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

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ABSTRACT

The goal of this study was to establish the effect that mergers and acquisitions have on the financial performance of the insurance sector, with special focus on insurance companies in Kenya. The specific objectives of the study were; to assess the effect of asset base on financial performance of insurance companies in Kenya; assess effect of market expansion on financial performance; assess of technology use and-long term liabilities on financial performance of insurance companies in Kenya. The target population comprised of 280 IRA and AKI, the sales force team and middle management staff members from different insurance companies that had undergone either mergers or acquisitions.A sample population of 140 respondents was selected representing 64% of the targeted population. Both primary and secondary data sources were used in data collection during implementation of this study. The results of the study found an existence of positive correlation between the predictor variable-mergers/acquisitions and the outcome variable-financial performance of Insurance companies in Kenya. The findings from this research results indicated that Long-term liabilities, rapid market expansion, and large asset base led to an improvement in the financial performance outcomes of Insurance companies in Kenya. The study concluded that product development and firms processes were significantly influenced by the adoption of technology in firms offering insurance services. The study recommeded that insurance businesses in Kenya should focus most on expanding to various business lines. Better-quality technology need to be adopted in the companies servicing insurance in Kenya. Insurance firms should establish a well-matched portfolio of their assets and liability in terms of cash flows or rather they should ensure that they create additional reserve so that it can assist them in covering the interest rate since the low interest might create a discrepancy on the earnings.

Key words; *Mergers and Acquisitions, Asset Base, Market Expansion, Technology, Long Term Liabilities, Financial Performance*

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INTRODUCTION

According to Tchajkov, (2014) when two firms choose to merge, or one enterprise purchases part of another enterprise, a business can stretch multi-billion dollar heights. In an aggressively competitive sector with established companies, such businesses can be a fairly good sense of the development they offer. Cummins &Xie (2006) find that merge and acquisition provide a chance to enlarge market place attendance into another area, or a new line of enterprise. Tchajkov, (2014) purchasing similar lines of business from a participant can also be a good way of adding new consumers thereby refining margins and the bottom-line.

The primary importance of mergers and acquisitions is the generation of cooperation that can, in turn, raise business development, rising market power, develop manufacture competences, increase productivity, and advance stakeholders wealth. Mergers and acquisitions should set up progressive net present value schemes. Though, research represents a diverse picture on the findings of mergers and acquisition concerning economic disappointments and poor financial yields.

Studies indicate that between 70%-80% of mergers and acquisitions do not make significant improvement in financial performance above the yearly cost of capital and cost of production (Bruner, 2002). Even the traditional financial approximation processesproject mergers and acquisitions disappointment rates to about 50% or higher for approximately four periods (Coffey, Garrow, & Holbeche, 2003).

Mergers and acquisitions have hit the headlines in the past as much as the present. According to Brealey, 2006, Corporations from the US incurred more than 1.7 trillion dollars on mergers and acquisition in the year 2000. Sudarsanam (2003) found out the key reason for companies implementing mergers and acquisition is to increase the value of shareholders. A large proportion of firms that seek to merge or to be acquired seek to become the market leading player in the product-market area of their strategic choice.

According to a study by Boston Consulting Group only 46% of insurance industry mergers and acquisitions in North America and Western Europe have made value for the shareholders of the companies that acquire others (BCG, 2009). The BCG research is a sobering reminder that although some chances' may seem good to an acquirer, safeguarding a good strategic fit is vital.

Global mergers and acquisitions actions are on the rise at remarkable rates rising from a value of $1.9 trillion in the year 2011 (Susan Cartwright & Schoenberg, 2006) to a record-breaking value of $4.35 trillion in 2014 (Reuters, 2010). Only the 2008 global financial disaster could sluggish down mergers and acquisitions action with 2008 action covering out at $2.89 trillion, ending 5 years of spectacular development (Vranceanu, 2009). With trillions of dollars in value of dealings at risk each year, it is vital for scholars and experts to find means to control mergers and acquisitions disappointments.

East Africa's mergers and acquisitions have begun operating up as firms are considering means to defend their market share and guarantee good revenues for shareholders. A large number of mergers and acquisitions contracts are in the banking, communications, and health sectors. Experts say the area's altering financial treasures over the ten years have seen struggling companies look for new associates in a bid to increase new wealth, make synergies and build markets of scale to challenge growing struggle. Kenya's East Africa Breweries Limited acquired a 51% stake in Tanzania's Serengeti Breweries to capture a new market.

To attain this successfully, the research also sought to reveal the associations that exist between Mergers or acquisition and the resulting financial performance of the merged companies. In the investigating of mergers and acquisition and in showing these associations, the research draws on financial information acquired from audited books of accounts of the insurance companies resulting from a merger.

The research will allow an improved understanding of whether a company's present method to the administration of its working preparation is adequate in helping its achievement in its present working environment (Tchajkov, 2014).Overextension tends to make the firm unruly. Supervisors overconfidence about projected synergies from mergers and acquisition may end in overcompensation for the target corporation (Ireri, 2011). In the previous, sure executive administration players had their overheads founded on the total quantity of returns made by the firm, instead of the revenue per share, thus giving the group a perverse encouragement to buy corporations to raise the native revenue while declining the revenue per share hence supervisors reimbursement maybe hindrance. Additional hindrance is kingdom structure that includes supervisors rising big corporations to have more power but not for monetary reasons.

The key players in the Kenyan insurance sector are insurance companies, reinsurance companies, intermediaries such as insurance agents and insurance agents, risk managers or loss adjusters and other service workers. The statute regulating the industry is the insurance Act; Laws of Kenya, Chapter 487. There is also self-regulation of insurance by the AKI. AKI was recognized in 1987 as a review and advisory body to insurance companies (AKI, 2014). The controller of the industry is the IRA. IRA was recognized with the mandate to manage and control the insurance industry players (IRA, 2014).As of 2015 there were 49 working insurance corporations. 26 corporations wrote non-life insurance business only, 11 wrote life insurance industry only while 12 were composite (both life and non-life).

According to the Kenya Insurance Survey (KPMG, 2004), the insurance sector is facing two main challenges. The first challenge is to come up with an explanation for businesses whose feasibility is vulnerable by their incapability to meet policyholder claims. The second main challenge is how to make development for an industry that has significant possible for growing as a percentage of GDP but has been still. These challenges are specially marked where rising pricing pressure as the market place will drive a need for cost-cutting and greater effectiveness between insurance firms.

The Kenyan insurance sector remains to hold information technology, research and innovation, thus increasing its volume to adventure the surviving unexploited insurance marketplace. While this is likely to see continued cost forces, organized with a development in the controlling surroundings this is predictable to improve insurance dispersion. (Kenya Insurance Credit Rating Report, 2011).

Statement of the Problem

The powers of globalization and quickly developing innovative changes result in firms confronting exceptional challenge. In this manner for firms to confront these difficulties and investigate the chances, they go for inorganic development through different key choices. Mergers and acquisitions make undisputably the increasingly basic methodology among organizations who search for to discover an upper hand over their rivals. Vasilaki& O 'Regan, (2008) noticed that in 2006, comprehensively, the complete estimation of acquisitions embraced achieved uncommon dimensions, totaling 1,774 billion. There are various clarifications why organizations receive mergers and acquisitions methodology

The key organization reasons for existing are to propel better markets, improvement get to creative skills, subsequently diminishing the risks related with the development of another item and administration,

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misuse viability overmarkets of measure and scope and in conclusion in couple of conditions, update an organization's conservative degree (Hitt et al., 2007). Also different points contain a momentary goals to financing troubles that organizations face because of information asymmetries (Fluck& Lynch, 2009), revive the business via conveying in new data to encourage long haul presence (Vermeulen &Barkerma, 2001) and to accomplish collaboration impacts (Vaara, 2002).

After an exhaustive examination of protection industry yearly fiscal summaries for four continuous years there are varieties as far as gainfulness starting with one year then onto the next and furthermore the advantage base. On gainfulness in 2013 PAT was 82M, 2014 1.2B, 2015 330M and in 2016 211M. the benefit base was as per the following; 2013 41B, 2014 48B, 2015 54B, 2016 61B and 2017 66B. The principle point was to attempt and set up the serious issue that has influenced the consequences of this organization and the examination in expansion.

Nearby investigations by Lole, (2012) found that mergers and obtaining expanded the money related execution of the protection area in Kenya. Ireri, (2011) completed an investigation on the impacts of mergers and acquisitions on the money related execution of the key oil organizations in the Kenyan market and from the discoveries, monetary performanceof the associations were intently connected with the budgetary exhibitions after the merger. The present examination tried to build up and fill the exploration hole by directing an investigation and responding to the inquiry: what are the impacts of merger and securing on money related execution with regards to Insurance organizations in Kenya?

Objectives of the Study

The primary aim of this exercise was to determine the effect of mergers and acquisitions on the financial performance of insurance companies in Kenya with a specific reference of the merged insurance companies. The specific objectives were;

- To examine the effect of asset base on the financial performance of insurance companies in Kenya
- To assess the effect of market expansion on the financial performance of Insurance companies in Kenya.
- To ascertain the effect of technology on the financial performance of Insurance companies in Kenya.
- To determine the effect of long term liabilities on the financial performance of Insurance companies in Kenya.

LITERATURE REVIEW

The Black Litter Man Theory

Dark &Litterman (1992) proposes portfolio models appropriate to portfolio construction.Litterman (2003) recommends that advantages designation can be isolated into two unique sorts of choices: Asset dissemination between classes of benefits that are not the equivalent for instance stocks and bonds and resources distribution inside one class of benefits for instance divisions.

The theory tries to address the hindrances that financial specialists experience as they apply current portfolio hypothesis. The supposition made is that designation of an advantage of a delegate specialist should be proportionate to the present market estimation of the current resources and afterward changes this to guarantee a financial specialist achieves a bespoke resource dissemination (Litterman, 2003).

This theory proposes that speculators acknowledge better portfolio execution through distributing the ventures they have into various monetary securities classes and different fragments that are not expected to respond comparably if new data develops. Solnik (1974) stretches out this hypothesis to the worldwide setting and calls attention to that worldwide enhancement, rather than exacting household advertise center, prompts the improvement of hazard return tradeoff. Subsequently, financial specialists are relied upon to allot money to resources showing low return relationship. This hypothesis is in help of the main goal of this exploration. To analyze the impact of organizations' advantage base on the money related execution of the insurance agencies in Kenya

Portfolio Theory

As indicated by Morck, Shlefier and Vishny, (1990) Firms seek after broadening for an assortment of reasons; it might be driven by expanding request from directors and representatives to enhance, it might likewise be sought after so as to save organization and reputational capital, or else it very well may be looked for monetary and charge favorable circumstances and mergers can likewise be sought after to lessen hazard (Crawford &Alchian, 1978). While investors can broaden in the business, representatives have restricted choices to expand their work pay sources. Thusly, enhancement in the firm can furnish supervisors and different representatives with employer stability and open doors for advancement, and different things being steady, this can prompt lower work costs.

It might in this way create the impression that enhancement may contrarily influence the company's value.Primarily; the primary negative impacts of expansion are that highlights of the organization that grow may cause them to be limited (Campa et al, 2002). Berger and Ofek(1995), bolster this feeling by introducing that changed organizations work together at a discounted cost in contrast with non-shifted organizations in a similar division. Denis, 1999) the effect of enhancement approach on association execution, it is imperative to bring up that stock value courses of action must not have whatever to do with rising or decrease in organization chance. The intention is that, all advantages from organization expansion ought to have just been accomplished by investors, investors can decrease their reserve funds hazard by executing broadening to their accumulation (Teece, 1982). In hypothetically well-considered ideal countries without tolls and business costs, free information, riskless exchanging and advancing and adjusted handiness abusing specialists, broadening won't influence organization worth. With these desires and the contention made by Teece (1982), it is acceptable to feel that a broadening approach would not have a result on association execution. The above hypothesis prompts the second goal of the investigation.

Dispersion of Innovation Theory

This theory is a typical model utilized in data frameworks concentrate to demonstrate the client of new advances. Dispersion is the procedure through which a curiosity is ignored sure systems over a term of time between the partners of a social culture (Rogers, 1995). Development is a thought that is asserted to be new (Rogers, 1995).

As per DOI, the level of dissemination is influenced by an advancement's relative advantage, trouble, similarity, trialability and perceptibility. Rogers (1995) characterizes relative favorable position as how much a development is viewed as being greater to its ancestor. The trouble, which is indistinguishable to TAMs associated ease with use build, is 'how much an advancement is seen by the conceivable adopter as being moderately testing to utilize and appreciate. Similarity alludes to the rate to which an advancement supposedly is appropriate with existing standards, theories, practices and needs of adopters. Trialability is the rate to which information can be trialed with on a limited premise. In conclusion, perceptibility is the 'rate to which the discoveries of development are seen (Rogers, 1995).

Trade-off Theory

The exchange off hypothesis accentuates that there is an advantage to subsidizing with obligation, the expense favorable circumstances of charges and there is a cost of financing with duty, the expenses of fiscal agony including bankruptcy expenses of obligation and non-indebtedness costs. The negligible bit of leeway of extra developments in the red disappointments as obligation rises, while the minimal value rises, with the goal that an association that is upgrading its general cost will give accentuation on this exchange off while choosing how much obligation and value to use for financing (Modigliani and Miller, 1963).

An association that rehearses money related enduring when the association is unequipped for making do with the obligation holders' duties. On the off chance that the association bears bombing in making uses to the obligation holders, the association can even be bankrupt. The main component of Trade-off hypothesis of capital structure, considered as the expense of obligation. This is typically the money related misery expenses or chapter 11 expenses of obligation. It is huge to take note of this likewise incorporates immediate and backhanded liquidation costs. Be that as it may, inquires about on exchange off hypothesis finish up blended outcomes. Rajan and Zingales (1995), Fama and French (2002) and Titman and Wessels (1988) avow that higher productivity firms will in general acquire less that is conflicting with the real exchange off forecast that higher benefit firms ought to obtain more to decrease charge liabilities. Graham (2000) assessing cost and advantage of obligation find that the huge and increasingly beneficial firms with low monetary pain desire utilize the obligation conservatively.The hypothesis underpined the fourth target of the examination.

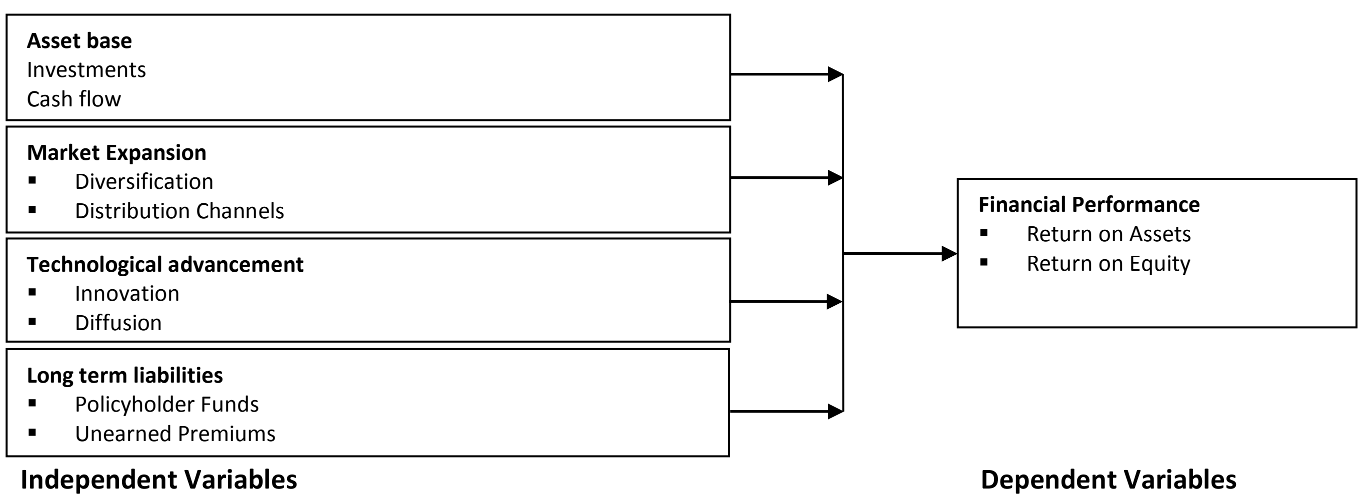

Figure 1: Conceptual framework

Empirical Review

Adams (2009) trusts that organizations with bigger resource base can extend their funds portfolios and this may diminish their business dangers. Beauty and Timme (2012) recommend that organizations with more resource base for the most part outside organizations with lesser resource base ones since they prevail to utilize economies of scale and have the capitals to interest and hold supervisory capacity. Swiss (2008) examine on the relationship among firm qualities including size, age, productivity and

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development showed that organizations with bigger resource base are found to become quicker than firms with littler resource base and more youthful firms found to become quicker than more established firms. Thus, the vast majority of the analysts in protection have discovered a positive connection between bigger resource base and monetary perfomance.

Market development is received to expand organizations' procedures by counting markets, products, administrations, periods of assembling to the current corporate. The target of development is to let the business to get in lines of trade that are various from present procedures. At the point when the new endeavor is strategically associated with the present lines of business (Gitman, 2007). extension happens when there is no mutual strand of arranged relationship between the new and old lines of business.

Kisaka (2007) completed an examination on market extension plans utilized by media in Kenya. the exploration results appeared out that Some of the powers of change that have fundamentally influenced the protection business contain solid competition, rule and specialized improvement (Banking Supervision Survey Kenya, 2010). advertise development in the protection area focuses on that organizations must have efficient plans set up to vow erratic occasions that can hamper their built up objectives, procedures and general execution.

There are contemplates directed on the development execution relationship, yet blended outcomes have been exhibited. Numerous examinations have discovered a positive connection among development and execution (Jiménez-Jiménez and Sanz-Valle, 2011; Calantone, Cavusgil & Zhao, 2002; Damanpour, Walker and Avellaneda, 2009; Atalay, Anafarta&Sarvan, 2013). Different examinations found that the development execution relationship is sure, yet just in specific conditions. For example, Danneels (2000) affirmed that huge organizations are practically bound to have involvement with development activities and along these lines better execution instead of little organizations. Further Mansury and Love (2008) found that the presence of and degree of development in administration conveyance just positively affect the development of a firm however no impact on its profitability.

The examination done by pandey (2001) uncovered that long haul obligation hurts monetary execution yet long haul obligation is a path through which a firm can build the size of its speculations. They utilized profit for resource for measure money related execution and least square relapse model in estimation of the exact outcomes. The insightful work of Pandey (2001) [on the Capital structure and the firm attributes of firms from a developing business sector in India, found that Long expression obligation harms an organizations' monetary presentation as estimated by Return on resources.

Money related execution alludes to the rate to which budgetary objects is presence or has been accomplished. It is the system for surveying the results of hierarchical approaches and activities in money related terms. It is accustomed to surveying authoritative general budgetary execution over a given period and can likewise be adjusted to related hierarchical everywhere throughout a similar area or to relate organizations or industry in mix (Shilpa, 2010).

Budgetary execution is one of the various different numerical estimates received to evaluate how well a business is utilizing its assets to make income. The monetary exhibition includes working income, pay rates before intrigue and assessments, net resource esteem. Budgetary execution is the fundamental proportion of an authoritative general monetary execution over a given time of time, this can be adjusted to relate alike hierarchical through a similar area through performing coherent examinations or to related businesses or areas in mix or company's money related execution crosswise over time.

Monetary execution has for quite some time been estimated utilizing bookkeeping based proportions; this has been named as lacking as firms have been concentrating on investor esteem as the essential long haul target of the organization. Esteem based measurements incorporate the EVA, the CFROI, the investor SVA, the monetary edge and CVA. Bookkeeping standards are believed to give organizations space for controlling the bookkeeping figures. Profit figures might be processed utilizing elective and similarly worthy bookkeeping strategies, an adjustment in bookkeeping strategy for budgetary detailing purposes can really affect income however does not change organization money streams and in this manner it doesn't influence its monetary esteem (Venanzi, 2012).

METHODOLOGY

The researcher applied a descriptive research design. The investigation targeted 280 staff in the insuring part in Nairobi and the protection controller. Sample of responding staff was drawn from top, middle and lower level managers working in the insurance industry in Kenya using stratified random sampling. The researcher examined a sample of 140 staff drawn from the population of 180 management staff working at the insurance firms of Kenya making 50% of the target population. Primary data was collected using questionnaires while secondary data was obtained from financial reports.

RESULTS

Asset Base

From the findings respondents agreed that Firms with larger asset base were able to diversify their investment portfolios and this could reduce their business risks; that the securities market played a vital role in increasing the asset base by promoting capital formation and raising economic process through commerce on securities within the market; that Firm‘s monetary performance and businesses were units successively influenced by general firm asset base and economic conditions; that Stock markets promote savings and investments by providing an avenue for portfolio diversification and increasing asset base; that Insurance companies should increase the current assets and decrease current liabilities because there is a positive relationship between the liquidity and financial performance as indicated by a mean of 4.11, 4.04, 3.78, 3.72 and 3.63 respectively. This was in relation to Grace and Timme (2012) who found that firms with larger asset base generally out perform firms with smaller asset base ones because they manage to utilize economies of scale and have the resources to attract and retain managerial talent.

Table 1: statements regarding the effect of the asset base

	Mean	Stdev
Firms with larger asset base can diversify their investment portfolios and this could reduce their business risks	4.11	.80
The securities market plays a vital role in increasing the asset base by promoting capital formation and raising economic process through commerce on securities within the market	4.04	1.06
Firm‘s monetary performance and businesses are unit successively influenced by general firm asset base and economic conditions	3.78	1.04
Stock markets promote savings and investments by providing an avenue for portfolio diversification and increasing the asset base	3.72	1.01
Insurance companies should increase their current assets and decrease current liabilities because there is a positive relationship between liquidity and financial performance	3.63	1.11

Market Expansion

The study sought to discover the level of agreement with statements regarding the effect of market expansion on the financial performance of Insurance companies in Kenya. From the findings respondents agreed to the statement that; Increasing the intensity of distribution in each channel increases market expansion; that Changing product attributes to provide more value to the customer by improving product quality increases market expansion; that the company is involved in product upgrading it is in the process of increasing market expansion; that the company continually upgrades all nonperforming products when its focus is to increase market expansion; that Introducing new product dimensions for example different pricing policies to attract different customers or create new market segments as indicated by a mean of 3.93, 4.37, 3.98, 3.89.3.75 and 3.60 respectively.

Table 2: **statements regarding the effect of market expansion.**

	Mean	Stdev
Increasing the intensity of distribution in each channel increases market expansion	3.93	.78
Changing product attributes to provide more value to the customer by improving product quality increases market expansion	4.37	.63
The company is involved in product upgrading it is in the process of increasing market expansion	3.89	.89
The company continually upgrades all nonperforming products when its focus is to increase market expansion	3.75	.84
Introducing new product dimensions for example different pricing policies to attract different customers or create new market segments	3.60	.72

Technology

From the findings on level of agreement with statements regarding the effect of technology on financial performance of Insurance companies in Kenya, respondents agreed that there was Increased product supervision/monitoring using technology; that the insurance companies had adopted technology insurance claims Processing; that the insurance had micro insurance claims technology payment; that technology implementation has boosted additional customers particulars to be taken; that invention has allowed more distinguished goods that are more customer friendly; that workers feel inspired by the ICT use therefore achieve improved; that technology implementation has helped in collecting proof in the case of dishonest claims as shown by a mean of 3.78, 3.89, 3.63, 4.07, 3.85, 3.59 and 3.90 respectively. These findings agreed with Mansury and Love (2008) found that the presence and extent of service innovation only had a positive effect on the growth of a firm but no effect on its productivity.

Table 3: Level of agreement with statements regarding the effect of technology

	Mean	Stdev
There is Increased product supervision/monitoring using technology	3.78	1.05
Technology insurance claims Processing	3.89	1.09
Micro insurance claims technology payment	3.63	1.11
Technology adoption has enhanced more client details to be captured	4.07	.92
Innovation has enabled more differentiated products that are more client friendly	3.85	1.07
Employees feel motivated by the ICT adoption hence perform better	3.59	1.19
Technology adoption has assisted in gathering evidence in the case of fraudulent claims	3.90	1.10

Long Term Liabilities

The study's descriptive findings showed that respondents agreed to the statement that Long term debt was a component in the capital structure of an organization, yet it had to be applied with a lot of suspicions; that Long term debt has a negative effect on output as measured by the return on assets; that Long term debt has a positive effect on financial performance; that Long-term debt changes to short-term debt when the period left until the debt must be repaid becomes less than one year with the passage of time; that Long-term debt is used to finance business investments that have longer payback periods; that Long term debt financing is advantageous as it is usually less prone to short term shocks as it is secured by formally established contractual terms.as indicated by a mean of 4.07, 3.85, 3.59, 3.89, 3.79 and 3.91 respectively.

These results agreed with the findings by Pandey (2001)on Capital structure and the firm characteristics of firms from an emerging market in India, found that Long term debt hurts a firms' financial performance as measured by Return on assets.

Table 4: Statements regarding the effect of long term liabilities

	Mean	Stdev
Long term debt is a component in the capital structure of a firm, yet it has to be applied with a lot of caution	4.07	.92
Long term debt hurts profitability as measured by the return on assets.	3.85	1.13
Long term debt has a positive effect on financial performance.	3.59	1.19
Long-term debt converted to short-term debt when the period left until the debt must be repaid less than one year with time	3.89	.85
Long-term debt is used to finance business investments that have longer payback periods.	3.79	.79
Long term debt financing is advantageous as it is usually less prone to short term shocks as it is secured by formally established contractual terms.	3.91	1.00

Financial Performance Of Insurance Companies In Kenya.

The study sought to find out the level of agreement with statements regarding the financial performance of Insurance companies in Kenya. From the findings, respondents agreed with statements that, Profit is an essential prerequisite for the increasing competitiveness of a company that operates in a globalized market; that Profit attracts investors and improves the level of solvency, and thus, strengthens consumers' confidence; that Common examples of financial performance comprise of operating income, earnings before interest and taxes, and net asset value; that The two most popular measures of profitability are Return on Equity (ROE) and Return on Assets (ROA); that Companies must evaluate and monitor their profitability levels periodically so as to measure their financial performance; that Determinants of financial performance for insurance companies in Kenya are insurance financial leverage, company size, growth of gross written premiums, diversification, investment ratio, retention ratio, and solvency margin as indicated by a mean of 4.03, 3.74,3.4,3.85, 3.61 and 3.71. These findings agreed with finding by Sehrish, Faiz& Khalid (2011), found out that internal factors such as assets, loans, equity and deposits have an effect on major performance indicators such as return on asset (ROA) and return on equity (ROE).

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Table 5: **Level of agreement with statements regarding the financial performance**

	Mean	Stdev
Profit is an essential prerequisite for the increasing competitiveness of a company that operates in a globalized market	4.03	.93
Profit attracts investors and improves the level of solvency, and thus, strengthens consumers' confidence	3.74	1.09
Common examples of financial performance comprise of operating income, earnings before interest and taxes, and net asset value	3.4	1.18
The two most popular measures of profitability are Return on Equity (ROE) and Return on Assets (ROA).	3.85	.86
Companies must evaluate and monitor their profitability levels periodically to measure their financial performance	3.61	.56
Determinants of financial performance for insurance companies in Kenya are insurance financial leverage, company size, growth of gross written premiums, diversification, investment ratio, retention ratio, and solvency margin	3.71	1.00

Financial performance

The financial performance was established using secondary data between 2014 and 2018, which was used to indicate the figures as shown in the sections that follow.

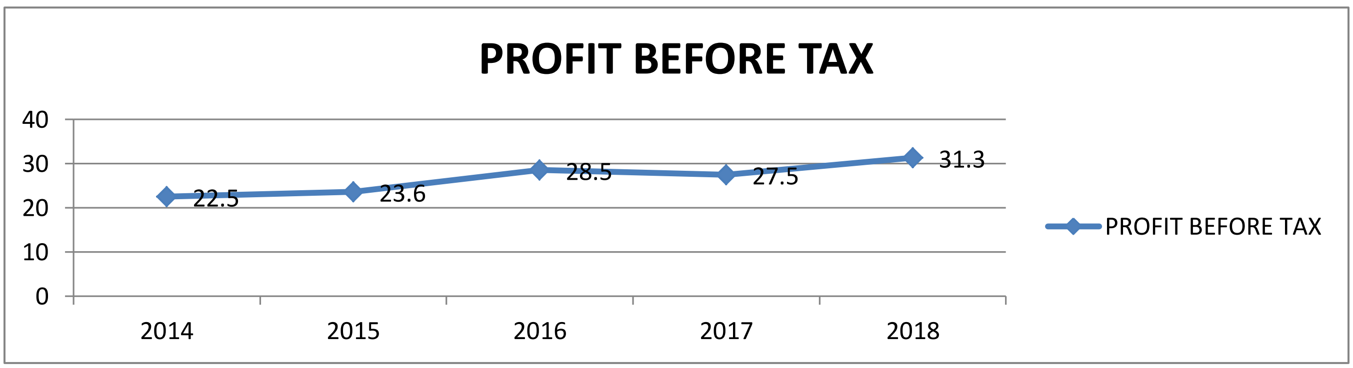

Figure 2: Profit After Tax

Regression Analysis

The researcher carried out multiple linear regression analysis to determine the effect of mergers and acquisitions on the financial performance of insurance companies in Kenya with a specific reference of the insurance sector. The researcher applied the statistical package SPSS, to enter and compute the measurements of the multiple regressions for the study as presented below.

Model Summary

The coefficient of determination defines the degree to which changes in the dependent variable can be defined by the change in the independent variables or the percentage of difference in the dependent variable (financial performance of Insurance companies in Kenya) that is defined by all the 4 independent variables (asset base, market expansion, technology and long term liabilities)**.**The four independent variables studied explain 74% of variance as represented by the R^2. This, thus, means that other factors not studied in this study contribute 26% of the variance in the dependent variable**.**

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.799	.638	.558	.0042

Source: Research, 2019

a.Predictors: (Constant) Asset base, market expansion,technology and long term liabilities.

b.Financial performance of Insurance companies in Kenya

ANOVA[a]

The F vital at 5% level of significance was 3.56. F calculated is higher than the F critical (value16.478), this showed that the overall model was significant. The significance was less than 0.05, thereby signifying that the predictor variables, explain the variation in the dependent variable which is Financial performance of Insurance companies in Kenya. If the significance value of F was more significant than 0.05, then the independent variables would not explain the variation in the dependent variable

Table 7:ANOVA[a]

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.686	4	2.671	16.478	.000[b]
	Residual	81.193	46	3 .56		
	Total	91.879	50			

a. Predictors: (Constant) Asset base, market expansion,technology and long term liabilities.
b. Financial performance of Insurance companies in Kenya

Multiple Regression Analysis

According to the equation, taking all factors constant at zero, the overall financial performance of Insurance companies in Kenya was 5.674. The study results show that a unit increase in Long term liabilities, Market expansion, Asset base, and Technology would lead to a 0.332; 0.376; 0.355 and 0.398 increase financial performance of Insurance companies in Kenya respectively.This means that the most significant variable is technology followed by market expansion; asset base and long term liabilities respectively.

Table 8: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.674	.984		5.766	.000
	Long term liabilities	.332	.117	.272	2.837	.004
	Market expansion	.376	.165	.025	2.279	.002
	Asset base	.355	.148	.256	2.399	.003
	Technology	.398	.180	.275	1.888	.001

The regression equation **($Y = \beta_0+ \beta_1X_1+\beta_2X_2+ \beta_3X_3+ \beta_4X_4+\varepsilon$)**was interpreted to mean

$Y= 5.674+ 0.376X_1+ 0.332X_2+ 0.355X_3+ 0.398X_4+\varepsilon$

Y= Financial performance of Insurance companies in Kenya.

X_1 is Market expansion; X_2 is Long term liabilities; X_3 is Asset base and X_4isthe Technology.

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CONCLUSION

The study concluded that Insurance firms that adopt market expansion have not only established mechanisms to enable them to grow by entering new markets with new and existing products, but also leverage their existing resources and capabilities to remain competitive. The study findings, however, indicated that these firms least favour diversification and acquisition strategy, which is meant to enable firms to grow, enter new market segments, increase sales volume and gain market share.

From the results the research concluded that technology use is very important for the performance of insurance firms offering insurance. The study also concluded that staff performance product development and firms processes were significantly influenced by the adoption of technology in firms offering insurance. The study further concluded that the Processing of claims by staff is more efficient while using technology systems than when the manual system was being used.

The results of the study showed that assets base has a straight and important impact on the financial performance of Insurance firms in Kenya. The research recommended that insurance firms managers must improve their savings in fixed assets since they assist in the improving profits which in other side impact the financial performance of their companies.

RECOMMENDATIONS

The insurance businesses in Kenya to realise good performance, they must focus most on expanding to various business lines. Diversification rises the financial performance of insurers in Kenya. Management of insurance companies must also ensure that most of the resources are saved as a greater savings ratio would lead to better performance.

The researcher recommended, better-quality technology in the companies servicing insurance in Kenya.The study also recommends that the top senior management of the insurance companies in Kenya implement in full the technology methods as this will speedy to the better and positive financial performance of insurance firms in Kenya.

Insurance firms should establish a well-matched portfolio of their assets and liability in terms of cash flows or rather they should ensure that they create additional reserve so that it can assist them in covering the interest rate since the low interest may create a discrepancy on the earnings.Insurance companies in Kenya should become less dependent on long term debt in their capital structure. This is because a larger proportion of long term debt negatively affects firms' financial performance. Insurance companies should manage well the portfolio of its long term debt structure to minimize the risks associated with the adoption of the various forms of long term debt.

Recommendations for Further Research

A replica study should be conducted in other sectors/industries to find out whether the same results was obtained. Also, similar studies should be undertaken in other insurance companies for comparison purposes.

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