage recorded the highest mean difference and standard deviation of 9.6% before the merger and 8.9% standard deviation after the merger. The findings also revealed that after the merger and acquisition ICEA Lion Group and Liberty Holdings had the highest return on total assets while Saham Group recorded the highest return on assets before the merger with the lowest return on assets after the merger. From the analysis of the leverage it was found that Liberty Holdings and Apollo Group were highly levered before and after the merger.

The results also showed that before the merger and acquisition ICEA Lion Group, Apollo Group and Britam Holdings had the highest net working capital compared to Liberty Holdings and Saham Group while after the merger ICEA Lion Group and Apollo Group recorded the highest net working capital on average. The analysis of return on capital employed before and after merger showed that ICEA Lion Group and Liberty Holdings

recorded the highest return on capital employed after the merger compared to the other companies under analysis while Saham Group and Britam Holdings recorded the lowest return on capital employed. ICEA Lion Group and Saham Group had the highest return on capital employed before the merger.

The net income margin analysis indicated that Saham Group and ICEA Lion Group had the highest net income margins compared to other companies before the merger with Britam Holdings, Apollo Group and Saham Group recording the lowest net income margins after the merger. Liberty Holdings and ICEA Lion Group had the largest post-merger net income margins.

5.3 Conclusions

This study concludes that there exist a strong positive correlation between net income margin and return on capital employed, a weak positive correlation between return on capital employed and net working capital and return on capital employed. There exists a strong positive relationship between return on assets and return on capital employed and a strong negative correlation between return on assets and net working capital, log of total assets and leverage. This study also found that log of assets, net working capital and leverage are statistically significant while return on capital employed was not statistically significant before the merger.

Net income margin, return on capital employed and net working capital were found to be statistically significant while leverage was not statistically significant after the merger.

The conclusion from the study is that mergers and acquisitions enhance the financial performance of the merged firms. There is convergence in conclusion of this study with earlier studies conducted in the Kenyan setting for example Marembo (2011), Ndora (2010)

and Marangu (2007). These studies concluded that there is a positive relationship between mergers and acquisitions and financial performance of the merged firms.

5.4 Recommendations for policy

From the study, corporate managers can enhance the financial performance of their entities through mergers and acquisitions. By identifying strategic targets, firms can benefit from synergies arising from economies of scale, increase efficiency as well as diversify their risks. Ultimately, firm value and shareholder wealth is enhanced.

The study can further inform the various government agencies mandated with the responsibility of supervision of insurance activities. The authorities need to understand the various motivations for mergers and acquisitions, the impact that such have on the insurance sector and putting mechanisms in place to curb possible negative impacts of mergers and acquisitions like increased contagion risk and monopolistic practices.

5.5 Suggestions for further research

This study focused on mergers and acquisitions in the Kenyan insurance market. It is worth appreciating that there are interlinkages between various sectors of the economy and that investors are diversifying their investments through corporate group structures. Further studies should consider other sectors of the economy. In addition, future studies should broaden the scope to other jurisdictions and not Kenya only.

Future studies should explore further reasons for mergers and acquisitions apart from financial performance. Other factors like regulatory arbitrage, avoiding competition, survival, leadership replacement and the reactive behaviour of corporate entities may come into play.

5.6 Limitations of the study

There are other factors that determine financial performance of companies. This study considered mergers and acquisitions as the only driver of financial performance therefore the study results may not be conclusive. There may be need to include control variable in future studies to cater for other determinants of financial performance.

The study considered two year pre-merger and post-merger financial performance data. A Two-year duration may be too short for one to observe the financial performance of a firm and make conclusions on the factors that determine the financial performance of a firm. Future studies should consider increasing the duration of study.

This study zeroed down on insurance companies in Kenya and therefore generalizing the study findings to other sectors and jurisdictions may be inappropriate. Comparative studies should be done in different sectors of the economy as well as other geographical regions.

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APPENDICES

Appendix 1: Insurance M&A Activity in the Last 5 Years

No.	Year	Pre-Merger Entities	Post Merger Entities
1	2011	Apollo Insurance	APA Insuracne Group
		APA Insurance	
2	2012	Insurance Company of East Africa	ICEA LION Group
		Lion of Kenya Insurance Company	
3	2012	CFC Life Assurance Company	Liberty Holdings Kenya
		Heritage All Insuracne Company	
4	2013	Saham Group	Saham Insurance Kenya Limited
		Mercantile Insurance Company	
5	2013	British American Insurance Company	Britam Insurance
		Real Insurance Company	
6	2014	Prudential Insurance Group	Prudential Life Assurance
		Shield Assurance Company	
7	2015	Pan Africa Life Insurance	Pan Africa Insurance
		Gateway Insurance Company Limited	
8	2015	Metropolitan Life Assurance	MetCannon Assurance
		Cannon Assurance Kenya Limited	
9	2015	Old Mutua Life Assurance	UAP Insurance
		UAP Holdings	
10	2015	Barclays Life Assurance	Barclays Insurance
		First Assurance Kenya Limited	

Source: IRA regulatory filings

Appendix 2: The Study Sample

No.	Year	Pre-Merger Entities	Post Merger Entities
1	2011	Apollo Life Insurance	APA Insuracne Group
		APA Insurance	
2	2012	Insurance Company of East Africa	ICEA LION Group
		Lion of Kenya Insurance Company	
3	2012	CFC Life Assurance Company	Liberty Holdings Kenya
		Heritage All Insuracne Company	
4	2013	Saham Group	Saham Insurance Kenya Limited
		Mercantile Insurance Company	
5	2013	British American Insurance Company	Britam Insurance
		Real Insurance Company	

Source: IRA regulatory filings

Appendix 3: Data Collection Form

Insurance I (before M&A)	Year 1	Year 2
	KES '000'	KES '000'
Net Written Premium		
Operating Profit (EBIT)		
Net Income (PAT)		
Total Assets		
Operating Assets		
Current Assets		
Current Liabilities		
Total Debt		
Shareholders' Equity		

Insurance II (before M&A)	Year 1	Year 2
	KES '000'	KES '000'
Net Written Premium		
Operating Profit (EBIT)		
Net Income (PAT)		
Total Assets		
Operating Assets		
Current Assets		
Current Liabilities		
Total Debt		
Shareholders' Equity		

Insurance I&II Consolidated (before M&A)	Year 1	Year 2
	KES '000'	KES '000'
Net Written Premium		
Operating Profit (EBIT)		
Net Income (PAT)		
Total Assets		
Operating Assets		
Current Assets		
Current Liabilities		
Total Debt		
Shareholders' Equity		

Insurance I&II Consolidated (after M&A)	Year 1	Year 2
	KES '000'	KES '000'
Net Written Premium		
Operating Profit (EBIT)		
Net Income (PAT)		
Total Assets		
Operating Assets		
Current Assets		
Current Liabilities		
Total Debt		
Shareholders' Equity		

Appendix 4: Pre-merger and Post-merger Ratios

LIBERTY HOLDINGS	PRE-MERGER			POST-MERGER		
	2010	2011	Average	2013	2014	Average
ROCE	0.18	0.11	0.15	0.48	0.42	0.45
NIM	0.07	0.06	0.06	0.16	0.17	0.16
Log of Assets	7.30	7.29	7.30	7.38	7.45	7.41
NWC	0.22	0.23	0.22	0.12	0.23	0.18
Leverage	0.79	0.87	0.83	0.86	0.86	0.86
ROA	0.02	0.02	0.02	0.04	0.04	0.04
ICEAL LION GROUP	PRE-MERGER			POST-MERGER		
	2010	2011	Average	2013	2014	Average
ROCE	0.24	0.29	0.27	0.48	0.49	0.48
NIM	0.12	0.16	0.14	0.23	0.19	0.21
Log of Assets	7.51	7.54	7.52	7.67	7.73	7.70
NWC	0.44	0.46	0.45	0.30	0.20	0.25
Leverage	0.90	0.89	0.89	0.62	0.60	0.61
ROA	0.02	0.03	0.02	0.08	0.07	0.07
APOLLO GROUP	PRE-MERGER			POST-MERGER		
	2009	2010	Average	2012	2013	Average
ROCE	0.09	0.16	0.12	0.11	0.29	0.20
NIM	0.05	0.06	0.05	0.04	0.08	0.06
Log of Assets	6.82	6.94	6.88	7.05	7.12	7.09
NWC	0.44	0.31	0.37	0.35	0.18	0.26
Leverage	0.77	0.71	0.74	0.75	0.68	0.71
ROA	0.02	0.03	0.03	0.02	0.04	0.03
SAHAM GROUP	PRE-MERGER			POST-MERGER		
	2011	2012	Average	2014	2015	Average
ROCE	0.25	0.29	0.27	0.14	0.10	0.12
NIM	0.17	0.34	0.26	0.03	0.03	0.03
Log of Assets	6.14	6.21	6.18	6.27	6.34	6.31
NWC	0.18	0.29	0.23	0.05	0.05	0.05
Leverage	0.65	0.65	0.65	0.67	0.72	0.70
ROA	0.04	0.08	0.06	0.01	0.01	0.01
BRITAM HOLDINGS	PRE-MERGER			POST-MERGER		
	2011	2012	Average	2014	2015	Average
ROCE	0.11	0.18	0.15	0.11	0.27	0.19
NIM	0.06	0.08	0.07	0.04	0.08	0.06
Log of Assets	6.90	7.01	6.96	7.12	7.19	7.15
NWC	0.42	0.31	0.36	0.32	0.16	0.24
Leverage	0.75	0.70	0.73	0.74	0.68	0.71
ROA	0.03	0.04	0.03	0.02	0.03	0.02