Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.5, No.1, 2014


# The Relationship between Executive Compensation and Financial Performance of Insurance Companies in Kenya

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**Abstract**
This paper sought to assess the effect of executive compensation on the financial performance of insurance companies in Kenya. The study considered functional form relationship between the level of executive remuneration and key performance ratios by using a regression model that establishes the relationship between pay and financial performance. The results show that there is a non-significant relationship between executive compensation and financial performance, P-Value>0.05. The negative correlation suggests the capping of executive compensation to maximize shareholders returns. This advocates that key performance ratios are not key considerations in determining executive compensation among the insurance companies in Kenya. Hence there is need to sensitize executives to align their payment to accounting performance measures because they are directly linked to shareholder's wealth maximization. The study's findings are useful to managers in insurance companies for strategic planning. The arguments of this study are based on the agency theory and review of relevant literature.
**Keywords:** Executive, compensation, financial performance, agency theory, corporate governance, Key ratios

## *1.0 Introduction*

Executives who are improperly compensated may not have the incentive to perform in the best interest of shareholders, which can be costly to the shareholders. The level of executive compensation and its relationship to firm financial performance are central issues in a generally heated debate among legislators, corporate directors, economists, financial journalist and compensation professionals (Lambert and Larcker, 1985).

The common proposition underlying executive compensation is that in order to motivate executives to spend effort and work for the best interest of the shareholders, compensation contracts should include some form of incentive component (Murphy, 1998). Such an incentive component should establish a link between executive compensation and the performance of the firm they manage. Shareholders are mainly interested in maximizing their wealth. Executive compensation can be used as an effective instrument for creating value for shareholders by improving their firm performance (El Akremi et al 2001).

Remuneration to executives serves as an incentive that affects decisions made and strategies adopted by an executive, both of which affect firm performance. It has a motivational effect and is an indicator of value for executives. It is a means for executives to realize rewards for their efforts. In corporate context, executives participate in the firm's profitability. Therefore, when executive makes sound decisions and engages in profitable strategies, the executive and the organization realize financial enrichment (Finkelstein and Boyd, 1998).

## *1.1. Statement of the problem*

Good compensation schemes motivate managers to make expenditure decisions that maximize shareholders wealth. A manager whose compensation consists entirely of a fixed salary would have no incentive to increase shareholder wealth because he does not share in any of the resulting gains (Murphy, 1998). This incentive problem can be reduced by making part of an executive's compensation depend upon the firm's financial performance. Lambert and Larcker, (1985) concluded that compensation schemes really do matter in the sense that executives responds predictably to the incentives built in to their compensation contracts. Furthermore they noted that changes in compensation plans affect executive decision making in ways consistent with agency theory. Ozkan (2007) found a positive and significant link between CEO cash compensation and firm performance. He also noted a positive but not significant relationship between total compensation and firm performance. Kajola (2008), found a positive and significant relationship between Profit Margins and chief executive status. Fahd Al-Heizan (2001) found a significant relationship between market value per share and the percentage of stock options granted to the total number of shares outstanding. He also noted less significant relationship between market value per share and stock based compensation. However, Aduda (2011) found a statistically negative non-significant relationship between executive compensation and performance of commercial banks in Kenya. Fernandez, (2005), found out that company performance is not significantly related to executive compensation. In view of the above conflicting findings, this study was set out to assess the relationship between executive compensation and financial performance of insurance companies in Kenya.

 

### *1.2. The main objective of the Study*

The main objective of the study was to assess the relationship between executive compensation and performance of insurance companies in Kenya.

### *1.3. Hypothesis of the Study*

The study tested the null hypothesis that, there is no statistically significant relationship between executive compensation and the firm's financial performance.

## *2.0 LITERATURE REVIEW*

### *2.1 Compensation and Agency Problem*

Agency theory predicts that the misalignment of interests between shareholders and managers could lead to agency problems, like, managers engaging in activities for their own benefits rather than the benefits of the firm's shareholders (Jensen and Meckling, 1976). Executive compensation plans borrows heavily from agency problem. It aims at resolving the principal-agent conflict since it aligns the interest of chief executive officers to those of shareholders. The design of executive compensation is viewed not only as an instrument for addressing the agency problem between managers and shareholders but also as part of the agency problem itself (Bebchuk and Fried, 2003).

Management incentive compensation plans are viewed as means of reducing potential conflicts of interest between management and shareholders. An effective compensation program can add value to the firm by improving the alignment of management incentives with stockholder interest. Since the objective of corporation shareholders is to maximize wealth; agency theory predicts that chief executive officers compensation policies will depend on changes in shareholder wealth (Jensen and Murphy, 1990).

#### *2.1.1 Mitigation against Agency Problem*

There are two polar positions for dealing with shareholder-manager agency conflicts. In one extreme the firm's managers are compensated entirely on the basis of stock price changes. Agency costs will be low because managers have great incentives to maximize shareholder wealth. It would be extremely difficult, however, to hire talented managers under these contractual terms because the firm's earnings would be affected by economic events that are not under managerial control. At the other extreme, stockholders could monitor every managerial action, but this would be extremely costly and inefficient. The optimal solution is tying executive compensation to performance with little monitoring (Fama 1980).

### *2.2.Compensation and Corporate Governance*

Remuneration practices are part of sound corporate governance of an insurer. The remuneration policy is neither intended to unduly restrict nor reduce an insurer's ability to attract and retain skilled talent by prescribing any particular form or level of individual remuneration. Rather, it aim to promote the alignment of remuneration policies with the long term interests of insurers to avoid excessive risk taking, thereby promoting sound governance. The standard and guidance apply to the supervision of remuneration policies and practices, especially where variable remuneration is used, taking into account the nature, scale and complexity of the insurers business (International Association of Insurance Supervisors, 2011).

Executives can be overpaid and be protected from poor performance diminishing the relationship between executive pay and financial performance. Managerial power and influence play a major role in shaping executive pay, and in ways that end up imposing significant costs on investors and the economy **(**Bebchuk and Fried, 2005). When corporate governance is weak, managers have a greater influence on the amount and composition of their own compensation. Chief executive officers can be overpaid because of their influence over the board of directors.

The board should be monitoring top managers on shareholders behalf therefore must have significant influence over the committee that sets the compensation (Sigler, 2011).

### *2.3.Types of conflict in insurance companies*

The principal-agent problem is pervasive in financial institutions and markets. The most apparent conflict of interest is between stockholder and policyholders. Incentive conflicts exist between principals and agents whenever agents do not bear the full wealth effect of their actions in light of mere existence of default risk. If the claims held by policy holders are free from default risk, there will be no incentive conflict, since the value of these claims will not change as a result of investment, underwriting and dividend policies made on behalf of stockholders (Garven,1987).

The risky insurance policyholders will experience incentive conflicts with stockholders because the stockholders will be able to effect wealth transfers from policyholders by altering insures investment, underwriting or dividend policy after issuance of insurance. However since policyholders recognize the incentives faced by stockholders, the prices they are willing to pay for the policies reflect unbiased estimate of the expected behavior of stockholders. Furthermore the greater the premium-capital ratio employed by the firm, the greater will be the magnitude of agency cost borne by stockholders in the guise of lower premiums (Garven, 1987).

 

The second important conflict that arises is between managers and stockholders. Agency theory suggests that, in imperfect labor and capital markets, managers will seek to maximize their own utility at the expense of corporate shareholders. Agents have the ability to operate in their own self-interest rather than in the best interests of the firm because of asymmetric information for example managers know better than shareholders whether they are capable of meeting the shareholders' objectives and uncertainty for example myriad factors contribute to final outcomes, and it may not be evident whether the agent directly caused a given outcome, positive or negative (Garven, 1987).

### *2.4.Components of Executive Compensation Plans*

Rewards are monetary, non-monetary and psychological payments that an organization provides for its executives. They are designed to attract new employees to the organization, elicit good work performance and maintain commitment to the organization. Direct pay is what it is received in the bank account: basic salary, overtime, commission, merit pay, paid leave, bonuses and company profit-sharing. Indirect pay, often called benefits, includes health and life insurance cover, retirement and pension plans, company car, health care, health club memberships, mobile phone, subsidized meals and subsidized entertainment (Koala Consulting and Training, 2008).

### *2.5.Problems with Pay Components*

Pay component entice executives to engage in activities that produce problems for the firm. Cash bonuses tied to accounting numbers may motivate executive to manipulate the timing of revenues and expenses to maximize their compensation. It focuses executives on short term performance which may be detrimental to the long term health of the firm (Sigler, 2011). Rewarding top management with different forms of stock compensation may not tie the executive's efforts to company performance closely enough. The stock price may rise or fall from market forces and not from moves of the company's executives. This is especially true with stock options. The manager can become wealthy by being in the right place at the right time and not by the merits of his performance. This could actually offer a disincentive to work hard if the stock price rises regardless of effort. Problems may also occur if the stock price declines after executive stock options are issued putting the options being way out of the money.

With options so far out of the money, it may not give the manager the incentive to exert effort to move the stock price. In other instances executive may be enticed to manipulate accounting numbers when they are about to exercise their options to give the appearance of superior firm performance to drive up the stock price. Restricted stock rewards executives for performance but it restricts the stock from being sold by the executive for a period. This may not encourage the manager to set a high priority on accomplishing company goals in the near term (Sigler, 2011).

The mixing of the different components of pay into a complex compensation package for executives allows the shortcoming of one component to be offset by the strength of another. Cash bonuses focus executives on the immediate success of the firm by paying them for reaching short-term goals. This counters the shortcoming of restricted stock that base awards on the long run outcomes and does not pay rewards for short-term production. To reduce the problem of the company stock price moving based on market forces and not that of the executive's efforts, companies have installed adjustable exercise prices for stock options that are linked to the price movement of a market index of stocks (Sigler, 2011).

### *2.6.Models in Evaluating Financial Soundness*

It is important for regulators to take action early to prevent insolvency or financial distress of life insurers. To do otherwise would incur high social costs and impact the financial button line. The financial rating system improves and regulates the solvency of insurers. The CAMEL model has been used successfully by bankers' to construct a financial rating system. The objective of the CAMEL-S is to help the insurance regulators supervise companies' financial soundness. CAMEL-S ratings provide a numerical ranking to indicate the soundness of the institution as assigned by supervisors (Hsiao 2009).

First, capital adequacy in the model evaluates whether an insurer provides sufficient capital to meet obligation. An insurer who has sufficient capital usually is considered having less chance to default. Regulators require that insurers have to satisfy fixed minimum capital acquirements to operate. Leverage ratio serves as an indicator of the riskiness of the owner's investment in the firm. This ratio not only measures the ability of a company to meet financial obligations, but the use of debt financing. A company with high leverage implies having high debt financing that will be considered having high financial uncertainty and insolvency risk (Shiu *et al* 2008).

Secondly, profitability is a reflection of how well insurers underwriting profile and the efficiency of surpluses investment. Supervisors, analysts and investors will through the extent of profitability evaluate the periodic financial success of an insurer and examine an insurer's performance that an insurer employs asset to generate returns. The more profitable the insurer is, the higher the business continuity and financial strength (Shiu *et al* 2008).

 

Thirdly, liquidity shows the speed of a company's assets transferring to cash. Insurers liquidity is considered an ability to respond quickly to operational cash calls and insures that has well liquidity can face the sudden emergent financial needs. Current liquidity ratio is a significant indicator of solvency and the stability of liquidity ratio is an essential assessment of corporate solvency. Insurers with a high degree of liquidity are expected to have a high business continuity and financial strength (Shiu *et al* 2008).

Fourthly, Management: Governance shows how well the company's board of director's functions, including the diversity of its technical expertise, its independence from management, and its ability to make decisions flexibly and effectively. Human resources evaluates whether the department of human resources provides clear guidance and support to operations staff, including recruitment and training of new personnel, incentive systems for personnel, and performance evaluation system. Processes, controls and audit shows the degree to which the company has formalized key processes and the effectiveness with which it controls risk throughout the organization, as measured by its control environment and the quality of its internal and external audit. Information Technology System assesses whether computerized information systems are operating effectively and efficiently, and are generating reports for management purposes in a timely and accurate manner. Strategic planning and budgeting shows whether the institution undertakes a comprehensive and participatory process for generating short- and long-term financial projections and whether the plan is updated as needed and used in the decision making process (Sarker, 2005).

Fifthly, asset quality; asset represents all the assets of the insurer, current and fixed, loan portfolio, investments and real estate owned as well as off balance sheet transactions. Portfolio classification system reviews portfolio schedules and assesses company's policies associated with assessing portfolio risk. Productivity of long-term assets evaluates company's policies for investing in fixed assets. In the standard CAMELS framework, asset quality is assessed according to the level, distribution and severity of classified assets, the adequacy of valuation reserves and the demonstrated ability to administer and collect premiums (Sarker, 2005).

Sixthly, the sensitivity to market risk is assessed by the degree to which changes in market prices, notably interest rates, exchange rates, commodity prices, and equity prices adversely affect an insurer's earnings and capital. This come in the form of sensitivity of the financial institution's net earnings or the economic value of its capital to changes in interest rates under various scenarios and stress environments. Volume, composition and volatility of any foreign exchange or other trading positions taken by the financial institution. Actual or potential volatility of earnings or capital because of any changes in market valuation of trading portfolios or financial instruments. Ability of management to identify, measure, monitor and control interest rate risk as well as price and foreign exchange risk where applicable and material to an institution (Sarker, 2005).

### *2.7.Empirical Studies*

Bebchuk and Fried (2003) provided an overview of the main theoretical elements and empirical underpinnings of a managerial power approach to executive compensation. They concluded that managerial power and rent extraction play an important role in executive compensation and have significant implications on corporate governance. They noted that, the extent to which managerial influence can move compensation arrangements away from optimal contracting outcomes depends on the extent to which market participants recognize the problems. They noted that Boards of publicly traded companies with dispersed ownership cannot be expected to bargain at arm's length with managers. As a result, managers wield substantial influence over their own pay arrangements, and they have an interest in reducing the saliency of the amount of their pay and the extent to which that pay is de-coupled from managers' performance. This way it is seen that managers have the power to design their pay.

Evans and Evans (2000) examined the link between Economic Value Added (EVA) as a measure of firm performance and the form of executive compensation of 209 companies in Australia in the period 1995 – 1998 to try and provide evidence supporting incentive compensation. They reiterated that agency theory has been widely applied to the study of executive compensation in an endeavour to establish whether executive rewards are being set in a manner consistent with the theory. They found out that, equity based pay was positively linked to EVA performance, supporting the contention that where a Chief Executive Officer has significant investment in the company the division between owners and management is minimized and agency costs are reduced. In contrast, they noted that CEO cash pay was not significantly associated with EVA performance.

Aduda (2011) examined the relationship between executive compensation and firm performance on commercial banks listed at the Nairobi Stock Exchange. The study considered functional form relationship between the level of executive remuneration and accounting performance measures by using a regression model that relates pay and performance. He found out that accounting measures of performance are not key considerations in determining executive compensation among the banks in Kenya and that size is a key criterion in determining executive compensation as it was significantly but negatively related to compensation. The negative correlation suggests the capping of executive compensation to ensure maximization of returns to shareholders.

 

El Akremi et al (2001), studied compensation strategies for (CEO) from various economic, political and symbolic perspectives. They developed a theoretical model to study the hypothetical influence of several phenomena suggested by theoretical work on executive compensation in France on a sample of 106 chief executives from firms amongst the top 700 rated by sales. Their results suggest that agency theory offers a priori the most solid explanation of CEO compensation because of the links observed between the control exercised by the principal, the intensity of short-term incentives and the sensitivity of direct pay to performance. They noted that a balance of power between board members and top executives seems to be a determining factor in the determination of the structure and management of CEO compensation. Further they reiterated that the political perspective remains coherent with agency theory by supposing that CEOs can be tempted to make use of their privileged position concerning compensation decisions.

Ozkan (2007) examined the link between CEO pay and performance employing a data set of 390 UK non-financial firms from the FTSE All Share Index for the period 1999-2005. He included cash and equity-based components of CEO compensation in his analysis. The results indicated a positive and significant link between CEO cash compensation and performance however the link between total compensation and performance was positive but not significant. Their findings also suggest that larger firms pay their CEOs higher compensation, which one can interpret as reflecting their demand for higher quality CEO talent. Further he noted that firms with larger board size pay their CEOs higher level of total compensation and moreover, proportion of non-executive directors on board does not have a significant impact on CEO cash compensation, while non-executive directors' share ownership has a significant impact suggesting that ownership can provide incentives for non-executive directors to be more active in monitoring for CEO compensation packages.

Fernandes, (2005) examined the determinants of managerial compensation, with a special emphasis on the relation between compensation and firm performance of companies listed in the Portuguese Stock Exchange. The study showed that compensation is not related to shareholders wealth, nor do shareholders have any mechanism to influence it. The results suggest that very few companies have what is really considered an independent director that looks after shareholders interests. The results suggested that company performance is not significantly related to executive compensation.

Gao and Shrieves (2002), studied how the components of compensation influence earnings management behavior. They hypothesized an observation that discretion over accounting accruals gives managers a potentially valuable timing option that will lead to strategies for maximizing their compensation. They found strong evidence that compensation contract design influence earnings management, and that the influences of the various compensation components appear to be largely predictable on a presumption that managers behave opportunistically by exploiting timing options embedded in some components of the compensation contracts.

### *2.8.Conceptual Framework*

Optimal incentive compensation plans control the kinds of conflicts of interest in agency relationship. Effective compensation plans add value to the firm by improving the alignment of management incentives with stockholders interest leading to improved performance. Firm's earnings would be affected by intervening events that are not under managerial control. It is a process that encompasses independent, moderating and dependent variables as shown in figure 1.

### 2.81.Capital adequacy: net premium written-policyholders' surplus ratio.

This standard is devised in an attempt to measure the strength of insurance companies. Strength of a company means the ability to withstand the risks of insurance. There are two types of risks inherent in the insurance business: underwriting risks, which is the exposure of surplus from normal insurance underwriting operations of an insurance company and investment risk, which is encountered because most insurance companies invest in the stock market.

### 2.82.Underwriting Ratios

The operating ratio is defined as: Combined Ratio - Net Investment Income Ratio. The operating ratio measures a company's overall operational profitability from underwriting and investment activities. This ratio excludes other operating income and expenses, capital gains and losses, and income taxes. An operating ratio greater than 100% suggests that the company is unable to generate profits from its underwriting and investment activities.

### 2.83.Solvency Margins

Solvency margin asses insurer's ability to meet financial obligations (claims and maturities). The Solvency Margin Ratio (SMR) is calculated by taking Available Solvency Margin (ASM) divided by Required Solvency Margin (RSM) as a percentage. ASM refers to the difference between the admitted assets and liabilities of an insurer. The RSM under general insurance business is arrived at by taking 15% of the Net premium income written, while that for long term business is arrived at by taking 5% of the insurer's admitted liabilities for the last preceding financial year.

 

## *3.0 RESEARCH METHODOLOGY*

### *3.1 Research Design*

The study adopted a causal research design by examining the relationship between executive compensation and financial performance among the insurance companies

### *3. 2 Population of the Study*

This is a census study of all the forty six (46) registered companies in Kenya over five year period from 2006 to 2010.

### *3. 3 Data Collection*

The study employed secondary data collected from the financial statements published and filed with Insurance Regulatory Authority of Kenya over five year period between 2006 and 2010.

### *3. 4 Data Analysis*

A multiple regression model was used to analyze the data using statistical package for the social sciences (SPSS) version 12. Analysis was done using Pearson correlation to measure the association (see table 2) and ANOVA to test relationship (see table 4) between executive compensation and financial performance of insurance companies. The study adopted the following regression model:

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

Where: Y = CEO Remuneration, $\alpha$ = Intercept, $X_1$ = Capital Adequacy Ratio, $X_2$ = Solvency Ratio, $X_3$ = Incurred Claims Ratio, $X_4$ = Expense Ratio, $\mu$ = Prediction error.

Mean financial performance ratios were calculated to combine all the five year period (see table 1). To test the hypothesis of the study, correlation analysis was used and the results are presented in table 2. From the results, the null hypotheses on the effect of the key ratios on executive compensation were accepted at $P<0.001$ significance level or any other lower level, leading to the conclusion that the four key ratios were not statistically significant. The relationship between capital and CEO remuneration is positive, weak and not significant (P>0.001) hence we do not reject the null hypothesis. The relationship between solvency and CEO remuneration is negative, weak and not significant (P>0.001) hence we do not reject the null hypothesis. The relationship between claims and CEO remuneration was negative, very weak and not significant (P>0.001) therefore we do not reject the null hypothesis. The relationship between expense and CEO remuneration is negative, very weak and not significant (P>0.001).

The *F* test statistic is the *F* value of 1.153. Using a significance level of 0.001, we have the $F_{0.001;\,4,\,43} = 5.46$. Since the test statistic is smaller than the critical value, we do not reject the null hypothesis of equal population means and conclude that there was no (statistically) significant difference among the population means. The *p*-value for 1.153 is 0.345, so $P<0.001$ thus the test statistic was not significant at that level or any lower level. Linear regression therefore, demonstrated no significant relationship between executive compensation and financial performance of insurance companies in Kenya.

The results indicate the correlation (0.311). The $R^2$ for the straight line regression model is 0.097 indicating how much variation has been explained by the model. This means that 9.7 % of the total variability in the study has been explained by the straight line regression model, which is not much. This linear model is not fit enough to explain the existing variability. The Durbin-Watson test statistic tests the null hypothesis that the residuals from an ordinary least-squares regression are not auto correlated against the alternative. The Durbin-Watson statistic ranges in value from 0 to 4. A value near 2 indicates non-autocorrelation; a value toward 0 indicates positive autocorrelation; a value toward 4 indicates negative autocorrelation. The results indicate non-autocorrelation (2.064).

The regression model is thus expressed as;

**CEO Rem** = 224,116.177 + 415.245 **Capital** *(P=0.088)* + 61.135 **Solvency** *(P=0.805)* - 846.153 **Claims** *(P=0.605)* – 1,212.312 **Expense** *(P=0.088)*

The regression model shows that, an increase in Capital Adequacy and Solvency positively affects the remuneration, whereas increase in Incurred Claims and Expense has a negative impact on remuneration (as shown in table 6).

## *4.0 CONCLUSION*

The study finds negative non significant relationship between executive compensation and financial performance. This is similar to the findings of Aduda (2011) who established negative non significant relationship in the Kenyan banking sector. The negative correlation suggests capping compensation to maximize shareholders returns. Since p-value is greater than 0.05, we therefore do not reject the null hypothesis and conclude that there is no significant relationship between executive compensation and financial performance. Since p-value is greater than 0.001, we therefore do not reject the null hypothesis and conclude that there is no significant relationship between executive compensation and financial performance. Insurance companies should incorporate their compensation structure with the use of incentives plans that motivate the CEO to take actions

 

that increase shareholders wealth. The plans tie executive compensation to performance with little monitoring reducing agency problem. It attracts and retains managers with confidence to risk their financial future on their own abilities leading to maximization of shareholders wealth. Further in order to maintain the social order and prepare for future market liberalization, apart from strengthening management abilities, more attention should be given to capital structure and capital management as well as adopting risk based management practices. In considering the investment function, emphasis should be put on relevance of asset- liability management as well as adopting solvency modernization initiatives including policyholder protection and loss absorbency.

Further research can be undertaken on the broad concept of complexity and power and their influence on executive compensation. The research should test how the concept of complexity influences compensation contracts despite strong theoretical ground and compensation consultants' inclusion of complexity in job evaluation work.

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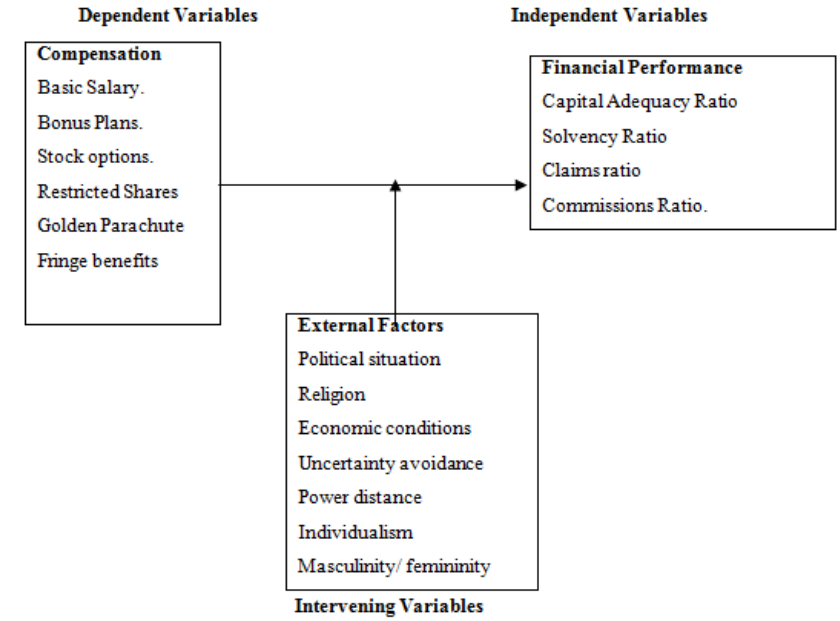
**Figure 1: Conceptual framework**




**(Source: Author, 2013)**

**Table 1: Insurance Companies CA, SM, ER, and CEO remuneration averages**

| No. | Insurance Co. | Capital Adequacy | Solvency Margin | Claims Ratios | Expense Ratio | CEO Rem. |
|---|---|---|---|---|---|---|
| 1 | A P A | 271.8 | 339.8 | 75.2 | 15.0 | 502,379.20 |
| 2 | AIG (K) | 190.2 | 189.0 | 31.8 | 20.6 | 191,583.20 |
| 3 | AMACO | 353.6 | 301.8 | 55.2 | 18.0 | 286,411.80 |
| 4 | Apollo | 71.8 | 326.2 | 27.4 | 7.2 | 46,520.00 |
| 5 | Blue Shield | 445.8 | 101.6 | 38.8 | 8.4 | 532,794.40 |
| 6 | British American | 266.2 | 164.0 | 36.8 | 21.6 | 732,228.00 |
| 7 | Cannon | 67.6 | 643.4 | 71.8 | 19.2 | 178,689.60 |
| 8 | Capex | 2.2 | 31.6 | 4.4 | - | 12,365.60 |
| 9 | CfC Life | 296.0 | 172.6 | 59.6 | 9.8 | 597,280.00 |
| 10 | Chartis (K) | 58.4 | 126.8 | 30.4 | 11.8 | 180,593.80 |
| 11 | Concord | 627.0 | 259.6 | 74.6 | 17.4 | 232,479.60 |
| 12 | Cooperative | 373.6 | 277.0 | 60.2 | 10.8 | 573,462.80 |
| 13 | Corporate | 261.4 | 329.4 | 60.2 | 16.0 | 121,861.00 |
| 14 | Directline | 632.2 | 479.6 | 55.6 | 11.8 | 237,883.20 |
| 15 | East Africa Re | 96.4 | 533.6 | 59.4 | 12.8 | 121,846.80 |
| 16 | Fidelity Shield | 146.8 | 334.2 | 76.0 | 19.0 | 158,750.80 |
| 17 | First Assurance | 219.6 | 402.2 | 73.4 | 21.6 | 184,494.60 |
| 18 | Gateway | 230.8 | 473.6 | 60.0 | 8.2 | 207,695.60 |
| 19 | Geminia | 107.8 | 516.8 | 75.4 | 20.2 | 99,381.20 |
| 20 | General Accident | 105.0 | 556.6 | 68.8 | 18.6 | 198,959.60 |
| 21 | ICEA | 255.6 | 143.0 | 80.0 | 20.6 | 515,089.60 |
| 22 | Intra Africa | 381.2 | 195.2 | 67.8 | 9.6 | 140,433.40 |
| 23 | Invesco | 151.8 | 108.8 | 26.4 | 4.0 | 104,757.60 |
| 24 | Kenindia | 185.8 | 247.6 | 70.8 | 17.2 | 569,375.80 |
| 25 | Kenya Orient | 185.4 | 289.0 | 143.6 | 8.0 | 145,277.60 |
| 26 | Kenya Re | 46.4 | 686.6 | 43.4 | 16.8 | 794,917.20 |
| 27 | KNAC (2001) | 160.4 | 325.6 | 60.6 | 9.0 | 105,565.60 |
| 28 | Lion of Kenya | 82.0 | 532.6 | 84.6 | 20.6 | 160,274.80 |
| 29 | Madison | 534.6 | 278.8 | 61.0 | 9.6 | 376,614.20 |
| 30 | Mayfair | 87.4 | 555.2 | 73.8 | 37.2 | 60,610.80 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 31 | Mercantile | 79.6 | 531.2 | 56.4 | 14.0 | 122,115.20 |
| 32 | Metropolitan Life | 120.4 | 389.6 | 20.6 | 18.8 | 104,824.00 |
| 33 | Occidental | 275.8 | 266.4 | 68.2 | 10.0 | 148,857.60 |
| 34 | Old Mutual | 159.4 | 343.0 | 39.6 | 13.8 | 929,917.80 |
| 35 | Pacis | 179.6 | 524.2 | 65.2 | 14.4 | 76,544.20 |
| 36 | Pan Africa Life | 492.2 | 228.8 | 29.2 | 19.2 | 444,803.40 |
| 37 | Phoenix | 203.4 | 338.8 | 70.6 | 21.4 | 173,500.40 |
| 38 | Pioneer | 474.2 | 258.4 | 40.0 | 20.2 | 98,235.20 |
| 39 | REAL | 521.4 | 132.4 | 65.4 | 20.2 | 207,330.00 |
| 40 | Standard | 243.2 | 143.4 | 16.8 | 3.6 | 83,959.20 |
| 41 | Tausi | 278.8 | 268.4 | 70.6 | 26.6 | 106,477.00 |
| 42 | The Heritage AII | 366.2 | 277.4 | 63.4 | 14.8 | 491,143.20 |
| 43 | The Jubilee | 530.0 | 325.6 | 57.0 | 9.0 | 707,033.60 |
| 44 | The Kenyan Alliance | 118.6 | 499.0 | 66.4 | 13.2 | 157,359.80 |
| 45 | The Monarch | 93.6 | 698.0 | 47.4 | 15.6 | 77,594.80 |
| 46 | Trident | 202.2 | 476.2 | 84.0 | 14.2 | 57,844.40 |
| 47 | Trinity Life | 791.4 | 481.8 | 34.2 | 430.4 | 20,348.60 |
| 48 | UAP Provincial | 238.2 | 514.0 | 58.0 | 17.4 | 772,970.60 |

(Source: IRA Annual reports)

**Table 2: Correlations values for capital, solvency, claims, expense and remuneration**

| | | Capital | Solvency | Claims | Expense | Rem# |
|---|---|---|---|---|---|---|
| Capital | Pearson Correlation | 1 | -0.277 | -0.014 | 0.437(**) | 0.166 |
| | Sig. (2-tailed) | 0.000 | 0.057 | 0.926 | 0.002 | 0.261 |
| | N | 48 | 48 | 48 | 48 | 48 |
| Solvency | Pearson Correlation | -0.277 | 1 | 0.279 | 0.156 | -0.114 |
| | Sig. (2-tailed) | 0.057 | . | 0.055 | 0.290 | 0.441 |
| | N | 48 | 48 | 48 | 48 | 48 |
| Claims | Pearson Correlation | -0.014 | 0.279 | 1 | -0.119 | -0.037 |
| | Sig. (2-tailed) | 0.926 | 0.055 | 0.00 | 0.420 | 0.802 |
| | N | 48 | 48 | 48 | 48 | 48 |
| Expense | Pearson Correlation | 0.437(**) | 0.156 | -0.119 | 1 | -0.155 |
| | Sig. (2-tailed) | 0.002 | 0.290 | 0.420 | 0.00 | 0.294 |
| | N | 48 | 48 | 48 | 48 | 48 |
| Rem# | Pearson Correlation | 0.166 | -0.114 | -0.037 | -0.155 | 1 |
| | Sig. (2-tailed) | 0.261 | 0.441 | 0.802 | 0.294 | . |
| | N | 48 | 48 | 48 | 48 | 48 |

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

**Table 3: Analysis of variance for insurance companies**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 SSR | Regression | 259452966794.755 | 4 | 64863241698.689 | 1.153 | 0.345(a) |
| SSE | Residual | 2419320706792.363 | 43 | 56263272250.985 | | |
| SST | Total | 2678773673587.117 | 47 | | | |

(a) Predictors: Expense, Claim, Solvency and Capital (b) Dependent Variable: Remuneration

**Table 4: F distribution Critical values**

| $p$ | 0.100 | 0.050 | 0.025 | 0.010 | 0.001 |
|---|---|---|---|---|---|
| $F_{(4, 43)}$ | 2.06 | 2.56 | 3.05 | 3.72 | 5.46 |

**Table 5: Model Summary (b)**

| Model | R | R Square | Adjusted R Square | Durbin-Watson |
|---|---|---|---|---|
| 1 | .311(a) | .097 | .013 | 2.064 |

(a) Predictors: (Constant), Expense, Claims, Solvency, Capital. (b) Dependent Variable: Rem

**Table 6: Unstandardized and standardized Coefficients (a)**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 224116.177 | 128422.194 | | 1.745 | 0.088 |
| | Capital | 415.245 | 238.245 | 0.310 | 1.743 | 0.088 |
| | Solvency | 61.135 | 245.531 | 0.042 | 0.249 | 0.805 |
| | Claims | -846.153 | 1623.639 | -0.081 | -0.521 | 0.605 |
| | Expense | -1212.312 | 693.578 | -0.306 | -1.748 | 0.088 |

(a) Dependent Variable: Rem