

**EFFECT OF LISTING ON THE FIRM VALUE OF QUOTED INSURANCE FIRMS IN
THE KENYAN *BOURSE***

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DECLARATION

This project is my original work and has not been presented for a degree in any other University or institution of higher learning and this is to the best of my knowledge.

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DEDICATION

This project is dedicated to my loving and caring wife Mary and to my parents mum Enisha, Mr. and Mrs. Sirikwo for their unending support, without which my dreams of going to school would not have been possible; I am and will be forever grateful. I love you.

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ABSTRACT

In recent times, interest in listing at the securities exchange has assumed high proportions in Kenya. This situation has probably developed as a result of renewed awareness of the several roles played by the capital market such as; lowering cost of equity hence stimulating investment and growth by spreading the risks of long terms investment. Therefore, the purpose of this study was to analyze the effect of listing on firm value of quoted insurance companies at the Nairobi Securities Exchange. More specifically, the study sought to establish the extent to which listing affects the various firm value variables namely; profitability, liquidity, gearing and investors valuation of the firm. This study utilized three main theories i.e. market timing theory, capital structure irrelevance theory and the pecking order theory. The study adopted a descriptive research design with the target population being all 6 insurance companies listed at the Kenyan *Bourse*. Secondary Data was collected from the NSE and published financial statements from the companies' websites. Data collected was analyzed using student t test. The research findings indicate that there is no significant relationship between listing and firm value hence acceptance of null hypotheses. The implication of these findings is that listing does not improve the company's value. Therefore a fundamental understanding of listing effect on firm value is crucial for decision makers to undertake rational thinking before undertaking listing. This requires an appreciation of the economic conditions that can either initiate or truncate a company's growth; one that is often complex and unpredictable, but facilitates the life cycle of the firm. This study therefore recommends for similar studies to be carried out in Kenya so as to analyze the impact of listing on firm value over a longer post listing time-span.

Keywords: *Firm value, Insurance firms, Listing, Nairobi Securities Exchange*

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LIST OF ACRONYMS AND ABBREVIATIONS

AIMS- Alternative Investment Market Segment

ATS- Automated Trading System

CMA- Capital Market Authority

CR- Current ratio

DER- Debt Equity Ratio

DPS- Dividend Per Share

DT- Dividend Yield

EAT- Earnings After Tax

EBIT- Earnings Before Interest and Taxes

EPS- Earnings Per Share

ER- Earnings Ratio

FISM- Fixed Investments Securities Market

GEMS- Growth Enterprise Market Segment

GPM- Gross Profit Margin

IPO- Initial Public Offer

M/B- Market to Book Ratio

MIMS- Main Investment Market Segment

MOU- Memorandum of Understanding

MPS- Market Price Per Share

NASDAQ- National Association of Securities Dealers Automated Quotation

NS- Net Sales

NSE-Nairobi Securities Exchange

NYSE- New York Stock Exchange

ROCE- Return on Equity Capital Employed

ROI- Return on Investment

TCA- Total Current Assets

TCL- Total Current Liabilities'

TD- Total Debt

TSC- Total Share Capital

TSE- Total Shareholder Equity

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Going public marks an important watershed in the life of a young company. It provides access to public equity capital and so may lower the cost of funding the company's operations and investments (Kinyua, Machuki, Njagi, & Wambua, 2013). It also provides an avenue for trading the company's shares, enabling its existing shareholders to diversify their investments and to crystallize their capital gains from backing the company. This is an important consideration for investors and venture capitalists. The act of going public itself shines a spotlight on the company, and the attendant publicity may bring indirect benefits, such as attracting a different caliber of management.

Many companies are established with capital contributed by a small number of investors, who become shareholders. As a business grows, additional capital can come from internally generated profits or commercial bank loans. However, a company may decide to raise capital through the stock market by offering and issuing new shares to the public. This requires the company "to go public" and list on a stock exchange (Pandey, 2005). Although, listing can promote stock market development, the decision to list is taken by the firm. Firms generally are profit maximizers, and so decisions taken by firms are geared towards maximizing the value of the firm and shareholders' wealth. The firm's financial performance around the time of listing could be used as a measure of the firm value in both the pre and post listing period (Adelegan, 2009). Shareholder's wealth is mainly influenced by growth in sales, improvement in profit margin, capital investment decisions and capital structure decisions (Azhagaiah & Priya, 2008).

According to Marco, Roell and Zechner (2002), listings are becoming an increasingly important strategic issue for companies and stock exchanges alike. As companies become global in their product market and investment strategies, direct access to foreign capital markets via an equity listing can yield important benefits. At the same time, the international integration of capital markets has led to unprecedented levels of competition among stock exchanges. In this competitive struggle, the winners are the exchanges that manage to attract more listings and the attendant trading volume and business opportunities. Stock Exchanges provide a market for the trading of securities to individuals and organizations seeking to invest their saving or excess funds through the purchase of securities.

Globally, stock exchanges were established for the purpose of facilitating, regulating and controlling the business of buying and selling securities (Chelangat, 2013).

The globalization of the market place for capital has fostered tremendous competition among the major corporations to capture the growing demand and supply for equity securities among investors. More individuals and institutions are now investing funds in the securities markets so as to diversify their portfolios and earn higher risk adjusted returns on investments than it is possible with a single portfolio. In response to this globalization trend, increasing number of companies have chosen to raise capital through various means equity issuance being a major avenue. Equity financing has thus effectively displaced bank loans, bonds and foreign direct investments as the primary form of external global financing (Karolyi, 2008). Company savings through retained profits, particularly for a sizeable project, often take long to build up. At the same time, by waiting to finance business or investment through internally generated savings, a company may lose business opportunities or fail to undertake the envisaged expansion due to cost escalation.

According to Karolyi (2008) companies have soon discovered that the most natural vehicle of equity financing is through direct listing of shares on the major world stock exchanges. Though direct listing is more costly with large legal and accounting fees and the additional burden of having to reconcile financial statements with international standards, managers perceive tremendous strategic, financial, political, marketing and operational benefits to listing shares. These managers argue that listing can improve the company relationship with the host market participants especially regulators and ease the cost of acquisition and trading of the company's shares by investors.

A well developed financial system is a spur to growth, macroeconomic performance, and more rapid growth in living standards Capital markets have been the driving force behind the development of the UK and US financial systems (Dudley, 2004).To stimulate growth of capital market the Kenyan government has put into place incentives aimed at encouraging both foreign and local investors to participate in the stock exchange. Stock exchange development in Africa is now being promoted, not only to enable investors from the developed nations to peacefully participate in but also being promoted to enable Africans themselves to participate and to enjoy the benefits of liquid and clean markets.

The capital market has an intricate role to play in mobilizing savings and channeling them into the most efficient investments. Therefore, the capitals markets become a fundamental component of the financial sector in achieving a robust and sustaining economic development. A company lists in the stock exchange in order to raise new equity and reduce debt or to grow business and create wealth or in bid to ensure that they remain a going concern or indeed to provide shareholders with a ready exit strategy. The Capital Markets Authority is further committed to continue consulting with the Government to put in place any additional appropriate measures to support the development and deepening of the Capital Markets as a critical pillar for effective long-term resource mobilization and allocation to the productive sectors of the economy (Capital Markets Authority, 2005)

Despite the importance of these issues, still little is known about on why firms may choose to list in stock exchanges. This question is intimately related to a second issue, namely which advantages companies expect to get from a listing: securing cheap equity capital for new investment, allowing controlling shareholders to divest on a liquid market, preparing for acquisitions, or simply enhancing the company's reputation. The evidence presented by this study is relevant for both issues, the determinants of exchanges' success and the microeconomic motives for listing.

1.1.2 Why Companies List

Various life cycle theories have been proposed to explain the decision to go public. According to (Brigham & Houston, 1999) most businesses begin life as proprietorships or partnerships, and then, as the more successful ones grow, at some point they find it desirable to convert into corporations. Generally, new corporations' stocks are owned by the firm's officers, key employees and/or a very few investors who are not actively involved in the management. However, if growth continues, at some point the company may decide to go public by listing on the *bourse*. Access Kenya, for example took this step in 2007. Pagano (1998) and Kiilu (2006), questions the idea that going public is simply an inevitable growth stage of a company. They argue that the need to finance future growth had little to do with the motivation to list; rather the relative overvaluation of firms in the same industry provided the greatest incentive to undertake an IPO. Furthermore, some large firms in the US, for example United Parcel Service (UPS), remain private and in Europe, large private firms are far more common.

Stock markets provide high-growth, innovative companies with a means of raising large amounts of long-term capital by selling company shares to outside investors. An IPO offers many companies the best way of financing their continued growth and for most venture capitalists is the preferred exit route

(best way of profiting from venture capital investment) for their investments. The entry standards imposed for a full listing on traditional stock markets may be too rigorous for young, technology-based companies. Recently, however, a number of initiatives have been taken by traditional stock markets as well as by new market operators to create new stock markets for high-growth, innovative companies. Efficient and liquid risk capital stock markets play a large role as a source of financing for high-growth companies and are necessary for the development of venture capital by offering an exit route for investors. In the United States, the National Association of Securities Dealers in Automated Quotations (NASDAQ) market has been developing for more than twenty-five years and has become the market of choice for raising capital to finance fast-growing enterprise (Gompers, 2000).

It's important to note that there are several reasons which might prompt a company to make a decision to issue an IPO. Companies might issue stock to finance investment opportunities, yet this in itself does not justify Initial Public Offering (IPO) since bank loans or private equity placements could equally well fill a need for funds. Moreover, investments by firm's does decline after IPO thus decision to go public is likely driven by other reasons. It's equally important for investors to understand that investing at the pre-IPO stage can involve significant risk for investors. Pre-IPO investing involves buying a stake in a company before the company makes its initial public offering of securities (LOITA Capital Partners International, 2011)

When firms raise equity they may raise it within their own boundaries, or beyond their national boundaries to raise the required resources. The former is referred to as listing, while the latter is known as cross-listing (Onyuma et al, 2012). Firms may choose to list due to various advantages that accrue to such a decision and among them is the tax holiday they may enjoy during the initial years of being listed. Burns, Natasha and Bill (2006), notes that firms that undertake cross-listing achieve their objective of raising extra funds, while at the same time protecting their minority shareholders from the risks of takeovers. This means that a firm can retain its shareholders, but at the same time raise capital offshore. Shetty (1994) suggest that a firm seeks exchange listing to improve liquidity/marketability for its stock, to provide an upward revision of its future financial performance, and to enhance pricing efficiency for its stock.

Brigham and Houston (1999), proposes that entrepreneurs are able to get more money for their firm via an IPO than they would by simply selling it to a single bidder because a single acquirer can force a target firm on pricing concessions more than outside investors could. Thus, by undertaking an IPO, the

initial owners sell their company for a higher value than they would ordinarily receive from an outright sale. A listed firm will not only have access to a broader investors' base but may also benefit from tax holidays such as no with-holding tax on dividends paid to investors. Media interest in the stock market will additionally lead to visibility and familiarization of the firm in that country (Onyuma et al, 2012).

In addition, listing of companies is also expected to improve their profitability since more market access in listed country is likely to bring in more revenue. They are also likely to borrow less because they have access to another pool of capital. Again, this will depend on the cost structure of the company and the cost of doing business in that country, in addition to the intended use of the capital raised, Burns et al (2006), showed that for Mexican firms, on average, listed (ADR) firms are smaller, more highly levered and less profitable than non-cross-listed firms. Besides, companies which list are expected to access a large pool of capital that can be used to develop the company and improve its financial performance. This is possible where companies cannot easily attract large amounts of new equity capital on their own. Listing therefore does appear to confer a compelling benefit.

By world standards, the Kenya insurance market is very small in terms of premium income. However, according to a report by A.M Best a global rating firm specializing in insurance, Kenya has been ranked among the top three African markets in terms of profitability for insurance companies seeking expansion opportunities. Kenya, Ghana and Nigeria have witnessed rising take-up of insurance services in the face of rampant poverty (Irungu, 2014). The performance of insurance companies in financial terms is normally expressed in net premium earned, profitability from underwriting activities, annual turnover, return on investment, return on equity. These measures could be classified as profit performance measures and investment performance measures (Greene & Segal, 2004).

As compared to developed markets the number of companies going public in Kenya is low. For example, a study by Daily post newspaper of 2005 showed that more than 773 firms went public in the United States between 1996 and 1997. In Kenya, sixty one companies are listed in the NSE which is the only securities exchange market in the country. Currently there are 49 registered insurance Companies but so far only six have listed with the *bourse* namely; Jubilee Holdings Ltd, Pan Africa Insurance Holding Ltd, Kenya Re- Insurance Corporation Ltd., Liberty Kenya Holdings Ltd, British-American Investments Company (Kenya) Ltd, and finally CIC Insurance Group Ltd.

1.2 Statement of the Problem

Theoretically, going public is simply a stage in the growth of a company. Although there is some truth in it, this theory alone cannot explain the observed pattern of listings. The extensive literature on corporate governance and on initial public offerings discusses many costs and benefits of going/being public for example; Aggarwal (2002), Pagano (1998), Grimaud and Gromb (2004). These studies indicate that, from the perspective of the company, the benefits mainly reflect different aspects of two major advantages of being quoted: the information production/transparency in financial markets and the reduction in capital constraints. By contrast, Jensen (1989), and Myers (2000), among others, also show that the agency problem between insiders (management or controlling owners) and outside shareholders likely is the most important disadvantage. These properties of a stock listing create new opportunities and pressures that may influence the effectiveness of performance drivers.

Kenyans currently are holding less non-financial assets like land compared to their peers in Uganda, Rwanda, Tanzania and Burundi. Instead, Kenyans are putting more of their money into financial assets like shares at the Nairobi Securities Exchange. As Kenyans diversify their acquisition of assets, they will require some form of security for these assets. This means more people will be willing to take up insurance cover not only for their health and the compulsory insurance for their cars but also for their businesses, laptops, smart phones and household goods. According to the Insurance Regulatory Authority, false claims perpetuated by individuals and cartels, mostly from the PSV sector has since seen many insurance firms collapse. It is estimated that 50% of all claims in the public service vehicles sector are false, a 'monster' that has 'swallowed' several insurance companies in Kenya including Blue Shield, United Insurance, Kenya National Assurance, Liberty, Stallion, Standard Assurance, Lakestar and Invesco (which the Matatu Owners Association has managed to revive). However, Insurance companies have already devised ways to cushion themselves against this vice by increasing their capital base through increasing the minimum premiums charged on various products for example car insurance premium is now at a minimum of 7.5% up from 4.5% per annum with a few others undertaking listing on the NSE (Were, 2014). Although conventional wisdom has long held that firms list their shares on stock exchanges so as to buy their access to more investors, greater liquidity, a higher share price, and a lower cost of capital, the strategy seems not to make much sense perhaps because capital markets have become more liquid and integrated and investors more global, or perhaps because the benefits of listing were over stated from the beginning. This begs the question as to why some companies choose to use public equity markets and some do not. It is against this background

that this study was undertaken with the aim of finding out whether listing affects the value of companies.

1.3 Research Objectives

1.3.1 General Objective

To analyze the effect of listing on the firm value of listed insurance firms in the Kenyan *bourse*.

1.3.2 Specific Objectives of the Study

1. To characterize the attributes of listed insurance firms.
2. To evaluate the effect of listing on the firm value of listed insurance Companies.
3. To assess the effect of listing on current firm value of non-listed and listed insurance firms.

1.4 Research Hypotheses

1. **H₀₁** Firm attribute has no significant effect on listed insurance firms.
2. **H₀₂** There is no significant effect of listing on the firm value of listed insurance companies.
3. **H₀₃** There is no significant effect of listing on current firm value of non-listed and listed insurance firms.

1.5 Significance of the Study

Capital markets play a fundamental role in the financial sector in achieving a robust and sustaining economic development. Insurance sector plays a significant role in enhancing the country economy, and providing critical services for people of Kenya. Therefore, there is need to secure the confidence of investors and encourage investment in securities by providing them with the results from financial analyses of the listed companies and also to encourage more companies to quote on the stock market. Further, the study provides information which can be used by stock analysts in evaluating performance of quoted companies in order to provide prudent advice to customers. The study adds to the wide academia gap of knowledge in this area which may in turn be used to trigger subsequent studies in sub areas of the same topic.

1.6 Justification of the Study

Given the enormous impact of stock exchange activities on the Kenyan economy a study had to be carried out so as to provide an insight to firms that are yet and intent to list in the bourse on the effect of such a decision on their future value. Kenyans are expressing growing interest in investing in equities, especially shares, at the NSE. Past Initial Public Offerings (IPOs) including the Kenya Electricity Generating Company (KenGen) and Safaricom attracted massive subscriptions and huge

financial investments (Ochieng, 2008). The subject of IPO therefore, in Kenya though popular has remained unexplored despite its importance.

1.7 Scope of the Study

All six listed insurance firms which were more than two years old since they first listed were included in the study. Six other non listed firms in the same sub-sector of the economy were included in the study. For the listed firms, their financial performance was obtained two years before and after they had listed. However, due to the short post listing duration of CIC Insurance Group only her one year post listing financial statements were analyzed. For those firms that had not listed, current firm value was compared with that of the listed firms. From these results, financial ratios were computed and tested using both one and two tailed t tests to assess their significance at a 95% confidence level. A Karl Pearson's correlation co-efficient was also run on the financial ratios to assess the magnitude and direction of the relationship.

1.8 Limitations and Delimitations of the Study

1.8.1 Limitations of the Study

Only six insurance firms have undertaken listing at the NSE. This is quite a small sample and the results may not be generalized to insurance firms that will list in the future. Only Four firms were used to analyze the effects of listing on financial performance. It was not possible to study firms at the same time because they did not list concurrently.

Lack of reliability on the data collected was also a major limitation. Financial statements may sometimes be made with collusion between the management and the auditors and the public thus believes them as the whole truth.

1.8.2 Delimitations of the Study

In respect to the small number of insurance firms listed, this was outdone by the fact that these listed firms were among the largest insurance companies in Kenya in respect to market share, branch network and profitability. For Britam is the largest in terms of market share, Jubilee in terms of branch network and Kenya Re in terms of profitability.

The limitation that the firms did not list at the same time was treated in the respective periods that they listed. The time in which the firms listed for the first time was be the one applied in the study.

The study put reliability on the financial data obtained because it is believed that professional integrity rules on the part of the auditors and thus they always give an objective opinion regarding the financial statements.

Descriptive research design was used in the study. This is because the study was about fairly knowledgeable aspects of the phenomenon, but little knowledge was available regarding their characteristics, nature or details. Descriptive research aimed at generating knowledge that may be useful to describe or develop a profile of the study. The research was a complete census. This was relevant in the research as it involved collection of data from several study units. A complete census was used as the population of the study was small, and involved companies in the insurance sector of the economy. Under the survey study data were analyzed in statistical form by the use of Karl Pearson's correlation coefficient, and both one and two tailed t test at a 95% degree of confidence level.

1.9 Operational definition of terms

Authority- Authority is power to influence or command thought, opinion, or behavior. It also means freedom granted by one in authority, persons in command or a governmental agency or corporation to administer in revenue producing public enterprise (Armstrong, 2006). In this study authority means Capital Market Authority which is the regulatory body set by the government to regulate the Nairobi Securities Exchange.

Capital Market- A capital market is a market for securities (debt or equity), where governments and business enterprises (companies) can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year, as the raising of short-term funds takes place on other markets (for instance., the money market). The capital market includes the stock market (equity securities) and the bond market (debt) (United Nations Institute of Training and Research , 2012).

Capital structure- This term refers to the way an organization finances its assets through some combination of equity, debt or hybrid securities is measured as total debt divided by total equity (Peek & Rosengren, 2000).

Corporate governance- Corporate governance is a system or set of mechanisms by which an organization is directed and controlled in order to reach its mission and objectives (Lapie & Perilleux,

2008). In this study corporate governance will be measured in terms of existence and implementation of the code of conduct of board of directors as required by the Capital Market Authority.

Financial performance- Performance is often defined simply in output terms; the achievement of quantified objectives (Armstrong, 2006). In this study financial performance will be measured in terms of profitability.

Firm Value- According to Armstrong (2006) firm value is the cost of buying the right to the whole of an enterprise's core cash flow. It represents the entire economic value of a company. More specifically, it is a measure of the theoretical takeover price that an investor would have to pay in order to acquire a particular firm.

Initial Public Offer- A Company seeking listing for the first time on the stock exchange offers part of its securities to be subscribed by the public, as part of the listing exercise. When a major shareholder (for instance, the government) is the one off-loading shares the shareholder (the vendor), not the company retains the proceeds of the offering. This offer is called an Initial Public Offering (IPO). The term only refers to the first public issuance of a company's shares (Ochieng, 2008).

Liquidity- refers to the ability of an economic agent to exchange his or her existing wealth for goods and services or for other assets (Williamson, 2008). In our framework, liquidity will refer to current ratio, which is calculated by dividing the total current assets by the total current liabilities

Listing- is the admission of a company into a stock market after meeting certain regulatory requirements set by the regulatory authority of that particular country. For a company to be listed it has to be a public company (Onyuma et al, 2012).

Profitability- is the state or condition of yielding a financial profit or gain. It is often measured by price to earnings ratio. Profitability is measured by return on assets (ROA) which is the ratio of net operating income to total assets (Booth, Avaizian, Dermirg, & Maksimovic, 2001).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the theoretical and empirical literature relevant to listing and its effect on various variables of firms' value. Theoretical review highlights various theories on capital structure namely; the market timing theory, the capital structure irrelevance theory, and the pecking order theory. Finally this chapter gives a summary and highlights on the gaps and issues reviewed as well as the conceptual framework.

2.2 Theoretical literature review

The decision to go public is so complex that no single model is able to capture all of the relevant costs and benefits. But almost all of the effects of this decision have been evaluated in one model or another. Although these theories can hardly be nested in a single model, one can derive a set of (not mutually exclusive) testable predictions from them.

2.2.1 Market timing theory

The relationship between capital structure and firm value has been the subject of considerable debate. Throughout the literature, debate has centered on whether there is an optimal capital structure for an individual firm or whether the proportion of debt usage is irrelevant to the individual firm's value. Ritter (1991) , argues that firms tend to list at peak valuations. Pagano (1998) used the market-to-book ratio (M/B) as a proxy for investor optimism and find that the M/B ratio has the highest explanatory power in determining an IPO. However, while the M/B ratio may be an indication of market buoyancy it may also be a measure of future growth opportunities. Pagano (1998) distinguishes between the two arguments by examining ex post evidence. They find that during the years subsequent to the IPO, profitability falls. In addition to this finding, investment and leverage fall. By contrast, Jain and Kiini (1994) in their study of IPOs in the US from 1976 to 1988, find that IPO firms have significantly higher capital expenditure growth. Despite the increase in capital expenditure, they also find that profitability deteriorates subsequent to an IPO. Overall, an IPO is not a means for companies to take up profitable growth opportunities but rather a means for firms to take advantage of a window of opportunity and to adjust their capital structure while equity financing is relatively cheap (Pagano, 1998). Ritter (1991) argue that companies are more likely to issue equity when their shares are overvalued. They focus on the M/B ratio as a determinant of the changes in leverage and attempt to

establish whether changes in equity are a result of net equity issues as market timing theory would predict. Like Pagano (1998) he acknowledges that while the M/B ratio may be a proxy for mispricing, it is also a measure of a firm's investment opportunities and profitability. They separate the two signals by examining the effect of profitability on leverage. Ritter (1991) found out that high M/B ratios are associated with lower leverage, which is consistent with market timing theories. However, the lower leverage could be a result of higher retained earnings. This is plausible because according to Myers and Majluf (1984) seminal pecking order theory, higher retained earnings actually reduce leverage giving the impression that profitable firms are net equity issuers. Despite this, results show that leverage is not affected by retained earnings but rather net equity issues as market timing implies (Pagano, 1998).

2.2.2 Capital structure irrelevance theory

The capital structure of a firm concerns the mix of debt and equity the firm uses in its operation. Brealey and Myers (2003) contend that the choice of capital structure is fundamentally a marketing problem. They state that the firm can issue dozens of distinct securities in countless combinations, but it attempts to find the particular combination that maximizes market value. According to Weston and Brigham (1992), the optimal capital structure is the one that maximizes the market value of the firm's outstanding shares. The seminal work by Modigliani & Miller (1958) in capital structure provided a substantial boost in the development of the theoretical framework within which various theories were about to emerge in the future.

Modigliani et al (1958) concluded to the broadly known theory of "capital structure irrelevance" where financial leverage does not affect the firm's market value. However their theory was based on very restrictive assumptions that do not hold in the real world. These assumptions include perfect capital markets, homogenous expectations, no taxes, and no transaction costs. The presence of bankruptcy costs and favorable tax treatment of interest payments lead to the notion of an "optimal" capital structure which maximizes the value of the firm, or respectively minimizes its total cost of capital. Modigliani and Miller (1963) reviewed their earlier position by incorporating tax benefits as determinants of the capital structure of firms. The key feature of taxation is that interest is a tax-deductible expense. A firm that pays taxes receives a partially offsetting interest "tax-shield" in the form of lower taxes paid.

Therefore, as Modigliani et al (1963) propose, firms should use as much debt capital as possible in order to maximize their value. Along with corporate taxation, researchers were also interested in analyzing the case of personal taxes imposed on individuals. Based on the tax legislation of the USA, discerns three tax rates that determine the total value of the firm. These are: (1) the corporate tax rate; (2) the tax rate imposed on the income of the dividends; and (3) the tax rate imposed on the income of interest inflows. The value of the firm depends on the relative level of each tax rate, compared with the other two (Miller, 1977).

2.2.3 The Pecking Order Theory

While the pecking order theory has long roots in the descriptive literature, it was clearly articulated by (Myers & Majluf, 1984). It considered three sources of funds available to firms, retained earnings, debt and equity. Equity was deemed to have serious adverse selection problems, while debt and retained earnings have only minor adverse selection problems. This concept of capital structure is based on the notion of asymmetric information. The existence of information asymmetries between the firm and likely finance providers causes the relative costs of finance to vary between the different sources of finance. For instance, an internal source of finance where the funds provider is the firm will have more information about the firm than new equity holders; thus, these new equity holders will expect a higher rate of return on their investments. This means that it will cost the firm more to issue fresh equity shares than using internal funds. Similarly, this argument could be provided between internal finance and new debt holders. The conclusion drawn from the asymmetric information theories is that there is a hierarchy of firm preferences with respect to the financing of their investments.

This “pecking order” theory suggests that firms follow a certain hierarchical fashion in financing their operations. They will initially rely on internally generated funds, for instance undistributed earnings, where there is no existence of information asymmetry, then they will turn to debt if additional funds are needed and finally they will issue equity to cover any remaining capital requirements. The order of preferences reflects the relative costs of various financing options which is due to the problem of information asymmetries between the firm and potential finance providers. This means that it is more costly to use external debt finance than using internal funds (Myers & Majluf, 1984).

The pecking order hypothesis suggests that firms are willing to sell equity when the market overvalues it (Myers and Majluf 1984; Chittenden, Hall and Hutchinson 1996). This is based on the assumption that managers act in favor of the interest of existing shareholders. As a consequence, they refuse to

issue undervalued shares unless the value transfer from “old” to new shareholders is more than offset by the net present value of the growth opportunity. This leads to the conclusion that new shares will only be issued at a higher price than that imposed by the real market value of the firm. Therefore, investors interpret the issuance of equity by a firm as signal of overpricing. If external financing is unavoidable, the firm will opt for secured debt as opposed to risky debt and firms will only issue common stocks as a last resort. (Myers & Majluf, 1984), maintain that firms would prefer internal sources to costly external finance. Thus, according to the pecking order hypothesis, firms that are profitable and therefore generate high earnings are expected to use less debt capital than those that do not generate high earnings.

From this point of view of an outsider investor, equity is strictly riskier than debt. Rational investors will thus revalue a firm’s securities when it announces a security issue. Small firms prefer debt to new equity because debt means lower level of intrusion and lower risk of losing control and decision making power than new equity. These firms are often opaque and therefore bear high information cost (Psillaki, 1995). For all but the lowest quality firm, the drop in valuation of equity makes equity look undervalued, conditional on issuing equity. From the perspective of those inside the firm, retained earnings are a better source of funds than outside financing. Retained earnings are thus used when possible. If retained earnings are inadequate, debt financing will be used. Equity is used only as a last resort. According to Chebet (2013) Small and Medium Sized firms (SMEs) often use financing sources in line with the pecking order predictions particularly in closely held firms. These problems are specifically relevant to young and innovative firms.

2.3 Nairobi Securities Exchange as a Listing Facilitator

The term NSE refers both to the market in which securities (shares and bonds) are traded or exchanged, and to the body which oversees the operations of that market (Mbaru, 2006). The NSE was constituted as a voluntary association of stockbrokers registered under the Societies Act in 1954 and has since been the devise for structural reforms in the financial markets. Initially the business of dealing in shares was only confined to the resident European community since Africans and Asians were not permitted to trade in securities this was the case until after the attainment of independence in 1963. However, at the dawn of independence, stock market activity slumped, due to uncertainty about the future of independent Kenya. 1988 saw the first privatization through the NSE, of the successful sale of a 20% government stake in Kenya Commercial Bank. The sale left the Government of Kenya

and affiliated institutions retaining 80% ownership of the bank. Many more privatization followed and became the main drivers of capital market growth. The NSE (20 share index) increased to 5011.51 Index points in August from 4906.09 Index points in July of 2014. The Kenyan Stock Market has averaged 3022.15 Index points from 1990 until 2014, reaching an all time high of 6161.46 Index points in January of 2007 and a record low of 799.53 Index points in February of 1990. The number of stockbrokers has since increased with the licensing of 8 new brokers (Nairobi Securities Exchange, 2014).

According to Juma (2013), the Safaricom IPO is the biggest ever to be carried out by NSE in 2008. The event marked a watershed in Kenya's capital markets and settled the argument whether there was the appetite and cash to support multi-billion shilling calls. Prompted by the government's need to raise cash and give Kenyans bragging rights of owning a piece of the most profitable company in eastern Africa, the initial public offering (IPO) was historic. The government came out ahead in the IPO, netting Sh51 billion for the 10 billion shares it sold to local and foreign investors who had placed in bids worth over Sh231 billion of 46 344 343 460 shares applied which represented 463% subscription rate or an oversubscription of 363 per cent.

Live trading on the automated trading systems of the Nairobi Stock Exchange was implemented in 2006. The NSE ATS solution was customized to uphold the spirit of the Open Outcry Trading Rules in an automated environment. The exchange has also undergone restructuring of its governance system through demutualization, which was completed by the end of the second quarter of 2012. In the same breadth, trading hours increased from two (10:00 am – 12:00 pm) to three hours (10:00 am – 1:00 pm), currently trading takes place on Mondays through Fridays between 10.00am and 3.00pm (Nairobi Securities Exchange, 2014).

In July 2007 NSE reviewed the Index and announced the companies that would constitute the NSE Share Index. The review of the NSE 20 share index was aimed at ensuring it is a true barometer of the market. In 2008, the NSE All Share Index (NASI) was introduced as an alternative index. Its measure is an overall indicator of market performance. The Index incorporates all the traded shares of the day. Its attention is therefore on the overall market capitalization rather than the price movements of select counters. In July 2011, the Nairobi Stock Exchange Limited, changed its name to the Nairobi Securities Exchange Limited. The change of name reflected the strategic plan of the Nairobi Securities

Exchange to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments. In the same year, the equity settlement cycle moved from the previous T+4 settlement cycle to the T+3 settlement cycle. This allowed investors who sell their shares, to get their money three (3) days after the sale of their shares. The buyers of these shares, will have their CDS accounts credited with the shares, in the same time (Nairobi Securities Exchange, 2014).

Characterized by its liquidity, market capitalization and turnover, the NSE may be classified as both emerging market and frontier market. NSE is therefore a model market in view of its high returns, vibrancy and well developed market structure .To date The NSE is sub-Saharan Africa's fourth-largest bourse with 61 listed companies and 21 brokerage firms. NSE was a regional security market up to 1972 when it lost its regional character following the nationalization, exchange control and other inter-territorial restrictions introduced in neighbouring Tanzania and Uganda. Currently, the ceiling on foreign investment is 40 percent for institutions and 5 percent for individuals (Onyuma, 2012). This market is regulated by the Capital Markets Authority, which operates under the jurisdiction of the Ministry of Finance.

Companies seeking listing of their equity must satisfy several requirements to qualify for listing according to standards set for companies by the exchange. When approached by any firm for listing, the exchange conducts an investigation of the firm. The exchange requires the company to provide various pieces of information, to meet certain criteria such as minimum levels market capitalization and certain accounting variables (income, etc.) and also request the firm to recast its financial statements and other disclosures in the format prescribed by the exchange. The rigor of the investigation of the firm performed by the exchange prior to listing, and the accessibility to investors of the information contained in the various financial statements provided by the firm subsequent to listing depends on the listing standards set by the exchange (Nairobi Securities Exchange, 2014).

To accomplish its roles, the NSE aims to attract companies that want to list, as primary sellers and investors who want to buy the shares in these companies, as buyers. It therefore must filter good companies with solid performance to match the interest of both issuers and investors. To ensure continuity in trading of the listed companies' shares after the primary issue, the NSE'S role is to watch on the market performance of the companies for soundness and ensure that investors have all price sensitive, accurate and up- to-date information (Mbaru, 2006).

Publicly quoted companies are either single business or multi-business. Group or Holding companies constitute subsidiary undertakings. However, there are they numerous companies in the NSE which have several subsidiaries but don't refer themselves as Group or Holding companies. Companies adopt diversification strategy due to various motives such as to increase stock value, increase growth rate, make better use of funds that internal investment, revenue earnings, and improve stability and to increase efficiency and profitability. Listing is the process of taking a privately owned entity whose securities can be traded on a stocks exchange. The stock market consists of both the primary and secondary markets. In primary markets shares of stock are first brought to the market and sold to investors. In secondary market existing shares are traded among investors (Nairobi Securities Exchange, 2014)

2.3.1 Market Organization

The market is organized into four segments namely; the Main Investment Market Segment (MIMS), Alternative Investment Market Segment (AIMS), Growth Enterprise Market Segment (GEMS), and the Fixed Income Securities Market Segment (FISMS). The MIMS lists all companies that comply with listing requirements of both Capital Market Authorities (CMA) AND NSE .They are large in nature and reports strong and consistent growth prospects over a given period of time .It is a market segment for which securities of issuers satisfy the eligibility requirements prescribed under Regulation 7 (1) (a) of the Capital Markets (Securities) (Public offers Listing and disclosure) Regulation, 2002.

AIMS lists relatively small companies that are closely held and do not trade frequently ,but which wishes to raise capital or become public through listing .It is a market segment for which securities of issuers satisfy the eligibility requirements prescribed under regulation 7 (1) (b) of the Capital Markets (securities) (public Offers, Listing and Disclosure) Regulation, 2002.It lists companies with good growth prospects but which are not able to meet capital criteria of MIMS, to raise funds from the stock market .A company listed on the AIMS may apply for transfer to MIMS when it meets the Main Segments requirements and have been listed on the NSE for at least 2 years. The FISMS lists debt securities including preference shares, commercial papers, corporate and government bonds. Bonds are interest bearing securities issued by a company or the Central Bank of Kenya in return for a loan of money from investors.

The board of the Nairobi Securities Exchange approved the re-classification of listed securities to bring them in line with the various sectors of our economy with fixed income securities classified as either

preference shares or bonds in 2011. The move was to enable analysts, local and international investors to compare company and sector performance more easily. The Nairobi Securities Exchange now classifies these companies into eleven sectors. These are; agricultural, commercial and services, telecommunication and technology, automobiles and accessories, banking, insurance, investment, manufacturing and allied, construction and allied, energy and petroleum and growth enterprise market segment (Nairobi Securities Exchange, 2014).

2.4 Listing of companies on the stock exchange

Stocks that are traded on an organized exchange are said to be listed on that exchange. Listing is the admission of a company into a stock market after meeting certain regulatory requirements set by the regulatory authority of that particular country. For a company to be listed it has to be a public company (Onyuma et al, 2012). A company seeking listing for the first time on the stock exchange offers part of its securities to be subscribed by the public, as part of the listing exercise. When a major shareholder (for instance. the government) is the one off-loading shares the shareholder (the vendor), not the company retains the proceeds of the offering. This offer is called an Initial Public Offering (IPO). The term only refers to the first public issuance of a company's shares. If a company later sells newly issued shares (again) to the market, it is called a "follow-on" offering (Ochieng, 2008).

Some companies are so small that their common stocks are not actively traded, they are owned by only a few people, usually the company's managers. Such firms are said to be privately owned or closely held corporations and their stock is called closely held stock. In contrast, the stocks of large companies are owned by a large number of investors, most of whom are not active in management. Such companies are called publicly owned corporations and their stock actively traded. Publicly owned companies generally apply for listing on an organized security exchange, and as such their stocks are said to be listed (Brigham & Houston, 1999).

In order to be listed, firms must meet certain minimum criteria concerning, for example, asset size and number of shareholders. The criteria differ for different exchanges. New York Stock Exchange (NYSE) has the most stringent requirements of the exchanges in the United States. For example, to be listed on NYSE, company is expected to have a market value for its publicly held shares of at least \$ 18 million and total of at least 2000 shareholders with at least 100 shares each. There are additional minimums on earnings, assets, and number of shares outstanding (Brigham & Houston, 1999).

2.4.1 Global trends in Listing

According to Glavina (2013), the world market of IPO's reached its highest level in 2007. However, the global financial crisis of 2008-2009 caused a significant reduction in emission activity. During all this time the European IPO market was in top-three position, along with the markets of the United States and China. In 2010, Europe had the second largest number of deals and the third in the volume of the raised capital and in 2011 the first in the number of offerings and the second in the volume of raised capital. In comparing the trends of the development of global and regional markets it can be noted that IPOs on the global market are shifting to the emerging markets. European Stocks are of a particular interest because combine both mature global stock exchanges as well as newly developed exchanges.

In the US, euro-equity issues have become popular because of the anonymity enjoyed with bearer shares. It has grown rapidly in absolute size and proportion of shares sold in other countries being substantial. During the past two decades, the pace of globalization in capital markets has accelerated and broadened in scope to make easier ownership and trading in securities from around the world. The pace of international cross-listing around the world has decelerated dramatically during the last few years. This is due to combination of global macro- economic, political and regulatory factors (Mugo, 2010).The London Stock Exchange (LSE) has features of global stock exchange, and is one of the most popular markets among investors and issuers. Since 2010 IPO market of Europe began to show positive trends, but results of 2006 haven't been reached again. Despite the positive forecasts and positive activity in the market in 2012, Europe plunged in the new Financial Crisis, which broke the IPO market development in both Europe and the world. In 2006 the European stock exchanges realized 806 offerings with total value of more than €87 billion. In comparison, in 2009 when the European market reached its minimum, only 126 companies came out to the market for initial public offerings and totally were raised €7,1 billion (Glavina, 2013).

2.4.2 Listing in Africa

According to Klynveld Peat Marwick Goerdeler (KPMG) 2014, there is an increasing interest in Africa as a potential investment destination due to the fact that the developed markets are not expected to grow as they have done previously. In addition, Africa is seen to be becoming more politically mature and easier to access and this, together with its growing population and rise in consumption, is adding to its attractiveness for foreign investors. Africa also has vast tracts of unutilised land and significant mineral and other resources. Africa has two regional stock exchanges, namely, the BVRM which serves Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo and

the Bourse Régionale des Valeurs Mobilières d'Afrique Centrale which serves the Central African Republic, Chad, Congo, Equatorial Guinea and Gabon.

The JSE has the highest number of listings on the continent numbering 344 and accounting for approximately 26% of the total number of listings in African stock exchanges. The Nigerian Exchange follows with 175 listings and Mauritius with 89 listings. Kenya ranks 5th in this behind South Africa, Nigeria, Mauritius and Zimbabwe. Consequently, the top six stock exchanges in the continent with regards to number of listings account for 76% of the total listings on African stock exchanges while the top three exchanges account for 61% of total listings (KPMG, 2014). Majority of African stock exchanges are organized as mutual entities, but demutualization has gained popularity. The main reason is that mutualization breeds poor corporate governance. In a mutual exchange, stock market participants, such as traders and brokers, have monopoly power through exclusive access to trading systems (Capital Markets Authority, 2011). The NSE is the latest exchange to demutualize in Sep 2014.

2.5 Empirical Literature

Kuria (2008) determined the short-term and long-term effects of cross-border listing announcements on companies listed at the NSE and their post listing performance, and reported that cross-listing announcements have statistically significant negative effects on stock returns. In fact, the non cross-listed firms had higher daily turnover ratios than cross-listed firms, an indicator of increased activity hence liquidity. A study by Onyuma et al, (2012) found out that cross listing leads to improvement in a variety of firm fundamentals as it is associated with improved liquidity, earnings, and price to earnings ratio. It was also reported that firms benefit less from cross-listing of shares outside their home market. The study found neither anything suggesting that cross listing has significant impact on their financial performance nor any systematically less borrowing for asset investment. Nonetheless, they did uncover some positive findings only relating to improved market confidence as shown by positive changes in the price-to-earnings ratio for all the cross-listed firms

Chan-Lau (2010), also documented a significant decline in the operating performance of Chinese IPOs. It was also found out that this inferior operating performance was not related to a decline in business activity. Rather, they argue that managers attempt to window dress their accounts prior to going public which leads to pre-IPO performance being over-stated and post-IPO performance being understated. Kinyua et al, (2013), in their study sought to find the effects of IPO on liquidity of the companies quoted at the NSE. It was concluded that both the current liabilities and current assets which included stock inventories, Account receivables, Prepayments, Cash at bank, Cash in Hand, Account payables, Accruals, Dividends payables and the Tax payable increased after the IPO. Further,

the researcher concluded that both the debt and the times Interest Earned Ratios increased after IPO. This implies that most of the company's assets were financed through debt. The Companies had high debt/asset ratios and could be in danger if creditors start to demand repayment of debt. Finally the study concludes that earnings per share which comprised of sales, assets, profit after tax, ROA and ROE increased after the IPO.

2.5.1 Financial Benefits of Listing

By listing, firms may improve the terms on which they can raise capital or on which their shareholders can sell existing securities. This motive is strongest if the firm or its shareholders need to raise capital and if financial constraints in the financial institutions are significant. Some empirical predictions have to do with the reason why capital is needed, and others have to do with why listing makes it cheaper (Adelegan, 2009). The salient reason why a company may need equity funding is to carry out new investment programs. The required funding is likely to be especially large for fast growing companies and for companies that have already exhausted their debt capacity. Therefore, companies that list to raise capital should have high investment, growth rate, and leverage before listing other things constant, and engage in a primary equity offering at the time of the listing or shortly afterwards. Moreover, such companies would be more likely to list on a stock market. Since higher expected growth should translate into higher price earnings ratios (P/E), one would also expect them to have higher POE ratios than comparable unlisted companies (Azhagaiah & Priya, 2008).

The decision to go public improves the liquidity of a Company's shares as well as the scope for diversification by the initial shareholders of the company. Other benefits realized include positive public image and better management of quoted companies. Public companies (companies that are owned by shareholders who are members of the general public and trade shares on public exchanges) tend to have better management records than privately held companies (those companies where shares are not publicly traded, often owned by the company founders and/or their families and heirs, or otherwise by a small group of investors), (Nairobi Securities Exchange, 2014)

Rather than via organic growth, a company may choose to expand by a merger or acquisition involving a listed company. The acquisition of a target company is facilitated by using the bidder's shares as a medium of exchange, but the latter are an acceptable "currency" only if the two companies are listed on the same exchange. Even if the firm has no need to finance new investment, its current shareholders may want to sell out, and listing can increase the market value of their stake. Privatizations are an

important special case, where the government is the divesting shareholder. Therefore, newly privatized companies should be more likely to list than other comparable companies (Omboi, 2011).

The possibility to rebalance the financial structure and improve a company's position relative to its debt holders is found to be another important benefit of going public (Rajan, 1998). The *bourse* enables the business community to access long term capital for investment through shares, bonds and debentures. All the companies listed have issued shares as a way of raising long-term investible capital. Apart from facilitating the primary issue of securities, the bourse serves another function .It facilitates secondary trading and transfer of ownership of securities. By so doing, shareholders are accorded an avenue through which they can relinquish their ownership of a company and new ones can come in (Omboi, 2011).

The *bourse* can also enhance the development of industrial sector by enabling those wishing to raise cheap and long-term capital to do so .Firms should take advantage of this to raise financial resources to expand their business and diversify into other areas. According to Omboi (2011) the common tendency is for the companies to rely on Commercial banks' credit for business expansion or to delay their investment plans until they generate sufficient funds internally. Both methods are quite expensive .Bank credit can be costly as has been witnessed in the local market.

A quoted company enjoys other benefits. The market acts as a constant value of its worth so when primary shareholders wish to sell their stake ,the market price provides a basis for valuation .Compare this with lengthy, laborious process and hard bargaining that it takes the shareholder of a private company to dispose of his or her ownership (Omboi, 2011). Other literature reveals that listing of shares enhances firm's visibility and value, and lessens information asymmetry

In addition to increasing stock market liquidity, listing also: provides an avenue for portfolio diversification for a wider investor base; improves the employment level through gains from the expansion of operations in the country of listing; enhances both the business reputation of the listed firm; reduces spreads on interest rates and debt securities by increasing the number of investors in the stock market, thereby reducing the concentration of investors in the money market; increases the availability and accuracy of public information and lowers information asymmetries; and enhances corporate governance, and market transparency and quality (Onyuma et al,2012).

Theoretical asset pricing models have predicted an increase in stock prices upon listing. Decisions on listing are taken by firms, while market regulators, policy makers and stock exchanges facilitate the market approach to listing by signing Memorandum of understanding (MOU) and putting in place the necessary conditions to harness the benefits of listing and develop their capital markets. These conditions include: sound legal and regulatory frameworks, macroeconomic and political stability, harmonization of listing rules, accounting laws and disclosure requirements across the region, strong money markets, and incentives for listed firms and other market participants and efforts towards monetary union (Adelegan, 2009). At the same time, the company acquires new obligations in the form of transparency and disclosure requirements, and becomes accountable to a larger group of relatively anonymous shareholders who will tend to vote with their feet (by selling the shares) rather than assist the company's decision-makers in the way a venture capitalist might (Kinyua et al, 2013)

According to Chelagat (2013), listing of companies at the NSE has led to improved disclosure because of investor orientation, the reports are availed the public and these companies are expected to make non-financial disclosures because of stakeholders expectation. Evidence from research indicates that an increasing number of companies see going public as a: Way to improve their reputation and social capital with beneficial effects on their capacity to access external resources and opportunities for new entrepreneurial ventures. The decision to go public improves the liquidity of a Company's shares as well as the scope for diversification by the initial shareholders of the company. Other benefits realized include positive public image and better management of quoted companies. Public companies (companies that are owned by shareholders who are members of the general public and trade shares on public exchanges) tend to have better management records than privately held companies (those companies where shares are not publicly traded, often owned by the company founders and/or their families and heirs, or otherwise by a small group of investors)

2.6 Summary and Research Gap

Although listing can promote stock market development, the decision to list is taken by the firm. Thus, it is desirable to examine the impact of such a decision on its value. The empirical literature on when and why companies go public is small relative to the number of papers under pricing and under-performance of newly issued shares. However, several reasons have been proposed in the academic literature to explain why companies decide to go public and list on a stock exchange. Roell (1996) documents the reasons why companies decide to go public. Among them is access to new finance. The

motives for new finance include prospects of growth by acquisition, funds for organic expansion, corporate marketing, diversity and development and refinancing of current borrowings. Once public, a company's financing alternatives are increased. Thus, a publicly traded company can return to the stock market for additional capital via a bond or convertible bond issue or secondary equity offering.

In recent years, the theoretical literature has investigated this topic from different perspectives, proposing a host of different models. Nevertheless, the empirical analysis of the going public decision and of its consequences at a firm-specific level is one of the least studied issues in corporate finance. A study conducted by Chelagat (2013) demonstrated both a positive or negative link between listing and the performance of companies. The difference in performance was attributed majorly on macro-economic factors based on company's strengths and weaknesses. These factors however, are specific to certain sectors and should not be generalized. This study therefore contributes to the literature by establishing the effects of listing on firm value of listed companies at the NSE with specific concentration on the insurance sector whereby these factors affect all players alike.

2.7 Conceptual Framework

The conceptual framework shows the relationship between the dependent and independent variables. The independent variables are factors which influence the dependent variable in this study. Broadly, these are raising capital for investment, broadening shareholder base, increasing liquidity, commitment to disclosure and financial standards; all these are as a result on listing as a process. These factors affect firm value. Market based ratios, gearing ratios, profitability ratios and liquidity ratios were used as measures of firm value.

Market Prospect ratios are used to compare publicly traded companies' stock prices with other financial measures like earnings and dividend rates. These ratios are helpful for investors to predict how much stock prices will be in the future based on current earnings and dividend measurements.

Solvency ratios, also called leverage or gearing ratios, measure a company's ability to sustain operations indefinitely by comparing debt levels with equity, assets, and earnings. Solvency ratios show a company's ability to make payments and pay off its long-term obligations to creditors, bondholders, and banks. Gearing levels for individual firms was measured using debt to equity ratio and equity ratios.

Profitability ratios compare income statement accounts and categories to show a company's ability to generate profits from its operations. Profitability ratios focus on a company's return on investment in inventory and other assets. These ratios basically show how well companies can achieve profits from their operations. A change in profitability was measured using Return on Equity, Return on Investment and Gross Profit Margin.

Further, liquidity was pegged on Current ratio, quick ratios was not performed since these firms do not hold stocks. Liquidity ratios analyze the ability of a company to pay off both its current liabilities as they become due as well as their long-term liabilities as they become current. In other words, these ratios show the cash levels of a company and the ability to turn other assets into cash to pay off liabilities and other current obligations.

The relationship between the dependent and independent variables is shown in figure 2.1 below

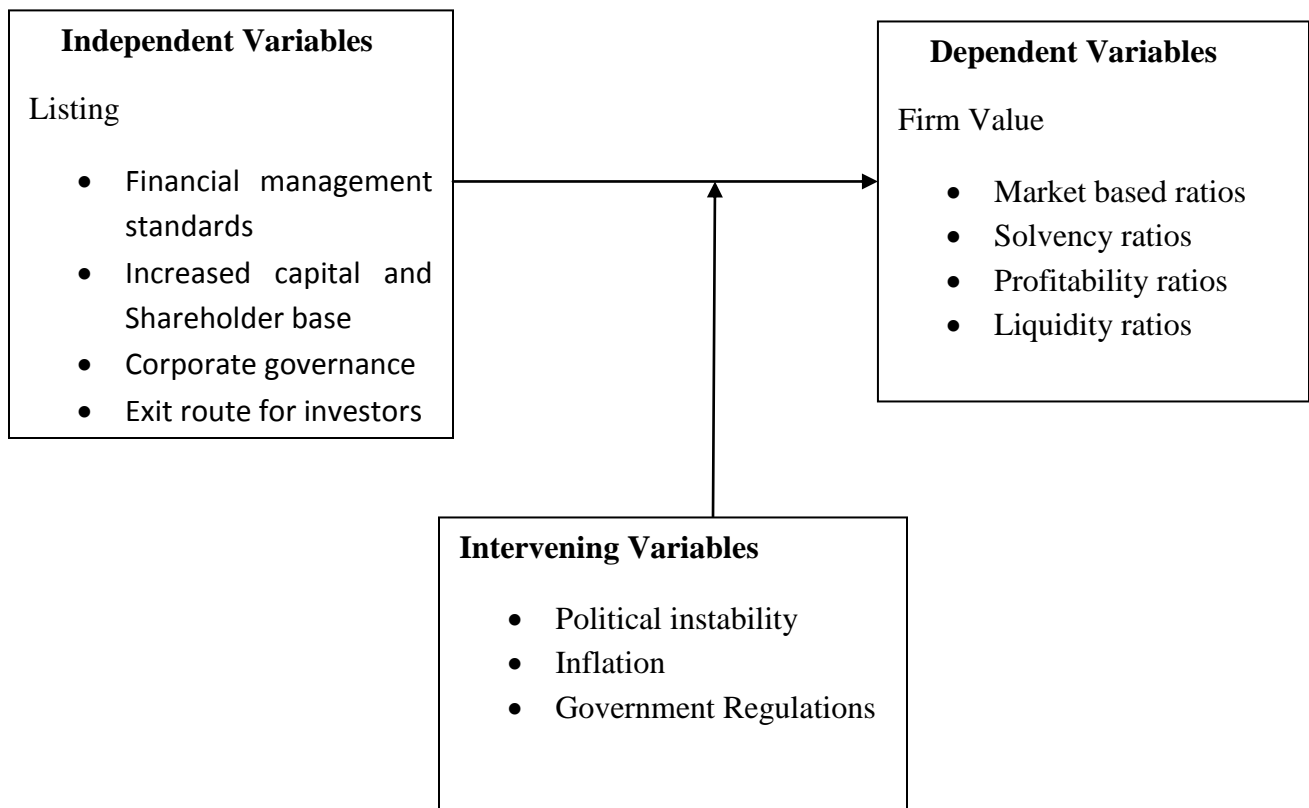


Figure 1.1: Conceptual framework

Relationship between listing and firm value

Source: Author, (2014)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter establishes how data was collected, compiled, analyzed and presented in relation to the research objectives. These consist of research design, target population, sampling size and sampling procedures, data collection methods and data analysis and presentation.

3.2 Research Design

Hopkins (2000), suggests that descriptive studies is part of a quantitative research design, whose aim is to determine the relationship between an independent variable and another dependent or outcome variable in a population, establishing the associations between variables and the causality. For this study, the research design is descriptive survey since it seeks to establish the relationship between listing and firm value. A survey on insurance companies listed at the NSE was conducted.

3.3 Target population

Target population is defined as all the members of real or hypothetical set of people, events, or objects to which a researcher wishes to generalize the results of the study (Kothari, 2004). The population of interest for this study comprised insurance firms that have registered with the Insurance Regulatory Authority of Kenya (IRA) and have undertaken listing in Kenyan *Bourse*, and those that are in similar sub-sector of the economy that are registered with IRA but have not undertaken listing. Six companies were included in the study. It targeted all Kenyan based insurance companies that have engaged in listing of securities. These include Jubilee Holdings Ltd., Britam, Kenya Re, CIC, Liberty Holdings and Pan Africa Holdings. The study also targeted other non-listed insurance companies in similar sub-sector of the economy. These include APA Insurance, UAP Insurance, Real Insurance, Heritage Insurance, Africa Merchant Assurance Company Ltd. (AMACO) and Kenindia Insurance Company.

3.4 Sample size and Sampling Procedures

A census study was conducted on the entire population where all the six quoted insurance firms in the NSE were analyzed. There was no need for a sample since the whole population was selected. Purposive sampling was used to select those that have not currently listed. This was done in respect to Individual firm returns.

3.5 Data Collection

Using a data collection schedule, secondary data was obtained from the firms' published financial statements available on their websites and also from Capital Markets Authority (CMA). This includes profits before tax, current assets, current liabilities, fixed assets, debt level and equity shares outstanding.

3.6 Data Analysis

Financial ratio analysis was used to compute current ratios, gearing ratios, profitability ratios, and investor ratios. Statistical inference was drawn using a correlation analysis to establish whether the findings indicated a strong positive or negative correlation. This type of inference has also been applied by other previous works such as (Jayakumar, 2002) and (Kiilu, 2006). The financial ratios computed included the following:

3.6.1 Profitability Ratios

ROCE is the return on capital employed computed as earnings before interest and taxes divided by capital employed: $(EBIT/CE)$.

GPM is the gross profit margin computed as profit before operating expenses divided by the net sales: (GP/NS)

ROI is the return on investment which measures the return on the proprietor's investment in a company – the total share capital plus the reserves that they indirectly own, computed as: (EAT/TSC) .

3.6.2 Liquidity Ratios

CR is the current ratio which measures liquidity by dividing total current assets by total current liabilities. It is computed as (TCA/TCL) . Under normal situations, a ration of 2:1 is deemed adequate

3.6.3 Gearing Ratios

These ratios measure the contribution of financing by owners compared to financing by the firms creditors.

DER is the debt-equity ratio which shows the relationship between owners' funds and the borrowed funds. It is the total debt divided by total shareholder's equity. The larger the portion of owners equity, the lesser the risk faced by creditors. It is computed as: (TD/TSE) .

ER is the equity ratio which represents the relationship between owner's equity and total capital employed, and computed as: (SHE/TCE) .

3.6.4 Investor / valuation Ratios

DY is the dividend yield which is the dividend per share divided by market price per share, and computed as: DPS/MPS

EPS is the earnings per share determined by dividing profit after taxes and preference share dividend by the total ordinary shares outstanding. It is computed as: $EATP/OSO$

PER is the price-earnings ratio which measures how long it will take before recovering the cost of the investments. In essence, it shows the number of times the earnings are covered by the share market price. The ratio is determined by dividing the market price per share by earnings per share, thus computed as: MPS/EPS . This is number of times the earnings are covered by the share market price. It measures how long it will take before recovering the cost of the investments. It is the reverse of earnings yield.

From the data collected, student t-test was used to establish the significance of the differences between measures of firm value before and after listing. The tests concentrated on liquidity, profitability, gearing and equity-related ratios.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATIONS AND DISCUSSIONS

4.1 Introduction

This chapter explains about the financial review of listed insurance companies, findings of the t test and the interpretation of these findings.

4.2 Attributes of Listed Insurance Firms

4.2.1 Jubilee Holdings Ltd.

According to Jubilee's website, the company is over 75 years old since it was established. The company was incorporated on 3rd August 1937 as a composite insurer and a provider of mortgage finance. It is a market leader in medical insurance. It has head offices in Nairobi, Kampala and Dar-es Salaam, with eight branches spread in the east African region, the latest of them all being Jubilee Burudi which was formed in 2010. In 1984, Jubilee was listed on the Nairobi Stock Exchange. On 14 February 2006, Jubilee Holdings Ltd. Holdings issued shares on the USE, and later, 27 June 2006 on the DSE; thus, the company was the only firm in Kenya to cross-list in two stock exchanges at the same year.

Today, Jubilee Insurance, a wholly owned subsidiary of Jubilee Holdings Limited, has an issued share capital of Ksh 299,475 million and the highest shareholders' funds in the Kenyan insurance industry. Before cross listing in 2007, the firm had 32.2 Million shares outstanding and currently the number has risen to 59,895 Million shares. It has over 6,500 shareholders. Its current Market Capitalization stands at Ksh. 25.75 Billion with a share price of Ksh.421.

Jubilee Holdings Ltd. Holdings is divided into investments and Financial Services divisions. The insurance company has made several investments, as is the nature of insurance companies, notably in Bank of Baroda and TPS East Africa. A board of directors (BOD) runs the firm. The board comprises of eight non-executive members of whom five are independent. The independence concept here ensures that the shareholders interests are kept protected. This information was obtained from the company's website.

The firm faces some few challenges when operating in different countries. There are restrictions as to the number of shares that can be owned by foreigners. This is especially in Tanzania; however, the firm has tackled this by abiding to the rules that have been set. The firm appreciates the move to

creation of East African Corporation (EAC), which has brought largely the harmonization of East African stock Markets. In respect to reporting the financial statements, the firm has been using the International Reporting Standards of consolidated statements. The economies of the East African Countries are relatively interlinked due to similar nature of businesses in the region; this means that there is little parity in interest rates. However, in the year 2008, the cost of living in Kenya was very high due to the post-election chaos that disrupted Kenyan businesses. This made the Kenyan shilling depreciate against other currencies hence causing a challenge to the company, which operated in the region.

There were 59,895 Million shares outstanding as at 31 December 2013 and 6,511 shareholders. This is outlined in table 4.1 (a) below; those who own less than 500 shares constitute about 0.46%, while those who own more than 1 million shares constitute about 52.49% of ownership. It was noted that those who own less than 10000 shares constitute less than 25%, while those who own more than 10000 shares constitute more than 75%.

Table 4.1 (a): Distribution of Shareholders of Jubilee Holdings Ltd. Holdings as At 31 December 2013

Number of shares	Number of shareholders	Number of shares held	% shareholding
Less than 500	1,677	276,577	0.46
501 – 5,000	3,632	7,124,874	11.90
5,001 – 10,000	644	4,354,554	7.27
10,001 – 100,000	526	12,834,851	21.43
100,001 – 1,000,000	25	3,863,710	6.45
Over 1,000,000	7	31,440,434	52.49
Total	6,511	59,895,000	100.00

Source: www.jubilee.co.ke 2014

Table 4.1 (b) below outlines that the largest shareholder in Jubilee Holdings is the Aga Khan Fund for Economic Development with about 23 million shares; these constitute about 38%; this implies that this shareholder have influence in decision making in the insurance company. They may influence the

voting of directors, making dividend decisions or even making capital decisions. Jubilee Holdings is therefore an associate company of Aga Khan Fund for Economic Development .The top 10 shareholders alone own more than 53% of outstanding share capital of the company; this adds up to about 32 million shares.

Table 4.1(b): List of 10 Largest Shareholders of Jubilee Holdings Ltd. Holdings as At 31 December 2013

Name	Number of shares held	%Share holding
Aga Khan Fund for Economic Development	22,751,025	37.98
Ameerali K. Somji &/or Gulzar Ameerali K. Somji	2,310,000	3.86
Ameerali K. Abdulrasul Somji	2,123,587	3.55
Ameerali K. Abdulrasul Somji and Hanif Mohamed Somji	1,108,163	1.85
United Housing Estates Limited	1,086,734	1.81
Adam’s Brown and Company Limited	1,070,109	1.79
Freight Forwarders Kenya Limited	1,018,101	1.70
Gulshan Noorali Sayani	299,593	0.50
Ariff Aziz Shamji & Farah Bahadur Alibhai Ukani	271,538	0.45
Kenya General Agency (MSA) Limited	264,500	0.44
Total shares outstanding	32,303,350	53.93

Source: www.jubilee.co.ke 2014

4.2.2 British-American Investments Company (Kenya) Limited (Britam)

According to Britam’s website, British-American Investments Company Limited is a leading diversified financial services group in the region offering a wide range of insurance and asset management services to individuals, small businesses, corporations and government entities. The group offers a wide range of financial products and services in Insurance, Asset management, Banking and Property. The product range includes: life, health and general insurance, pensions, unit trusts, investment planning, wealth management, off-shore investments, retirement planning, discretionary portfolio management, Property development and private Equity. Britam has offices in Kenya,

Uganda, Rwanda, and South Sudan, and a presence in Mozambique, Malawi and Tanzania, following the acquisition of Real Insurance Company in 2014.

The Group has a long heritage in providing financial services since 1920, when it was incorporated in the Bahamas. The Kenyan operation was established in 1965 and has close to 50 years of service in the market. Britam has grown tremendously from a small home based service insurance company to the leading diversified financial services provider in the region, with an asset base of over Kshs 55 billion, as at June 30, 2014. Owing to organic growth and the incorporation of other subsidiary companies within the company, British-American Investments Company (Kenya) Ltd was incorporated as a holding company in 1995. As part of a bigger plan to diversify its financial services offering in the Kenyan market, British American Asset Management Company was incorporated as an asset management arm of the group in 2004. The company offers investment funds structured as Unit trusts and discretionary Portfolio management to both institutions and private clients.

Today, Britam has an issued share capital of Ksh 1.891 million .Before listing, the firm had 30 million shares outstanding and currently the number has risen to 1.891 billion shares. It has over 25,000 shareholders. Its current Market Capitalization stands at Ksh. 71.40 Billion with a share price of Ksh.33. The group also has a strategic stake of 10.1 per cent in Equity Bank, and a 21.6 per cent shareholding in Housing Finance. In 2013, Britam entered into a strategic partnership with the Acorn Group, through the purchase of a 25 percent stake in the leading real estate firm, as part of its wider strategy to venture into the property market. The group has recently acquired a 99 percent share stake in Real Insurance Company which now gives them largest geographical reach of any Kenyan insurer with a presence in seven countries namely Kenya, Tanzania, Uganda, South Sudan, Rwanda, Malawi and Mozambique. Britam issued its first Corporate Bond in 2014 through the NSE which raised Kshs 6 billion to fund future strategic initiatives including real estate opportunities, private equity local and regional expansion ICT development.

The Group is exposed to equity securities price risk because of investments in quoted shares classified either as either at fair value through profit or loss or fair value through other comprehensive income. To manage its price risk arising from investments in equity and debt securities, the Group diversifies its portfolio. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Ugandan UGX, Rwanda RWF, South Sudan SSP, US dollar and the UK pound. Foreign exchange risk also arises when future commercial

transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The directors have set up a policy to require group companies to manage their foreign exchange risk against their functional currency. There were 1.891 billion shares outstanding as at 31 December 2013 and 6,511 shareholders. This is outlined in table 4.2 (a) below; those who own less than 500 shares constitute about 0.02%, while those who own more than 1 million shares constitute about 90.41% of ownership. It was noted that those who own less than 10000 shares constitute less than 5%, while those who own more than 10000 shares constitute more than 95%.

Table 4.2 (a): Distribution of Shareholders of Britam as At 31 December 2013

Number of shares	Number of shareholders	Number of shares held	% shareholding
Less than 500	1,158	324,085	0.02
501 – 5,000	18,919	46,850,695	2.48
5,001 – 10,000	2,875	22,702,700	1.20
10,001 – 100,000	2,303	57,769,700	3.05
100,001 – 1,000,000	179	53,821,270	2.85
Over 1,000,000	46	1,709,983,400	90.41
Total	25,480	1,891,451,850	100.00

Source: www.britam.co.ke 2014

Table 4.2 (b) below shows the list of top 10 shareholders of Britam. These together own more than 82% of the company with about 1.55 billion shares ,the largest shareholders being British-American (Kenya) Holdings Limited and Equity Holdings Limited , who own slightly over 452 and 405 million shares comprising 23.92% and 21.41% respectively of the share capital. This therefore sets the two as the top associates of the company. The least in the top 10 list is Standard Chartered Nominee Account with almost 1% of shares adding up to about 17.1 million shares.

Table4.2 (b): List of Britam Top 10 Shareholders

No.	Name of Shareholder	No. of Shares	% Holding
1	British-American (Kenya) Holdings Limited	452,504,000	23.92
2	Equity Holdings Limited	405,000,000	21.41
3	Jimnah M. Mbaru	219,300,000	11.59
4	Benson I. Wairegi	100,298,400	5.30
5	Kenya Commercial Bank Nominees A/C 915F	91,404,035	4.83
6	Peter K. Munga	75,000,000	3.97
7	James N. Mwangi	75,000,000	3.17
8	Co-op Bank Custody A/C 4012	60,000,000	3.17
9	Filimbi Limited	58,453,600	3.09
10	Standard Chartered Nominee Account	17,165,300	0.91
11	Others	337,326,515	17.83
	Total Holding	1,891,451,850	100

Source: www.britam.co.ke 2014

4.2.3 Liberty Kenya Holdings Ltd

The Company is the holding Company of two operating entities, CfC Life Assurance Company Limited (CfC Life) and Heritage Insurance Company Kenya Limited (Heritage), formerly known as CfC Insurance Holdings Limited. In 2012 the Company changed its name to Liberty Kenya Holdings Limited as an initial step of aligning the group to the Liberty Group corporate brand, and to reflect the company's new strategic or majority shareholder Liberty Holdings of South Africa with the subsidiaries adopting the use of 'A member of the Liberty Group' endorsement tag on their logos. This was part of the process of simplification, differentiation and economies of scale in the Group's brand building strategy. The group listed its shares at the Nairobi Securities Exchange (NSE) via introduction on 21 April 2011. The group has five product pillars namely, life insurance, health insurance, asset management, property development and short term insurance with a presence in 15 countries across Southern, East and West Africa.

The Group is exposed to equity securities price risk because of investments in quoted and unquoted shares classified as available-for-sale. Fixed interest rate financial instruments expose the Group to fair value interest rate risk. Variable interest rate financial instruments expose the Group to cash flow interest rate risk. The Group's fixed interest rate financial instruments are government securities and deposits with financial institutions while the Group's variable interest rate financial instruments are quoted corporate bonds. Due to its regional operations the group is exposed to foreign exchange risk arising from various foreign currency transactions, primarily with respect to the US dollar. Foreign exchange risk arises from reinsurance transactions with foreign reinsurance brokers. This risk is not significant and is mitigated through the use of dollar-denominated accounts. Tenant default and unlet space within its investment property portfolio has affected property values and rental income. This risk is mainly attributable to the matching policyholder liability and the shareholder exposure is mainly limited to management fees and profit margins. The managed diversity of the property portfolio and the existence of multi-tenanted buildings have significantly reduced the exposure to this risk.

The group has currently over 515 million shares with about 4000 shareholders. Its share capital has since increased since listing in 2011 from 612.34 million in 2010 to 515.270 million today. Those who hold less than 1000000 shares constitute about 5% of the total shareholding adding up to 23 million shares while 95% is held by 9 shareholders who jointly own over 491 million shares as illustrated in table 4.3 (a) below:

Table 4.3 (a): Distribution of Shareholders of Liberty Kenya Holdings Ltd. as At 31 December 2013

Number of shares	Number of shareholders	Number of shares held	% shareholding
Less than 500	1,753	369,779	0.0718
501 – 5,000	1,463	2,558,761	0.4966
5,001 – 10,000	463	3,531,446	0.6854
10,001 – 100,000	323	9,299,484	1.8048
100,001 – 1,000,000	30	8,078,296	1.5677
Over 1,000,000	9	491,432,598	95.3737
Total	4,041	515,270,364	100.00

Source: www.libertykenya.co.ke 2014

Table 4.3 (b) below shows that Liberty Holdings Limited is a subsidiary of Liberty Holdings Limited which owns about 293 million shares; these constitute about 57%; this implies that this shareholder has total control in the insurance company. He may influence the voting in of directors, making dividend decisions or even making capital decisions. The top 10 shareholders own more than 95% of outstanding share capital of the company; this adds up to about 492 million shares.

Table 4.3 (b): List of Liberty Kenya Top 10 Shareholders

No.	Name of Shareholder	No. of Shares	% Holding
1	Liberty Holdings Limited	292,762,096	56.82
2	African Liaison and Consultants Services Limited	156,098,266	30.29
3	Sovereign Trust Limited	14,441,154	2.80
4	Standard Chartered Nominees	9,932,200	1.93
5	Archer and Wilcock Nominees Limited	6,125,000	1.19
6	Kingway Nominees Limited	5,198,498	1.01
7	The Government of Kenya	4,342,548	0.84
8	Kenyalogy.Com Limited	1,361,436	0.26
9	CfC Stanbic Noninees Ltd A/C 103065	1,171,400	0.23
10	CfC Stanbic Noninees Ltd A/C 1030819	890,600	0.17
Total Holding		492,323,198	95.54

Source: www.libertykenya.co.ke 2014

4.2.4 CIC Insurance Group Ltd

According to the company’s website, CIC Insurance Group started off as an insurance agency in 1968, as a department within the Kenya National Federation of Co-operatives (“KNFC”). It was later licensed as a composite insurance company in 1978 to write all classes of business trading in the name of Co-operative Insurance Services Limited (“CIS”). Its target market was the cooperative movement and due to strong support from the co-operatives, it grew steadily. The Company name was changed to The Co-operative Insurance Company of Kenya Limited (CIC) in 1999. The name change was part of the Company’s market repositioning strategy of completely transforming from the then small company targeting the co-operative movement only to a respected insurer in the country. The Company underwrites both Life and General classes of insurance and has recently ventured into the asset management business. The year 2010 saw the Company further change its name to CIC Insurance Group Limited. This change was in preparation for the demerger of its life and general business

operations. By the end of 2011 the Company had fully demerged resulting in the following subsidiaries: CIC Life Assurance Limited, CIC General Insurance Limited and CIC Asset Management Limited. The company operates mainly in Kenya with its headquarters in Nairobi.

The Group made its debut on the NSE on July 18, 2012 making it the 6th insurance company to be listed on the NSE and the 60th company to be listed on the NSE overall. According to the Insurance Regulatory Authority report released in June 2014, CIC Insurance was ranked third in market share with 8.1% of the market behind Jubilee Insurance and Britam, who controlled 12.8% and 10.4% respectively. The group has currently over 2 Billion shares with about 8600 shareholders. Those who hold 1000000 shares and less constitute about 11% of the total shareholding adding up to 300 million shares while 89% is held by 66 shareholders who jointly own over 1.9 billion shares as illustrated in table 4.4 (a) below:

Table 4.4 (a): Distribution of Shareholders of CIC Insurance Group Ltd. as At 31 December 2013

Number of shares	Number of shareholders	Number of shares held	% shareholding
Less than 500	1,215	317,480	0.01
501 – 5,000	2,534	5,474,710	0.25
5,001 – 10,000	1,733	15,980,200	0.73
10,001 – 100,000	2,621	92,185,260	4.23
100,001 – 1,000,000	436	120,553,430	5.53
Over 1,000,000	66	1,945,104,360	89.24
Total	8605	2,179,615,440	100.00

Source: www.cic.co.ke 2014

According to table 4.4 (b) below, the largest shareholder in CIC insurance Group Limited is Co-Operative Insurance Society Limited (CIS) who owns about 74% of the outstanding share capital constituting around 1.6 billion shares; this implies that the company is a subsidiary of CIS which has total control and ability to affect the firm's returns through its power over the entity. The top 10 shareholders in this insurance company hold up to around 81% with shares adding up to about 1.78

billion. A point to note is that institutional shareholders dominate this firm with Co-operative Bank of Kenya being an associate with 35.71% of the entire shares attributed to CIS limited. This is illustrated in table 4.4 (b) and 4.4 (c)

Table 4.4 (b): List of CIC Insurance Group Ltd. Top 10 Shareholders

No.	Name of Shareholder	No. of Shares	% Holding
1	Co-Operative Insurance Society Limited	1,619,534,420	74.10
2	Gideon Maina Muriuki	78,052,120	3.57
3	Standard Chartered Nominees A/C 9389	15,500,000	0.71
4	Nelson Chege Kuria	12,597,000	0.58
5	Welton Weda	11,279,000	0.52
6	Peter Mutarura Mwaura	10,386,280	0.48
7	Norman James Munene Nyagah	10,000,000	0.46
8	Kenya Reinsurance Corporation Limited	9,000,000	0.41
9	Weda Welton & Emily Achieng Chweya	7,400,000	0.34
10	Mr David Kipruto Ronoh	6,879,160	0.31
Total Holding		1,780,627,980	81.47

Source: www.cic.co.ke 2014

Table 4.4 (c): List of CIS Top 10 Shareholders

No.	Name of Shareholder	No. of Shares	% Holding
1	The Co-Operative Bank Of Kenya Ltd	578,380,600	35.71
2	Co-Operative Bank Savings & Credit Society Ltd	155,962,720	9.63
3	K-Unity Savings & Credit Co-Operative Society Ltd	52,006,480	3.21
4	Harambee Co-Operative Savings & Credit Society Ltd	29,361,900	1.81
5	Embu Farmers Savings & Credit Co-Operative Society Ltd	28,836,960	1.78
6	Kipsigis Teachers Savings & Credit Society Ltd	24,803,540	1.53
7	Fep Co-Operative Savings & Credit Society Ltd	24,000,000	1.48
8	Baringo Teachers Savings & Credit Co-Operative Society Ltd	21,778,520	1.34
9	H & M Savings & Credit Co-Operative Society Ltd	20,610,000	1.27
10	Kenya Police Staff Co-Operative Savings & Credit Society Ltd	19,768,920	1.22
Total Holding		955,509,640	59.00

Source: www.cic.co.ke 2014

4.2.5 Pan Africa Insurance Holdings Limited

According to Pan Africa's website, Pan Africa Holdings was the first insurance company to be quoted having started its underwriting business in 1947 as a subsidiary of Pan Africa Insurance Holdings with the vision of tapping into the largely under-developed life assurance market in Kenya. Pan African Insurance Holdings was founded in 1954 by a family of Asian origin thereafter changing its name in 1963 to Pan Africa Insurance Company to reflect the growing partnerships. The firm has over sixty seven years of heritage, a significant footprint in the Kenyan market with 16 branches across the country supported by over 120 permanent staff and over 600 financial advisors. In the year 2002 the company was restructured into three entities namely, Pan Africa Insurance Holdings Limited and its two wholly owned subsidiaries, Pan Africa Life Assurance Limited and Pan Africa General Insurance Limited. The Group was further restructured in 2004 after the merger to form two wholly owned subsidiaries. These subsidiaries are Pan Africa Life Assurance Limited dealing with life business and

PA Securities which owns a 40% stake in APA Insurance, a 100% stake in Mae Properties and a 25% stake in Runda Water. Currently Pan Africa Holdings have over 3000 shareholders who jointly own 96 million shares with 87% of these held by 43 individuals.

Table 4.5 (a): Distribution of Shareholders of Pan Africa Insurance Holdings Ltd. as At 31 December 2013

Number of shares	Number of shareholders	Number of shares held	% shareholding
Less than 1,000	736	260,677	0.27
1,001-5,000	2,062	4,163,533	4.34
5,001-10,000	198	1,472,465	1.53
10,001-50,000	213	4,403,681	4.59
50,001-100,000	32	2,225,648	2.32
More than 100,000	43	83,473,996	86.95
Total	3,284	96,000,000	100.00

Source: www.pan-africa.com 2014

Hubris Holdings Limited tops the list of the largest shareholders in Pan Africa Holdings with over 53 million shares which constitute about 56% of the total share holding. This implies therefore that Pan Africa Insurance is a subsidiary of Hubris Holdings Limited. The least among the 10 top shareholders is Apollo Life Assurance Limited which owns 0.488 million shares translating to 0.5% of the total share holding as shown in table 4.5 (b) below;

Table 4.5 (b): List of Pan Africa Insurance Holdings Ltd. Top 10 Shareholders

No.	Name of Shareholder	No. of Shares	% Holding
1	Hubris Holdings Limited	53,585,600	55.82
2	Patel Baloobhai Chhotabhai	19,186,800	19.99
3	APA Insurance Limited	987,238	1.03
4	Mayfair Insurance Company Ltd	817,700	0.85
5	Thammo Holdings Limited	742,242	0.77
6	Financial Futures Limited	574,474	0.60
7	Standard Chartered Nominees A/C 9595	568,400	0.59
8	Cannon Assurance (Kenya) Limited	507,576	0.53
9	Anjay Vithalbhai Patel	503,100	0.52
10	Apollo Life Assurance Limited	488,290	0.51
Total Holding		77,961,420	81.21

Source: *www.pan-africa.com 2014*

4.2.6 Kenya Re- Insurance Corporation Ltd.

According to Kenya Re's website, Kenya Reinsurance Corporation Limited (Kenya Re) is among the oldest Reinsurer in Eastern and Central Africa having been established through an Act of Parliament in December 1970 and commenced business in January 1971. The company's core activity is providing reinsurance services for most classes of business. Since its inception, Kenya Re has progressively and consistently continued to provide reinsurance services to more than 159 companies spread out in over 45 countries in Africa, Middle East and Asia. Kenya Re is committed to offering world-class reinsurance service. In 2004, the Corporation made an effort to benchmark its services with international standards by subjecting itself to a rating process by an International rating Agency, A. M Best .It was rated B+ (Very Good). The Corporation has successfully maintained this rating to date.

The Corporation is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from insurance

policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk. Equity securities price risk arise as a result of its holdings in equity investments which are listed and traded on the Nairobi and Dar-es-Salaam Securities Exchanges and which are classified as available for sale financial assets. The Corporation also underwrites reinsurance contracts in various currencies and is thus exposed to risk related to fluctuations in currency.

Today, Kenya Re's market price per share stands at Ksh. 18 with a daily trade volume of about 30000 shares, a market capitalization of 12 billion and a turnover of over 500,000. The corporation has over 112,000 shareholders who jointly own about 700 million shares. 11% of the total shareholding is held by individuals who own below 1 million shares while the remaining 79% of ownership is distributed among 36 shareholders who jointly hold over 552 million shares.

Table 4.6 (a): Distribution of Shareholders of Kenya Reinsurance Corporation Ltd. as At 31 December 2013:

Number of shares	Number of shareholders	Number of shares held	% shareholding
1 – 500	77,043	17,345,169	2.48
501 - 1,000	17,076	11,934,654	1.71
1,001 - 5,000	14,934	28,690,741	4.10
5,001 - 10,000	14,934	9,976,873	1.43
10,001 – 50,000	1,272	24,940,921	3.56
50,001 - 100,000	143	10,100,850	1.44
100,001 - 500,000	125	25,282,389	3.61
500,001- 1,000,000	26	19,268,522	3.61
1,000,001 & above	36	552,408,949	78.92
Total	112,093	699,949,068	100.00

Source: www.kenyare.co.ke 2014

With a shareholding of approximately 60% and over 420 million shares, the National Treasury automatically qualifies as the largest shareholder of Kenya Re, thus making it a subsidiary of the

Kenyan government who is represented by the cabinet secretary to national treasury. A point to note is that the National Social Security Fund is also among the top three major shareholders in Kenya Re with ownership of about 10 million shares which translates to approximately 1.6% of the total shareholding. It is therefore safe to assume that the Kenyan government has total control over the corporation.

Table 4.6 (b): List of Kenya Reinsurance Corporation Ltd. Major Shareholders as at 31 December 2013:

No.	Name of Shareholder	No. of Shares	% Holding
1	Cabinet Secretary to the National Treasury of Kenya	420,000,000	60.004
2	Cooperative Bank Custody A/C 4003A	15,204,072	2.172
3	National Social Security Fund	10,737,910	1.534
4	Gidjoy Investments Limited	10,271,382	1.467
5	Standard Chartered (K) Nominees Ltd A/C 9230	9,104,717	1.301
6	CFC Stanbic Nominees Ltd A/C NR 1030624	8,991,100	1.285
7	Cooperative Custody A/C 4003	8,296,417	1.185
8	Standard Chartered (K) Nominees Ltd A/C 9389	7,671,800	1.096
9	CFC Stanbic Nominees Ltd A/C R48701	6,361,231	0.909
10	CFC Stanbic Nominees Ltd A/C NR 1030685	4,720,600	0.674
11	Best Investment Decision Limited	4,310,927	0.616
12	Standard Chartered (K) Nominees Ltd A/C 9197	3,915,492	0.559
Total Holding		509,585,648	72.802

Source: *www.kenyare.co.ke* 2014

4.3 Pre and Post Firm Value of Listed Companies

4.3.1 Performance of Britam and CIC Insurance Two Years Before and After they Listed

From table 4.7 (a) below, it is evident that the liquidity ratios of CIC insurance increased after it first listed in year 2012 while it reduced in the case of Britam. The current ratio changed from 1.69 to 2.06

times and from 1.50 to 0.40 for both CIC and Britam respectively. The current ratio for CIC insurance outperformed the recommended 2:1 parameter. The profitability ratios also increased as indicated by the table. ROCE changed from about 10% to about 19% for Britam and from 23% to 25% for CIC insurance, the ROI changed from about 10% to about 16% and from 8% to 65% for Britam and CIC respectively, while the GP margin changed from about 16% to about 18% for Britam but there was no significant change in CIC. The implications of the increase in profitability ratios are that funds availed might be used in a more economic manner thus generating a higher return.

However, it is important to note that due to increased share capital at Britam, the gearing of the firm reduced after listing this was not the case at CIC with its debt-equity ratio having increased tremendously. The Debt-Equity Ratio changed from 2.13 to 1.77 for Britam and from 1.52 to 2.05 for CIC, while Equity Ratio changed from 0.32 to 0.36 for Britam with no significant change in CIC. The results in the table, also shows that EPS decreased for both firms with CIC recording a significant decrease from Kshs. 8.12 to 0.65 , DY also decreased from about 12% to about 1% and from 28% to 1% for Britam and CIC respectively. The P/E ratio increased in both companies with Britam recording the highest change from -159.98 to 24.84 times. When the P/E ratio is high, it implies that shareholders have more confidence in the firm thus willing to wait for long years to recoup their earnings. The financial implications for the decline in EPS and DY might mean a dilution effect. This means that the increase in the returns that the firm generated was not at the same rate as the number of shares outstanding. The decline in DY might imply two things: first, it might be that the shares outstanding were more than the earnings attributable to ordinary shareholders and second, it might be that the firms retained more of its earnings thus having a low dividend payout.

Table 4.7 (a): Performance of Britam and CIC Insurance before and after they Listed

BRITAM				CIC INSURANCE					
Measures				Measures					
Before Listing				After Listing					
Investor related Ratios									
Earnings Per Share (Kshs)			(0.22)	1.40	Earnings Per Share (Kshs)			8.12	0.65
Dividends (Kshs)	Per Share	4		0.25	Dividends (Kshs)	Per Share	3.14		0.10
Price to Earnings Ratio			(157.95)	24.82	Price to Earnings Ratio			1.40	17.53
Dividend Yield			0.12	0.01	Dividend Yield			0.28	0.01
Gearing Ratios									
Debt - Equity Ratio			2.13	1.77	Debt to Equity Ratio			1.52	2.05
Equity Ratio			0.32	0.36	Equity Ratio			0.39	0.39
Profitability Ratios									
Return On Equity			0.10	0.19	Return On Equity			0.23	0.25
Gross profit Margin			1.16	1.81	Gross profit Margin			0.17	1.69
Return on Investment			(0.10)	0.16	Return on Investment			0.80	0.65
Liquidity Ratios									
Current ratio			1.50	0.40	Current ratio			1.69	2.06

Source: Data Analysis, 2014

4.3.1.2 Two Tailed T Test Results on Britam and CIC insurance Firm value in the Pre and Post Listing Period

In respect to investor related ratios for Britam and CIC respectively, the computed t values were -1.1203 and -0.2873 both being less than t critical of 2.4469 indicating that the difference in equity ratios is not statistically significant. This is confirmed by the both firms' p values of 0.3054 and 0.7835 being greater than the stipulated 0.05. The mean differences owing to chance or errors for the pre and post listing period was 45.1325 and 1.3380 for Britam and CIC respectively. The results concerning gearing ratios showed that the computed t values were 0.1394 and -0.2639 for both Britam and CIC which is less than t critical of 4.3026 indicating that the difference in gearing ratios is not statistically

significant. This was confirmed by the p values of 0.9019 and 0.8165 being greater than the 0.05 respectively. The mean differences were 0.1600 and 0.2650 for both firms respectively which could be attributed to chance or error. For profitability, the computed t values were -0.4969 and -0.9779 both being less than t critical of 2.7764 indicating that the difference in profitability ratios are not statistically significant for both Britam and CIC insurance. This is confirmed by their respective p values of 0.6453 and 0.3834 being greater than the 0.05. The mean differences for these individual firms in terms of profitability were 0.3333 and 0.4633 for Britam and CIC respectively.

Table 4.7 (b): Two Tail T-test on Britam’s Performance Two Years before and after It Listed

Two tailed T-test							
Measure	t-stat	Df	t-critical	95% confidence level		mean difference	p-value
				mean 1	mean 2		
Investor-related	-1.1203	6	2.4469	-38.5125	6.62	45.1325	0.3054
Gearing ratio	0.1394	2	4.3026	1.225	1.065	-0.1600	0.9019
Profitability ratio	-0.4969	4	2.7764	0.3867	0.7200	0.3333	0.6453

Source: Data analysis, 2014

Table 4.7 (c): Two Tail T-test on CICs’ Performance Two Years Before and One year After It Listed

Two tailed T-test							
Measure	t-stat	df	t-critical	95% confidence level		mean difference	p-value
				mean 1	mean 2		
Investor-related	-0.2873	6	2.4469	3.2350	4.5730	1.3380	0.7835
Gearing ratio	-0.2639	2	4.3026	0.9550	1.2200	0.2650	0.8165
Profitability ratio	-0.9779	4	2.7764	0.4000	0.8633	0.4633	0.3834

Source: Data analysis, 2014

4.3.2 Performance of Liberty Holdings and Kenya Re-Insurance Two Years before and after they Listed

The results in table 4.8 (a), shows that there was an improvement in EPS from Kshs. 1.24 to Kshs.2.15 for Liberty Holdings but Kenya Re recorded a significant decrease in EPS from Kshs. 4.89 to Kshs.2.21, DY also increased for both firms with Liberty Holdings’ rising to 4% from about 1% and Kenya Re’s DY indicating a slight change of about 1% in increase. The P/E ratio decreased and increased in respect to Liberty Holdings and Kenya Re with the later showing a significant increase of

about 4.93 times after listing for instance (from 3.65 to 8.58). When the P/E ratio is high, it indicates that company's future is positive in terms of performance and investors are willing to pay more for the firm's shares. However, it is important to note that due to increased share capital in both firms, the gearing of the firms reduced after listing with their respective debt-equity ratios having decreased tremendously. The Debt-Equity Ratio changed from 8.43 to 4.76 and from 1.13 to 0.65 for Liberty Holdings and Kenya Re respectively. Equity Ratio improved for both firms with Liberty Holdings recording its current ER as 0.15 which was greater than its previous mark of 0.03, Kenya Re recorded a slight increase of about 0.15 up from about 0.46. Higher equity ratio is deemed favorable for companies, it shows that many investors are willing to finance the company. For instance for Kenya Re's ER of 0.61 after listing means that investors rather than debt are currently funding more assets that is 61% of the company's assets are owned by shareholders and 39% by creditors.

The profitability ratios also increased and decreased in respect to individual firms as indicated by table 4.8 (a). ROE changed from about -1.33 to about 0.24 and from 0.53 to 0.16 for Liberty Holdings and Kenya Re respectively, their respective ROI changed from about 0.36 to 2.15 and from 0.17 to 0.56, while the GP margin also increased with Liberty Holdings recording a higher change from about -0.25 to 0.32 while Kenya Re's increased from 0.27 to 0.56. A higher ROE ratio means that more profits in terms of Shillings are generated by each Shilling of capital employed while an increase in ROI indicates that the company is using its investors' funds effectively. The liquidity ratios for both Liberty Holdings and Kenya Re deteriorated after listing all in respect to the current ratio. The implications of a low current ratio indicate existence of a high leverage and high risk in both companies. Neither of the firms outperformed the recommended 2:1 ratio in regards to current assets to current liabilities signaling a weak pay off ability of short term liabilities through current assets.

Table 4.8 (a): Performance of Liberty Holdings and Kenya Re-Insurance Two Years before and after they Listed

LIBERTY HOLDINGS			KENYA RE		
Measures	Before Listing	After Listing	Measures	Before Listing	After Listing
Investor related ratios					
Earnings Per Share (Kshs)	1.24	2.15	Earnings Per Share (Kshs)	4.89	2.21
Dividends Per Share (Kshs)	0.26	1	Dividends Per Share (Kshs)	0.35	0.35
Price to Earnings Ratio	19.75	11.40	Price to Earnings Ratio	3.65	8.58
Dividend Yield	0.01	0.04	Dividend Yield	0.02	0.03
Gearing Ratios					
Debt to Equity Ratio	8.43	4.76	Debt to Equity Ratio	1.13	0.65
Equity Ratio	0.03	0.15	Equity Ratio	0.46	0.61
Profitability Ratios					
Return On Equity	(1.33)	0.24	Return On Equity	0.53	0.16
Gross profit Margin	(0.25)	0.32	Gross profit Margin	0.27	0.42
Return on Investment	0.36	2.15	Return on Investment	0.17	0.56
Liquidity Ratio					
Current ratio	0.97	0.83	Current ratio	1.88	1.65

Source: Data Analysis, 2014

4.3.2.1 Two Tailed T Test Results on Liberty Holdings and Kenya Re-insurance Firm value in the Pre and Post Listing Period

In respect to investor related ratios for Liberty Holdings and Kenya Re respectively, the computed t values were 0.3040 and -0.2140 both being less than t critical of 2.4469 indicating that the difference in equity ratios is not statistically significant. This is confirmed by the both firms' p values of 0.7714 and 0.8376 being greater than the stipulated 0.05. The mean differences owing to chance or errors for the pre and post listing period was -1.6675 and 0.5075 for Liberty Holdings and Kenya Re respectively. The gearing ratios results showed that the computed t values were 0.3705 and 0.4896

which are less than t critical of 4.3027 for Liberty Holdings and Kenya Re respectively indicating that the difference in gearing ratios is not statistically significant. This was confirmed by the p values of 0.7466 and 0.6728 being greater than the 0.05 respectively. Their respective mean differences were -1.7750 and -0.1350 which could be attributed to chance or error. In regards to profitability ratios the computed t values were -1.6462 and -0.9524 both being less than t critical of 2.7764 indicating that the difference in profitability ratios is not statistically significant for both firms. This is confirmed by their respective p values of 0.1751 and 0.3948 being greater than the 0.05. The mean differences for these individual firms in terms of profitability were 1.3100 and 0.1300 for Liberty Holdings and Kenya Re respectively.

Table 4.8 (b): Two Tail T-test on Liberty Holdings Performance Two Years before and after It Listed

Two tailed T-test							
Measure	t-stat	Df	t-critical	95% confidence level			p-value
				mean 1	mean 2	mean difference	
Investor-related	0.3040	6	2.4469	5.3150	3.6475	-1.6675	0.7714
Gearing ratio	0.3705	2	4.3027	4.2300	2.4550	-1.7750	0.7466
Profitability ratio	-1.6462	4	2.7764	-0.4067	0.9033	1.3100	0.1751

Source: Data analysis, 2014

Table 4.8(c): Two Tail T-test on Kenya Re's Performance Two Years Before and After It Listed

Two tailed T-test							
Measure	t-stat	df	t-critical	95% confidence level			p-value
				mean 1	mean 2	mean difference	
Investor-related	-0.2140	6	2.4469	2.2825	2.7900	0.5075	0.8376
Gearing ratio	0.4896	2	4.3027	0.7650	0.6300	-0.1350	0.6728
Profitability ratio	-0.9524	4	2.7764	0.2500	0.3800	0.1300	0.3948

Source: Data analysis, 2014

4.4 Current Firm Value of Non-Listed and Listed Insurance Companies

4.4.1 Comparison of the current performance of UAP Holdings and Kenya Re-Insurance Limited

According to the results in table 4.9 (a), the EPS of UAP and Kenya Re were Kshs.9.83 and Kshs.4.29, while the DPS were Kshs.2.35 and Kshs. 0.60 respectively. The gearing results in respect to Debt-Equity and Equity Ratios were 1.13 and 0.57, and 0.47 and 0.64 for UAP and Kenya Re respectively. The interpretation for this is that creditors have more stake than shareholders in the company's assets in UAP Holdings which is confirmed by the ER whereby 47% of total assets are financed by shareholders while the rest (53%) is through credit. This is not the case in Kenya Re where shareholders have more stake than creditors in the company for instance (64% against 36%).

In respect to profitability, ROE for UAP was about 11% compared to Kenya Re's 18%, their respective GPM were about 0.20 and about 0.35 for the two firms, while ROI were about 0.15 times and about 1.50 times. This means that Kenya Re generates more profit per Shilling of capital employed compared to UAP this is in respect to ROI ratios. However, a rational investor would rather invest in Kenya Re than in UAP holdings, this is due the fact that Kenya Re's management utilizes investors' funds more effectively as indicated by the ROE ratios. A point to note is that UAP and CIC Holdings recorded high CR of 1.89 and 2.74 respectively, implying low risk in respect to debt. A positive relationship exists between the current financial performances of the two firms which are confirmed by Karl-Pearson's correlation of 0.5562.

Table 4.9 (a): Comparison of the Current Performance of UAP and Kenya Re.

UAP HOLDINGS LIMITED		KENYA REINSURANCE LIMITED	
Measures	2013	Measures	2013
Investor related Ratios			
Earnings Per Share (Kshs)	9.83	Earnings Per Share (Kshs)	4.29
Dividends Per Share (Kshs)	2.35	Dividends Per Share (Kshs)	0.60
Price to Earnings Ratio	-	Price to Earnings Ratio	4.42
Dividend Yield	-	Dividend Yield	0.03
Gearing Ratios			
Debt to Equity Ratio	1.13	Debt to Equity Ratio	0.57
Equity Ratio	0.47	Equity Ratio	0.64
Profitability Ratios			
Return On Equity	0.11	Return On Equity	0.18
Gross profit Margin	0.20	Gross profit Margin	0.35
Return on Investment	0.15	Return on Investment	1.50
Liquidity Ratio			
Current ratio	1.89	Current ratio	2.74

Source: Data Analysis, 2014

4.4.1.2 One Tailed T Test Results on Comparison of the Current Performance of UAP and Kenya Re-Insurance

In respect to investor related ratio the computed t value on was 0.2723 being less than t critical of 1.9432 indicating that the difference in equity ratios is not statistically significant which is confirmed by the p value of 0.3973 being greater than the 0.05 and a mean difference of -0.7100 which could be due to chance or error. The computed t value for gearing was 0.5876 being less than t critical of 2.9120 indicating that the difference in gearing ratios is statistically not significant. This is confirmed by the p value of 0.3081 being greater than the 0.05 with a mean difference of -0.1950. In respect to profitability the computed t value was -1.2598 being less than t critical of 2.1318; the difference in profitability ratios is therefore statistically insignificant. This is confirmed by the p value of 0.1381 which is greater than the 0.05, while the mean difference between the returns of the two firms was 0.5234.

Table 4.9 (b): One Tail T-test on the Current Performance of UAP and Kenya Re

One tailed T-test							
Measure	t-stat	df	t-critical	95% confidence level			p-value
				mean 1	mean 2	mean difference	
Investor-related	0.2723	6	1.9431	3.0450	2.3350	-0.7100	0.3973
Gearing ratio	0.5876	2	2.9120	0.8000	0.6050	-0.1950	0.3081
Profitability ratio	-1.2598	4	2.1318	0.1533	0.6767	0.5234	0.1381

Source: Data analysis, 2014

4.4.2 Comparison of the current performance of Heritage Insurance and BRITAM

According to the results in table 4.10 (a), the EPS of Heritage and Britam were Kshs.21 and Kshs.1.40, while DPS Kshs.0.25 and Kshs.8 respectively. The gearing results in respect to Debt-Equity and Equity Ratios were 2.63 and 1.77, and 0.34 and 0.36 for Heritage Insurance and Britam respectively. Since both firms have exceeded the recommended Debt-Equity ratio of 1, this therefore means that creditors' stake in both firms is greater than shareholders'. This is confirmed by the ER whereby 34% and 36% of company's assets are financed by shareholders and the rest (66% and 64%) is through credit for Heritage Insurance and Britam respectively.

In respect to profitability, ROE for Heritage Insurance was about 10% with Britam portraying a more effective use of investors' funds with about 16%, GPM was about 14% and about 34% for the two firms respectively, while their respective ROI were about 0.29 times and about 0.19 times. The GPM indicated that the expenses of Heritage were high with only 14% of its premium sales being converted into profits compared to Britam's 34%. However, both firms have attained the preferred current ratio of above 1 implying a strong ability to meet short term obligations; this is evident in their respective current ratios of about 1.22 and 1.56.

The Karl-Pearson's correlation between the two stocks is 0.3623; this is an indicator that the firm values of the two firms are moving in opposite direction.

Table 4.10 (a): Comparison of the current performance of Heritage Insurance and BRITAM

HERITAGE INSURANCE		BRITAM	
Measures	2013	Measures	2013
Investor related Ratios			
Earnings Per Share (Kshs)	21	Earnings Per Share (Kshs)	1.40
Dividends Per Share (Kshs)	8	Dividends Per Share (Kshs)	0.25
Price to Earnings Ratio	-	Price to Earnings Ratio	24.82
Dividend Yield	-	Dividend Yield	0.01
Gearing Ratios			
Debt to Equity Ratio	2.63	Debt to Equity Ratio	1.77
Equity Ratio	0.34	Equity Ratio	0.36
Profitability Ratios			
Return On Equity	0.10	Return On Equity	0.16
Gross profit Margin	0.14	Gross profit Margin	0.34
Return on Investment	0.29	Return on Investment	0.19
Liquidity Ratio			
Current ratio	1.22	Current ratio	1.56

Source: Data Analysis, 2014

4.4.2.1 One Tailed T Test Results on Comparison of the Current Performance of Heritage Insurance and BRITAM

In respect to investor related ratio the computed t value on was 0.7925 being less than t critical of 2.1318 indicating that the difference in equity ratios is not statistically significant which is confirmed by the p value of 0.2362 being greater than the 0.05 and a mean difference of -7.8800 which could be due to chance or error. The computed t value for gearing was 0.3124 being less than t critical of 2.9120 indicating that the difference in gearing ratios is statistically not significant. This is confirmed by the p value of 0.3922 being greater than the 0.05 with a mean difference of -0.4200. The computed t value in respect to profitability was -0.6644 being less than t critical of 2.1318; implying that the difference in profitability ratios is statistically insignificant. This is confirmed by the p value of 0.2714 which is greater than the 0.05, while the mean difference between the returns of the two firms was 0.0563.

Table 4.10 (b): One tail T-test on the Current Performance of Heritage Insurance and BRITAM
One tailed T-test

Measure	t-stat	df	t-critical	95% confidence level			p-value
				mean 1	mean 2	mean difference	
Investor-related	0.7925	4	2.1318	14.5000	6.6200	-7.8800	0.2362
Gearing ratio	0.3124	2	2.9120	1.4850	1.0650	-0.4200	0.3922
Profitability ratio	-0.6644	4	2.1318	0.1767	0.2330	0.0563	0.2714

Source: Data analysis, 2014

4.4.3 Comparison of the Current Performance of APA Insurance and CIC Insurance

According to the results in table 4.11 (a), EPS of APA Insurance and CIC Insurance were Kshs.65.68 and Kshs.0.65 respectively, whereas the DPS for the two firms was Kshs.10.67 and Kshs.0.10 respectively. The gearing ratios results as shown in table below were; Debt-Equity Ratio which was 2.50 and 1.55, while Equity Ratio was 0.29 and 0.39 for APA and CIC respectively. The interpretation for this is as that 71% and 61% of APA and CIC's assets are financed by creditors while only 29% and 39% are owned by shareholders respectively. However, APA recorded the highest Debt-Equity ratio which is greater than the recommended ceiling of 1 implying that the financial stability of the company is risky compared to CIC since creditors have more stake than shareholders in the company's assets.

In respect to profitability, ROE for APA and CIC was about 0.13 times and about 0.21 times respectively, while GPM was about 0.10 and about 0.15 for the two firms respectively, and ROI was about 0.16 times and about 0.10 times respectively. The GPM indicated that the expenses of APA are slightly high with only 10% of the premium sales being converted into profits compared to that of CIC conversion rate of 15%. The ability of both firms to easily pay off their short term liabilities cannot be ignored either, since their current ratios of 1.40 and 1.65 for APA and CIC respectively have outperformed the recommended bench mark of 1 or 2. The Karl-Pearson's correlation between the two stocks is 0.0152 which is an indication of weak relationship between the firm values of the two firms.

Table 4.11 (a): Comparison of the Current Performance of APA Insurance and CIC Insurance

APA INSURANCE		CIC INSURANCE	
Measures	2013	Measures	2013
Investor related Ratios			
Earnings Per Share (Kshs)	65.68	Earnings Per Share (Kshs)	0.65
Dividends Per Share (Kshs)	10.67	Dividends Per Share (Kshs)	0.10
Price to Earnings Ratio	-	Price to Earnings Ratio	17.53
Dividend Yield	-	Dividend Yield	0.01
Gearing Ratios			
Debt to Equity Ratio	2.50	Debt to Equity Ratio	1.55
Equity Ratio	0.29	Equity Ratio	0.39
Profitability Ratios			
Return On Equity	0.13	Return On Equity	0.21
Gross profit Margin	0.10	Gross profit Margin	0.15
Return on Investment	0.16	Return on Investment	0.10
Liquidity Ratio			
Current ratio	1.40	Current ratio	1.65

Source: Data Analysis, 2014

4.4.3.1 One Tailed T Test Results on Comparison of the Current Performance of APA Insurance and CIC Insurance

The computed t value on investor related ratios was 1.8619 being less than t critical of 2.1318 indicating that the difference in equity ratios is not statistically significant. This is confirmed by the p value of 0.0681 being greater than the 0.05 and a mean difference of -33.6025; this could be due to chance or error. In respect to gearing ratios, the computed t value was 0.3405 being less than t critical of 2.9120 indicating that the difference in gearing ratios is statistically not significant. This is confirmed by the p value of 0.3829 being greater than the 0.05 with a mean difference of -0.4270. The computed t value on profitability was -0.6444 being less than t critical of 2.1318; the difference in profitability ratios is statistically not significant. This is confirmed by the p value of 0.2772 which is greater than the 0.05, while the mean difference between the returns of the two firms was 0.0233.

Table 4.11 (b): One Tail T-test on the Current Performance of APA Insurance and CIC Insurance Company

One tailed T-test							
Measure	t-stat	df	t-critical	95% confidence level			p-value
				mean 1	mean 2	mean difference	
Investor-related	1.8619	4	2.1318	38.1750	4.5725	-33.6025	0.0681
Gearing ratio	0.3405	2	2.9120	1.3970	0.9700	-0.4270	0.3829
Profitability ratio	-0.6444	4	2.1318	0.1300	0.1533	0.0233	0.2772

Source: Data analysis, 2014

4.4.4 Comparison of the current performance of Kenindia Assurance and Jubilee Holdings

According to the results in table 4.12 (a), EPS of Kenindia Assurance company and Jubilee Holdings was Kshs.36.68 and Kshs.38.00 respectively, whereas the DPS for the two firms was Ksh.5 and Kshs.6 respectively. The gearing ratios results as shown in table below were; Debt-Equity Ratio which was 11.20 and 4.27, while Equity Ratio was 0.29 and 0.03 for Kenindia and Jubilee Holdings respectively. The interpretation for this is as that 97% of Jubilee's assets are financed by creditors while only 3% is owned by shareholders. However, Kenindia recorded the highest Debt-Equity ratio which is greater than the recommended ceiling of 1 implying that the financial stability of Kenindia is risky compared to Jubilee Holdings since creditors have more stake than shareholders in the company's assets.

In respect to profitability, ROE for Kenindia and Jubilee Holdings was about 41% and about 27% respectively, while GPM was about 6% and about 29% for the two firms respectively, and ROI was about 0.38 times and about 7.52 times respectively. The GPM indicated that the expenses of Kenindia is too high with only 6% of the premium sales were converted into profits compared to that of Jubilee Holdings conversion rate of 29%. However, both firms have the ability to easily pay off their short term liabilities as indicated by their current ratios of 1.09 and 1.23 for Kenindia and Jubilee Holdings respectively which outperformed the recommended bench mark of 1 or 2. The Karl-Pearson's correlation between the two stocks is 0.9098 which is a strong indication that the financial performance of the two firms is moving in the same direction.

Table 4.12 (a): Comparison of the current performance of Kenindia Assurance and Jubilee Holdings

KENINDIA ASSURANCE COMPANY		JUBILEE HOLDINGS	
Measures	2013	Measures	2013
Investor related Ratios			
Earnings Per Share (Kshs)	36.68	Earnings Per Share (Kshs)	38.00
Dividends Per Share (Kshs)	5.00	Dividends Per Share (Kshs)	6.00
Price to Earnings Ratio	-	Price to Earnings Ratio	11.63
Dividend Yield	-	Dividend Yield	0.01
Gearing Ratios			
Debt to Equity Ratio	11.20	Debt to Equity Ratio	4.27
Equity Ratio	0.29	Equity Ratio	0.03
Profitability Ratios			
Return On Equity	0.41	Return On Equity	0.27
Gross profit Margin	0.06	Gross profit Margin	0.29
Return on Investment	0.38	Return on Investment	7.52
Liquidity Ratio			
Current ratio	1.09	Current ratio	1.23

Source: Data Analysis, 2014

4.4.4.1 One Tailed T Test Results on Comparison of the Current Performance of Kenindia Assurance and Jubilee Holdings

The computed t value on investor related ratios was -0.2868 being less than t critical of 1.9432 indicating that the difference in equity ratios is not statistically significant. This is confirmed by the p value of 0.3920 being greater than the 0.05 and a mean difference of 3.4900; this could be due to chance or error. On respect to gearing ratios, the computed t value was 0.6143 being less than t critical of 2.9120 indicating that the difference in gearing ratios is statistically not significant. This is confirmed by the p value of 0.3008 being greater than the 0.05 with a mean difference of -3.5950. The computed t value on profitability was -0.9975 being less than t critical of 2.1318; the difference in profitability ratios is statistically not significant. This is confirmed by the p value of 0.1875 which is greater than the 0.05, while the mean difference between the returns of the two firms was 2.4100.

Table 4.12 (b): One Tail T-test on the Current Performance of Kenindia Assurance and Jubilee Holdings

One tailed T-test							
Measure	t-stat	df	t-critical	95% confidence level			p-value
				mean 1	mean 2	mean difference	
Investor-related	-0.2868	6	1.9431	10.4200	13.9100	3.4900	0.3920
Gearing ratio	0.6143	2	2.9120	5.7450	2.1500	-3.5950	0.3008
Profitability ratio	-0.9975	4	2.1318	0.2833	2.6933	2.4100	0.1875

Source: Data analysis, 2014

4.4.5 Comparison of the current performance of Real Insurance and Pan Africa Holdings

According to the results in table 4.13 (a), EPS of Real Insurance and Pan Africa Holdings was Kshs.7.55 and Kshs.13.05 respectively, whereas the DPS for the two firms was Ksh.5.33 and Kshs.4.5 respectively. A point to note is that, a common shareholder at Pan Africa Holdings earned about Kshs.5 more of net income per share than his compatriots at Real Insurance. The gearing ratios results as shown in table below were; Debt-Equity Ratio which was 5.39 and 5.34, while Equity Ratio was 0.16 and 0.40 for Real Insurance and Pan Africa Holdings respectively. The interpretation for this is as that more assets in Real Insurance are financed by shareholders to the tune of 16% compared to 40% in Pan Africa Holdings; this implies that 84% and 60% of the assets owned by the two firms respectively are financed by creditors. However, both firms have a high Debt-Equity ratio which is greater than the recommended ceiling of 1 implying that the financial stability of both firms is at risk since creditors have more stake than shareholders in the company's assets.

In respect to profitability, ROE for Real insurance and Pan Africa Holdings was about 16% and about 45% respectively, while ROI was about 0.31 and about 2.61 the two firms respectively, and GP margin was about 5% and about 30% respectively. This GPM indicated that Real insurance's expenses were too higher compared to that of Pan Africa Holdings since only 5% of the premium sales were converted into profits. Real insurance recorded a higher liquidity ratio than Pan Africa Holdings as indicated by their respective current ratios of 1.19 and 1.18. From the lenders perspective both firms can easily pay off their short term liabilities as and when they fall due since their current ratios outperformed the recommended bench mark of 1 or 2. The Karl-Pearson's correlation between the two stocks is 0.9048. This is a strong indicator that the firm value of the two firms is moving in the same direction.

Table 4.13(a): Comparison of the current performance of Real Insurance and Pan Africa Holdings

REAL INSURANCE		PAN AFRICA HOLDINGS	
Measures	2013	Measures	2013
Investor related Ratios			
Earnings Per Share (Kshs)	7.55	Earnings Per Share (Kshs)	13.05
Dividends Per Share (Kshs)	5.33	Dividends Per Share (Kshs)	4.5
Price to Earnings Ratio	-	Price to Earnings Ratio	9.81
Dividend Yield	-	Dividend Yield	0.04
Gearing Ratios			
Debt to Equity Ratio	5.39	Debt to Equity Ratio	5.34
Equity Ratio	0.16	Equity Ratio	0.14
Profitability Ratios			
Return On Equity	0.16	Return On Equity	0.45
Gross profit Margin	0.05	Gross profit Margin	0.30
Return on Investment	0.31	Return on Investment	2.61
Liquidity Ratio			
Current ratio	1.19	Current ratio	1.18

Source: Data Analysis, 2014

4.4.5.1 One Tailed T Test Results on the Current Performance of Real Insurance and Pan Africa Holdings

The computed t value on investor related ratios was -0.0910 being less than t critical of 2.1318 indicating that the difference in equity ratios is not statistically significant. This is confirmed by the p value of 0.4648 being greater than the 0.05. The mean difference was -0.4100 attributed to chance or error. On gearing ratios, the computed t value was 0.0095 being less than t critical of 2.9199 indicating that the difference in gearing ratios is statistically not significant. This is confirmed by the p value of 0.4966 being greater than 0.05 with a mean difference of -0.0350. The computed t value on profitability was -1.2621 being less than t critical of 2.1318; implying that the difference in profitability ratios is statistically not significant. This is confirmed by the p value of 0.1377 which is greater than the 0.05, while the mean difference between the returns of the two firms was 0.9467.

Table 4.13(b): One Tail T-test on the Current Performance of Real Insurance and Pan Africa Holdings

One tailed T-test							
Measure	t-stat	df	t-critical	95% confidence level			p-value
				mean 1	mean 2	mean difference	
Investor-related	-0.0910	4	2.1318	6.4400	6.8500	0.4100	0.4648
Gearing ratio	0.0095	2	2.9199	2.7750	2.7400	-0.0350	0.4966
Profitability ratio	-1.2621	4	2.1318	0.1733	1.1200	0.9467	0.1377

Source: Data analysis, 2014

4.4.6 Comparison of the current performance of AMACO and Liberty Holdings

According to the results in table 4.14 (a), the EPS of AMACO and Liberty Holdings were Kshs.0.18 and Kshs.2.15 respectively. The gearing results in respect to Debt-Equity and Equity Ratios were 2.54 and 4.75, and 0.28 and 0.17 for AMACO and Liberty Holdings respectively. Having both exceeded the recommended Debt-Equity ratio of 1 this therefore means that creditors enjoy larger stakes than shareholders in the two insurance firms. This is confirmed by the ER whereby 28% and 17% of company's assets are financed by shareholders and the rest (72% and 83%) is through credit for AMACO and Liberty Holdings respectively.

In respect to profitability, ROE for AMACO was about 7% with Liberty Holdings portraying a more effective use of investors' funds with about 20%, GPM was about 0.03 and about 0.27 for the two firms respectively, while their respective ROI were about 0.09 times and about 0.24 times. The GPM indicated that the expenses of AMACO were too high with only 3% of its premium sales being converted into profits compared to Liberty's 27%. The reason for this could be because the insurance claims (expenses) against AMACO are more compared to her other insurance peers and that could be attributed to the fact that currently AMACO is among the few insurance firms issuing cover to public service vehicles and risk exposure is high. However, both firms have attained the preferred current ratio of above 1 implying a strong ability to meet short term obligations; this is evident in their respective current ratios of about 1.40 and 1.21.

The Karl-Pearson's correlation between the two stocks is 0.8531; this is an indicator that the firm values of the two firms are moving in opposite direction.

Table 4.14 (a): Comparison of the current performance of AMACO and Liberty Holdings
AFRICA MERCHANT ASSURANCE CO.LTD LIBERTY HOLDINGS

Measures	2013	Measures	2013
Investor related Ratios			
Earnings Per Share (Kshs)	0.18	Earnings Per Share (Kshs)	2.15
Dividends Per Share (Kshs)	-	Dividends Per Share (Kshs)	0.60
Price to Earnings Ratio	-	Price to Earnings Ratio	11.40
Dividend Yield	-	Dividend Yield	0.04
Gearing Ratios			
Debt to Equity Ratio	2.54	Debt to Equity Ratio	4.75
Equity Ratio	0.28	Equity Ratio	0.17
Profitability Ratios			
Return On Equity	0.07	Return On Equity	0.20
Gross profit Margin	0.03	Gross profit Margin	0.27
Return on Investment	0.09	Return on Investment	0.24
Liquidity Ratio			
Current ratio	1.40	Current ratio	1.21

Source: Data Analysis, 2014

4.4.6.1 One Tailed T Test Results on Comparison of the Current Performance of AMACO and Liberty Holdings

In respect to investor related ratio the computed t value on was -0.5672 being less than t critical of 2.3534 indicating that the difference in equity ratios is not statistically significant which is confirmed by the p value of 0.3051 being greater than the 0.05 and a mean difference of 3.3675 which could be due to chance or error. The computed t value for gearing was -0.4112 being less than t critical of 2.9120 indicating that the difference in gearing ratios is statistically not significant. This is confirmed by the p value of 0.3604 being greater than the 0.05 with a mean difference of 1.0500. The computed t value in respect to profitability was -6.4498 being greater than t critical of 2.1318; implying that the difference in profitability ratios is statistically significant. This is confirmed by the p value of 0.0015 which is less than the 0.05, while the mean difference between the returns of the two firms was 0.1734.

Table 4.14 (b): One Tail T-test on the Current Performance of AMACO and Liberty Holdings**One tailed T-test**

Measure	t-stat	df	t-critical	95% confidence level			p-value
				mean 1	mean 2	mean difference	
Investor-related	-0.5672	3	2.3534	0.1800	3.5475	3.3675	0.3051
Gearing ratio	-0.4112	2	2.9120	1.4100	2.4600	1.0500	0.3604
Profitability ratio	-6.4498	4	2.1318	0.0633	0.2367	0.1734	0.0015

Source: Data analysis, 2014

4.5 Discussions

Data analysis revealed that listed insurance firms were either associates or subsidiaries of parent companies or other firms. The findings revealed that Jubilee Holdings and Britam are associates of Aga Khan Fund for Economic Development and British American (Kenya) Holdings respectively, while Kenya Re, CIC insurance, Liberty and Pan Africa are subsidiaries of Government of Kenya, Co-operative Insurance Society (CIS), Liberty and Hubris Holdings respectively. Associate firms held less than 50% while subsidiaries held over 50+1% of the total shareholding of these listed insurance firms. These results agree with the NSE (2014) report in which publicly quoted companies are classified as either single business or multi-business while Group or Holding companies constitute subsidiary undertakings.

The shocking revelation is that a part from liquidity, the changes in all the other measures of firm value before and after was insignificant. This results conquer with the ex post evidence examination by Pagano (1998) where it was found out that during the years subsequent to the IPO, profitability falls causing a subsequent fall in investment and leverage. However, the lower leverage could also be a result of higher retained earnings. This is possible because according to Myers and Majluf (1984) pecking order theory, higher retained earnings actually reduce leverage giving the impression that profitable firms are net equity issuers. These findings also agree with those of Kinyua et al (2013), who found out that firm's liquidity improved after an IPO which is majorly attributed to both the current liabilities and current assets which include; stock inventories, Account receivables, Prepayments, Cash at bank, Cash in Hand, Account payables, Accruals, Dividends payables and the Tax payable increasing after the IPO.

Firm value of listed firms was slightly better compared to those that are non-listed; this was in respect to gearing and profitability ratios. These results could be due to the fact that listed firms are in a better position to rebalance their financial structure relative to its debt holders compared to their unlisted peers whose only source for investment funds is credit. This is consistent with the findings of Rajan (1998) which he found that a securities exchange enables the business community to access long term capital for investment through shares, bonds and debentures. Omboi (2011) also concluded that all listed firms issue shares as a way of raising long-term investible capital and apart from facilitating the primary issue of securities

However, these findings were statistically not significant. This could be attributed to the direct and indirect costs associated with going public. Smaller firms are more likely to remain private as there is a considerable administrative burden on companies that undertake an IPO: underwriting fees, registration fees among others. Moreover, once listed, there is the expense incurred from auditors, distribution of annual reports, and stock exchange fees. However, larger firms can bear these expenses more readily since the magnitude of these costs does not increase proportionally with the size of the IPO (Pagano, 1998).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the research objectives, findings, draws conclusions and recommendations, and suggests areas for further research.

5.2 Summary of the Findings

The objective of the study was to determine the effect of listing on financial performance of listed companies at the NSE. Data analysis gave the following findings, which are summarized below as per the objectives:

5.2.1 Attributes of listed insurance firms

The first objective of this study was to determine the attributes of listed firms. The study found out that several companies in the NSE have several subsidiaries but don't refer themselves as Group or Holding companies. It was attributed that companies adopt diversification strategy due to various motives such as to increase stock value, increase growth rate, make better use of funds that internal investment, revenue earnings, and improve stability and to increase efficiency and profitability. Only six insurance firms have listed at the NSE, this is a small number compared to the number of registered insurance firms in Kenya. The reason for this could be that these non listed firms are in fear of accountability or the listing conditions could be too harsh for some of them to list. The disclosure rules of stock exchanges force companies to unveil information whose secrecy may be crucial for their competitive advantage, such as data about ongoing R&D projects or future marketing strategies. They also expose them to close scrutiny from tax authorities, reducing their scope for tax elusion and evasion relative to private companies. Campell (1979) was first to point to confidentiality as a deterrent from getting funding in public markets. Also Yosha (2006) showed that at equilibrium firms with more sensitive information are deterred from going public if the costs of a public offering are sufficiently high.

5.2.2 Pre and Post Firm Value of Listed Insurance Firms

The second objective was concerned with the effect of listing on firm value of listed firms two years before and after they listed. The study findings revealed no significant impact of listing on firm value of listed insurance firms. Chan-Lau (2010) found out that post-IPO inferior operating performance was not related to a decline in business activity. Rather, he argued that managers attempt to window dress

their accounts prior to going public which leads to pre-IPO performance being over-stated and post-IPO performance being understated. However, it is important to note that both the Debt-Equity and Equity Ratios increased after listing implying that most of the company's assets were financed through debt. The Companies had high debt/asset ratios and could be in danger if creditors start to demand repayment of debt. Further still the findings showed that earnings per share which comprised of sales, assets, profit after tax, ROA and ROE increased after listing.

5.2.3 Current Firm Value of Non-Listed and Listed Insurance Companies

The third objective sought to determine the effect of listing on current firm value of non-listed and listed insurance firms. It was noted that listed insurance firms enjoy a positive public image and better management than unquoted companies which translates into better performance. According to Wagacha (2006), most investors hold shares only in listed companies therefore highlighting the importance of NSE as a domestic resource mobilizer. It is therefore paramount to ensure that bottlenecks that discourage companies from listing are removed or downscaled (Omboi, 2011).

5.3 Conclusions

The research findings indicate that there is negative relationship between listing and firm value. This implies that there are other factors that have a greater impact on firm value as opposed to listing. The difference in performance can be attributed majorly on macro-economic factors based on company's strengths and weaknesses. It is also important to note that the shareholding of these firms is largely on a few individuals whom at the end of the day regardless of the management efforts to improve firm value have their way. Current firm values of non-listed and listed firms did not portray any significant difference; this could be attributed to the fact that most of these insurance firms are at least subsidiaries, or associates of one another.

5.4 Recommendations

Even though the research results indicate that there is little or no significant relationship between listing and firm value, this should not discount the importance of listing to long term value of any company because listing leads to improvement in a variety of firm fundamentals such as improved liquidity, earnings, and price to earnings ratio. It was reported that firms benefit less from issuing shares to the public. Material value creation to shareholders of listed firms is not evidently clear from our analysis. Nonetheless, the study did uncover some positive findings only relating to improved market confidence and public image as shown by positive changes in the price-to-earnings ratio for all

the listed insurance firms. Every local firms needs to understand that it has access to a long term riskless source of funds apart from Bank loans in the capital market and it can list. They should know that listing of firms will promote genuine local ownership and loyalty for firms with local shareholders being presented with an opportunity to own part of a successful local company. However, this does not bring about a sudden improvement on firm value.

For these reasons, the CMA and NSE who are the policy makers and regulators of the stock market should provide incentives to encourage local firms to list locally and regionally since it not only promotes regional integration but also global business environment. Listings are the the building blocks for the achievement of global integration. As such, full integration of stock markets requires harmonized trade policies, laws, currency unification which will in turn assist in price standardization of stocks and reduce investors' information and transaction cost. To foster an increase in local listings therefore appropriate strategies are required by the NSE, CMA (who are the policy makers) and listed firms. Due consideration should be undertaken by policy makers in necessitating steps for easy access of capital by firms through listing. Measures that focus on shareholder protection, corporate governance and proper code of conduct for brokers are paramount. Investor's security is an important prerequisite for foreign investment.

5.5 Areas for Further Research

This study therefore suggests that future studies should be done to highlight factors that may influence insurance firms to list. This would enrich the current level of understanding of why listing as a process has no significant effect on firm value. In addition, a similar study can be carried out over a longer post listing time span.

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Appendix 1: DATA COLLECTION SHEET

NAME OF THE COMPANY _____

Details	Two years before listing	Two years after listing
Shares Outstanding		
Profits Before Tax		
Profits After Tax		
Owners Equity		
Current Assets		
Current Liabilities		
Debt Level		

Appendix 2: INSURANCE COMPANIES LISTED AT THE NSE

COMPANY	DATE OF LISTING
British-American Investments Company (Kenya) Ltd	8 th September 2011
CIC Insurance Group Ltd.	19 th July 2012
Jubilee Holdings Ltd	1984
Kenya Re- Insurance Corporation Ltd.	27 th August 2007
Liberty Kenya Holdings Ltd	21 st April 2011
Pan Africa Insurance Holding Ltd	1963

Source: NSE, 2014

Appendix 3: LIST OF REGISTERED INSURANCE COMPANIES

1. AAR Insurance Kenya Limited
2. A P A Insurance Limited
3. Africa Merchant Assurance Company Limited
4. Apollo Life Assurance Limited
5. AIG Kenya Insurance Company Limited
6. British-American Insurance Company (Kenya) Limited
7. Cannon Assurance Limited
8. Capex Life Assurance Company Limited
9. CFC Life Assurance Limited
10. CIC General Insurance Limited
11. CIC Life Assurance Limited
12. Continental Reinsurance Limited
13. Corporate Insurance Company Limited
14. Directline Assurance Company Limited
15. East Africa Reinsurance Company Limited
16. Fidelity Shield Insurance Company Limited
17. First Assurance Company Limited
18. G A Insurance Limited
19. Gateway Insurance Company
20. Geminia Insurance Company Limited
21. ICEA LION General Insurance Company Limited
22. ICEA LION Life Assurance Company Limited
23. Intra Africa Assurance Company Limited
24. Invesco Assurance Company Limited
25. Kenindia Assurance Company Limited
26. Kenya Orient Insurance Limited
27. Kenya Reinsurance Corporation Limited
28. Madison Insurance Company Kenya Limited
29. Mayfair Insurance Company Limited
30. Mercantile Insurance Company Limited

31. Metropolitan Life Insurance Kenya Limited
32. Occidental Insurance Company Limited
33. Old Mutual Life Assurance Company Limited
34. Pacis Insurance Company Limited
35. Pan Africa Life Assurance Limited
36. Phoenix of East Africa Assurance Company Limited
37. Pioneer Assurance Company Limited
38. Real Insurance Company Limited
39. Resolution Insurance Company Limited
40. Shield Assurance Company Limited
41. Takaful Insurance of Africa Limited
42. Tausi Assurance Company Limited
43. The Heritage Insurance Company Limited
44. The Jubilee Insurance Company of Kenya Limited
45. The Monarch Insurance Company Limited
46. Trident Insurance Company Limited
47. UAP Insurance Company Limited
48. UAP Life Assurance Limited
49. Xplico Insurance Company Limited

Source: Insurance Regulatory Authority, 2014

Appendix 4: LISTED COMPANIES IN THE NAIROBI SECURITIES EXCHANGE

Agricultural

Eaagad Ltd

Kakuzi Ltd

Kapchorua Tea Co. Ltd.

Limuru Tea

Rea Vipingo Plantations Ltd

Sasini Ltd

Williamson Tea Kenya Ltd.

Commercial and Services

Express Ltd

Hutchings Biemer Ltd.

Kenya Airways

Longhorn Kenya Ltd.

Nation Media Group

Scan Group Ltd.

Standard Group Ltd.

TPS Eastern Africa (Serena) Ltd.

Uchumi Supermarket Ltd.

Telecommunication and Technology

Safaricom Ltd

Automobiles And Accessories

Car and General (K) Ltd.

CMC Holdings Ltd.

Sameer Africa Ltd.

Marshalls (E.A) Ltd

Banking

Barclays Bank Ltd

Car and General (K) Ltd.

CFC Stanbic Holdings Ltd

CMC Holdings Ltd.

Diamond Trust Bank Kenya

Equity Bank Ltd.

Housing Finance Co. Ltd.

I&M Holdings Ltd.

Kenya Commercial Bank Ltd.

Marshalls (E.A) Ltd

National Bank of Kenya Ltd

NIC Bank Ltd.

Sameer Africa Ltd.

Standard Chartered Bank Ltd.

The Co-operative Bank of Kenya Ltd.

Insurance

British-American Investments Company (Kenya) Ltd

CIC Insurance Group Ltd.

Jubilee Holdings Ltd

Kenya Re- Insurance Corporation Ltd.

Liberty Kenya Holdings Ltd

Pan Africa Insurance Holding Ltd

Investment

Centum Investment Co. Ltd.

Olympia Capital Holdings Ltd.

Trans Century Ltd.

Manufacturing and Allied

A. Baumann Co. Ltd.

BOC Kenya Ltd

British American Tobacco Kenya Ltd.

Carbacid Investments Ltd

East African Breweries Ltd

Eveready East Africa Ltd.

Kenya Orchards

Mumias Sugar Co. Ltd

Unga Group Ltd.

Construction and Allied

Athi River Mining Ltd

Bamburi Cement Ltd.

Crown Berger Ltd.

EA Cables Ltd.

EA Portland Cement Ltd.

Energy and Petroleum

Kengen Ltd

Kenol Kobil Ltd.

Kenya Power and Lighting Co. Ltd

Total Kenya Ltd.

Umeme Ltd.

Growth Enterprise Market Segment

Home Afrika Ltd.

Source: www.nse.co.ke, 2014