
**INVESTMENT MANAGEMENT STRUCTURE CHOICE AMONG
INSURANCE COMPANIES IN KENYA**

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Abstract

The choice of the investment management structure to adopt is a critical first step in the investment management decision making process. Using a mixed methods approach, this paper explores the influence of investment efficiency and firm size as possible antecedents of this investment decision making among insurance companies in Kenya. Investment management structures were dichotomized into in house management and delegation. The study considered the forty six (46) companies licensed to undertake insurance and reinsurance business in Kenya in 2017. Primary data was collected from the respondents using a self-administered questionnaire while secondary data was collected from regulatory filings and company financial statements. Data processing and analysis was undertaken using a binary logistic regression model in STATA. Results show that in house investment management structure was more prevalent than delegation. Investment efficiency and firm size were found to have a positive influence over firms in favour of delegation. Based on this research it is recommended that insurance companies pay close attention to their investment efficiency needs while taking full cognition of their size as they choose their investment management structures.

Keywords: Investment decision, Investment Management Structure, Insurance companies, Transaction costs.

JEL: G11, G22, D23

INTRODUCTION

Investment management by institutional investors such as insurance companies is an important intermediation activity in many economies around the world. According to Ashraf and Kumari (2016) the insurance industry is an important and integral part of the economy that acts as a savings mobilizer, a financial intermediary, a promoter of investment activities, a stabilizer of financial markets and a risk manager. Insurance companies generally have two main business functions: underwriting activity and investment activity. As a result of this business duality, there are more variables to be considered in their portfolio management decision making processes compared to the other institutional investors. The sector is also closely regulated both from an

operations perspective and investment management, more so on the permissible investment assets. Their financial performance is also heavily dependent on how well they manage their investment funds or float (Auma, 2013).

The insurance industry is a large investor in the financial markets. This is because of longer investment horizons compared to other financial sector players like banks (Schish, 2009). The insurance industry collects funds from its policyholders which are then channeled for investment in the financial markets. The industry therefore serves as an important component of the financial system of any economy offering essential risk management and intermediation services. As financial intermediaries, insurance companies have the advantage of receiving premiums upfront, which are also not the subject of haphazard withdrawal. They therefore enjoy the advantage of investing long term in the financial markets and through asset and liability management achieve their risk diversification objectives (Maroney, 2010).

Investment Management Structures

Hodgson et al. (2000) define investment management structure (IMS) as the framework that establishes how investment assets should be divided amongst different investment approaches and investment managers. Hodgson et al. (2000) further explain that the investment approaches can encompass expected risk, return and investment styles. These structures range from single in-house investment teams to complex multi manager structures. Sharpe (2011) argues that there are generally two approaches to investment management. First, advisors who make investment recommendations which the investor can accept or reject then make appropriate trades to realize the advice. Second, an investment organization or individual provides both the needed advice and implementation. Both approaches involve some division of labour between the investor and an advisor. This simplified model represents what is generally viewed as the investment management structure of an investor.

There are generally two investment management structures: delegation and in house management. According to Reilly and Brown (2009), traditional investment management was organized through direct delegation structure or indirect delegation via mutual funds. Direct delegation obtains where asset owners do not manage their own wealth but instead, they employ an asset manager. The asset owner is the principal, who delegates portfolio management responsibility to the fund manager, who is the agent. Stracca (2006) argues that delegated portfolio management is one of the most important agency relationships intervening in the economy, with a possible impact on financial markets and economic developments at a macro level. On the other hand, Clark and Monk (2012) posit in house management structure obtains where an investor manages part of their entire portfolio internally.

The Insurance Industry in Kenya

Macharia (2009) explains that insurance operations started in Kenya in 1950's mostly as branch offices of companies based in Britain and India. Since then, the sector has seen great expansion and formalization, including the establishment of the regulator to oversee the sector. As at 31st December 2018, the sector consisted of forty six (46) companies. There were twenty (20) composite insurers underwriting both general and life business, seventeen (17) companies were

underwriting only general insurance business, six (6) companies were in life assurance business only while three (3) companies were composite reinsurers.

According to IRA (2019), the industry registered KES 214.9 billion (US \$ 2.14 billion) in Gross Premium Income (GPI) in 2018, a 4% growth from the previous year. The industry had a combined total asset base of KES 635 billion (US \$ 6.35 billion) compared to KES 591 billion (5.91 billion) in December 2017. Like elsewhere in the world (Croce & Gatti, 2014; IMF, 2011) insurance companies in Kenya control a sizeable pool of long term funds although not as significant as in the developed countries. At KES 524 billion (US \$ 5.24 billion) in 2018, the insurance sector financial securities investment portfolio is over 5% of Kenya's GDP making it a significant contributor to financial markets development and the economy as a whole.

Statement of the Problem

Insurance companies are large institutional investors in the financial markets all over the world (Schish, 2009) and intermediate more than 25% of global assets under management (IMF, 2011) with implications on the economy and welfare of people. The choice of the investment management structure to employ in the management of an insurance company's portfolio is a critical first step in the investment decision making process. This is because there are many alternative structures that can be adopted ranging from in-house management to complex multi manager structures each with different ramifications to the investor (Hodgson et al., 2000). The investment management structure provides the framework of division of assets amongst different managers and investment approaches (Hodgson et al., 2000). Institutional investors have been observed to choose different investment management structures motivated by disparate considerations.

Traditionally, investment management was conducted on a delegated model (Clark & Monk, 2012). However, after the 2008 global financial crisis, institutional investors have begun to adopt in-house investment management models driven by need to cut the cost of management and increase net returns (Clark & Monk, 2012). Blake et al. (2013) investigated the investment behavior of pension funds and found a move towards delegated investment management structures focusing on multiple specialist investment managers. According to Blake et al. (2013) diversification of skills and returns (alpha) as well as desire to reap benefits of large portfolio sizes were the key antecedents of this behavior. MacIntosh and Scheibelhut (2012) found high prevalence (49%) of internal asset management among 19 large pension schemes from around the world as a result of need to cut transaction costs and increase net returns. There is no consensus on why institutional investors choose to delegate or manage their assets internally.

There are a number of previous studies that provide evidence on different aspects of choice of investment management structures. MacIntosh and Scheibelhut (2012) benchmarking study of a sample of large pension schemes drawn from across six members of the G20 countries focuses on prevalence, reasons for adoption and outcomes of different investment management structures. Clark and Monk (2012) analyses case studies of the largest institutional investors among pension funds and sovereign wealth funds from around the world in order to develop principles and policies for in-house investment management. These studies are not conclusive on

the influence of investment efficiency and firm size in the choices that investors make regarding their investment management arrangements. This study attempts to bridge this gap by providing empirical evidence on the importance of investment efficiency and firm size considerations.

Objectives of the Study

This study aims to address the following objectives:

General Objective

To explore investment management structure choices by insurance companies in Kenya.

Specific Objectives

The following are the specific objectives of the study:

1. To determine the influence of investment efficiency on the choice of investment management structures of insurance companies in Kenya.
2. To ascertain the effect of firm size on the choice of investment management structures of insurance companies in Kenya.

Research Hypothesis

H₀₁: Investment efficiency does not significantly influence the choice of investment management structures of insurance companies in Kenya.

H₀₂: Firms Size does not significantly influence the choice of investment management structures of insurance companies in Kenya.

Scope of the Study

This study has the primary objective of exploring the influence of two systematically categorized factors that theory and empirical studies elsewhere have found to influence the investment management structure choice decision. The research is structured as a micro and macro analytical study with a target of insurance and reinsurance companies licensed to operate in Kenya. The study is geographically restricted to Kenya such that company subsidiaries in other countries are ignored.

The research universe for the study comprised of forty six (46) insurance and reinsurance companies operating in Kenya. According to IRA (2018), as at 31st December 2017, there were twenty (20) composite insurers underwriting both general and life business, seventeen (17) companies were underwriting only general insurance business, six (6) companies were in life assurance business only while three (3) companies were composite reinsurance companies.

THEORETICAL AND CONCEPTUAL FRAMEWORK

Transaction Cost Economics

The transaction cost theory has been applied to economic analysis since the 1930s. Ronald Coase in his 1937 article on the nature of the firm, sought to explain why economic activity was

organized within firms. Coase brought out the reasons why firms organize production internally as opposed to using the market mechanism (Madhok, 2002). According to Madhok (2002), other authors such as Williamson have contributed to the development of the theory. Williamson sought to make the theory more predictive by approaching the firm as a governance structure and by identifying the particular transaction characteristics that play an important role in comparative institutional assessment.

Williamson (1981) explained that economic approaches to the study of organization generally focus on efficiency. This is accomplished by making the transaction as opposed to the goods and services the basic unit of analysis and by assessing governance structures in terms of their capacities to economize on transaction costs. Firms and markets are the leading alternative governance structures. Williamson (1981) identifies three main levels of transaction cost approach analysis. The overall structure of the organization, the operating parts of the organization including which activities should be performed within the firm, which outside it and why, and finally the organization of human assets. Following Williamson's work, the transaction cost theory has shifted away from Coase's initial and more general treatment to a concern with issues of appropriation, ownership, alignment of incentives, and self-interest (Madhok, 2002).

Transaction cost theory sees firms and markets as two alternate ways of coordination. The firm being characterized by coordination through authority relations and the market being characterized by coordination through the price mechanism (Madhok, 2002). The transaction cost theory explains why firms choose to in-source or outsource their production activities. In investment management, asset owners face a choice between managing assets internally and delegating management to outside players. Both options have implications on efficiency and cost considerations. Investment efficiency as measured by investment returns and cost of management is best contextualized on the basis of transaction cost economics. The option chosen is also influenced by firm size. The choice between delegation and internal management is therefore conceptualized from the perspective of transaction cost theory, particularly the second level proposed by Williamson (1981).

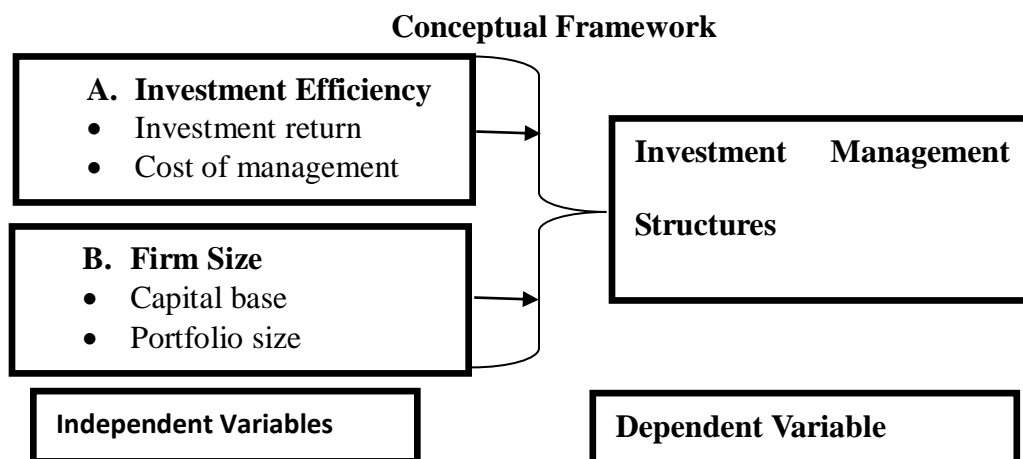


Figure 1: Conceptual Framework.

Investment Efficiency

Hodgson et al. (2000) argue that investment efficiency is a function of risk, return and total cost of investment management. The construction of investment management structures for most institutional investors is deeply rooted in financial factors and considerations. Hodgson et al. (2000) argue that the best investment management structures must be appropriately diversified, cost-effective and capable of meeting the investors' expectations for performance. Drawing upon Hodgson et al. (2000) this research identifies two main investment efficiency indicators that are considered by investors: investment return and total cost of investment management.

Investors have certain investment goals that are articulated in their statement of investment policy (Bodie, Kane, Marcus & Mohanty, 2009). These objectives are mostly an expression of the investors risk appetite and return expectations. The return objectives may be expressed in general terms or in absolute terms such as to achieve a return of 10% over a rolling three year period (Reilly & Brown, 2009). Gallagher, Gapes and Warren (2016) observed that the main consideration in choosing an investment management structure for a majority of investors was net returns. In this study returns are considered a primary objective that investors pursue, hence a probable antecedent in the choice of IMS.

Hodgson et al. (2000) explains that those charged with the fiduciary responsibility of managing investment funds as custodians will want to minimise expenses and other outgoings, subject to achieving their other investment objectives. The most visible cost borne by funds is the investment management fee. Institutional investors will therefore be keen to select investment management structures that provide the required services at the least or reasonable price. The direct investment management fees is normally charged as a proportion of the fund size. This research considers only the explicit investment management fees as the relevant cost that may impact an investor's choice of the investment management arrangement.

Firm Size

Size has to do with the magnitude of something – small or large as implied from Banz (1980). Banz (1980) applies the size effect concept to empirically test the validity of the Capital Asset Pricing Model (CAPM). That study defined the size effect as the finding that small market cap firms had higher risk adjusted returns compared to large cap firms. Theoretical and empirical literature in portfolio management dwells on three main firm size factors which are adopted in this research. These include capital base, portfolio size and human resource base.

The capital base of a firm refers to all the capital invested in the business and comprises of both equity and debt capital. Like most other financial services players, insurance companies are heavily regulated on capital requirements. According to Afande and Maina (2015), minimum capital requirements are put in place to ensure financial institutions have sufficient capacity to undertake their intermediation functions. The larger a financial institution's capital base, the greater their capability to undertake business expansion and allocate resources to compete more effectively in a liberalized environment.

The IRA has prescribed the capital adequacy levels needed to conduct different lines of insurance business. These requirements are two-fold: absolute shilling values and risk based derivations. For a firm to conduct short term insurance business, an absolute capital base of KES six hundred (600) million is required while for long term business a capital base of KES four hundred (400) million has been prescribed. Short term reinsurance business has a minimum capital requirement of KES one (1) billion whereas long term reinsurance business requires KES five hundred (500) million. These minimum capital requirements must be met by 30th June 2018 (GoK, 2015). Risk based capital requirements are determined by the authority based on the risks underwritten and investments of a particular firm. The law further requires that the minimum capital be invested in government securities, bank deposits and cash or cash equivalents (GoK, 2015). Apart from the legally prescribed capital base requirements, firms find it important to deploy higher capital levels depending on their business needs. The capital base of a company is therefore a big determinant of the size of its investment operations and the investment management structure. In the study capital base is measured by the level of share capital invested in the business.

Portfolio or fund size is the other important size factor. MacIntosh and Scheibelhut (2012) report that internal management is directly related to fund or portfolio size. Gallagher, Gapes and Warren (2016) refers to scale benefits as the advantages gained by a fund because of its large size. These benefits include lower management expense ratio, additional returns and creation of capacity. Gallagher, Gapes and Warren (2016) argue that with a larger size, funds enjoy a lower management expense ratio and may also gain a negotiating advantage. As fund sizes increase in delegated management, chances for negotiation of lower fees exist. Additional returns are realized through access to unique opportunities such as alternative assets due to large fund sizes. Small fund sizes also have their implications. Investors with small portfolios may choose to invest through pooled funds as they enjoy the benefits of diversification and professional management at a reasonable cost.

Gallagher, Gapes and Warren (2016) explain that with large portfolio sizes, an investor can deploy appropriate governance and risk management structures to their advantage. According to Schonfeld and Kerwin (1993), asset pooling in mutual funds achieves several economies of scale benefits. A large pool of assets can be efficiently managed and transaction costs spread out over a large number of shareholders in the funds. Large fund sizes make better utilization of available investment skills and other administrative capabilities. The ability to attract best of breed managers allows easy access to professional management and ensures that the skills deployed in the management of the fund are of the highest level of expertise which can deliver superior returns to the investors. The study measures portfolio size as the actual assets under management as reported in IRA returns.

Empirical Review

MacIntosh and Scheibelhut (2012) conducted a unique pension fund benchmarking survey incorporating 19 leading pension funds from the developed countries. The survey sought to find out the organizational structures and effect of internal management of fund performance, costs and compensation arrangements. The main findings of this study were that internal management

led to higher full time investment staff being engaged but ended up lowering total cost of management; funds with more internal management had better net returns (after cost returns); use of internal management was directly positively related to fund size. Gallagher, Gapes and Warren (2016) in a CIFR study of investment management practices in Australia surveyed some 20 executives within the asset management industry including superannuation funds and asset consultants or advisors. The interviewees were drawn from funds that were using in-house asset management or were considering that possibility. Advisers were drawn from those who were either advising clients using in-house management structure and were therefore expected to hold a view about the relative efficacy of in-house management compared to delegated management.

Gallagher, Gapes and Warren (2016) report a number of considerations by funds in bringing assets in-house. The main consideration for a majority of participants is net returns. Net returns refers to the balance between change in gross returns and the cost effect (savings) from in-house management. Scale was the other important consideration. As assets under management grows, the higher is the tendency to want to move assets in-house. The portfolio size effect is explained by the need to cut cost of portfolio management, avoidance of capacity constraints encountered by external managers as AuM grows and the desire to harvest the return benefits by exploiting competitive advantages of large AuM. The need to achieve greater alignment of fund objectives though better tailoring and avoidance of agency risk also tended to drive funds in-house. Concerns reported by the survey about in-house management include implementation capacity and risk management.

M'Arriba (2018) investigated the investment management structures of institutional investors in Kenya. The study had two main objectives: To identify and characterize the main institutional investors in the Kenyan capital markets and to find out the investment management structures that they were using. Using a conceptually exploratory approach, the empirical investigation was undertaken through key informant telephone interviews and desktop document analysis. M'Arriba (2018) found that there were three main categories of institutional investors who were active in the Kenyan capital markets namely, unit trusts, pension funds and insurance companies. The study also found that the three categories of institutional investors predominantly relied on delegated investment management structure.

Ochola (2017) uses data envelopment analysis (DEA) to investigate the efficiency of insurers in Kenya for the period 2011 to 2014. The study found that the number of firms attaining the efficiency frontier declined from 55% to 36% over the study period. It was also observed that there was a positive relationship between overall efficiency and net incurred claims, total assets and profit after tax. Total expenses, shareholder funds and reserves, net earned premium and investment income were negatively related to efficiency.

There is ample theoretical and empirical literature on investment management but most of it focuses on pension funds. The literature is also skewed towards the practice of investment management with little focus on investment governance. Insurance companies have largely been ignored. This empirical evaluation focusing on investment governance by insurance company hopes to plug the existing literature gap.

METHODOLOGY

The study employed a descriptive approach using a mixed methods research design. Tashakkori and Creswell (2007) define mixed methods research as research in which the investigator collects and analyzes data, integrates the findings, and draws inferences using both qualitative and quantitative approaches in a single study or a program of inquiry. Mixed methods research therefore involves the exploitation of both qualitative and quantitative data analysis especially to arrive at generalizations and benefit from feedback evaluations. Since the target population of study is relatively small, a survey was carried out. Primary and secondary data was collected. Data analysis was done using STATA to give a descriptive statistics that are presented in tables and narratives. The econometric model adopted for the study was of a binary logistic regression form. It was run using STATA and output generated and interpreted to report the findings.

The target population for this study consists of all the composite, life and general insurance and reinsurance companies licensed to offer services in Kenya by the Insurance Regulatory Authority (IRA). There were a total of forty six (46) companies licensed to undertake insurance and reinsurance business in Kenya as at 31st December 2016 (IRA, 2017). Primary data was collected from the respondents on the investment management structures they were using as well as Likert scale response on the important of various categorized factors influencing their decisions. The key respondent per firm was either the Chief Finance Officer (CFO) or the Chief Investment Officer (CIO). Secondary data was collected from regulatory filings by insurance and reinsurance companies. This data was available from the regulator's website and was accumulated and analysed using a secondary data collection sheet.

The study employed a binary logistic regression model represented as:

$$\text{Logit} [\pi(\text{IMS})] = \beta_0 + \beta_1 \text{IE} + \beta_2 \text{FS} + \varepsilon$$

Where;

- Π (IMS) = the probability of a firm choosing an investment management structure.
- IE = the investment efficiency factors
- FS = the firm size factors
- β_0 = the intercept representing the "baseline" event rate.
- β_1 = the odds ratio for investment efficiency effect
- β_2 = the odds ratio (coefficient) for the firm size effect
- ε_0 = the error term

RESULTS

The study sought to find out the mechanisms that firms employed in the investment management activities of their portfolios. It was observed that twenty five (25) firms or 66% of respondent firms used in house investment management approach while thirteen (13) firms or 34% of the firms used the delegation approach. The firms that employed in house approach were spread out across the three business categories. Table I illustrates the investment management structure choices among the respondents.

Table I
Investment Management Structures of Insurance Companies

IMS	Occurrences	Percentage	Cumulative
In house	25	66%	66%
Delegated	13	34%	100%

Correlation analysis was undertaken to find out how investment efficiency and firm size were correlated with the two alternative investment management structures. Results showed that in house investment management structure has a moderately high but negative correlation with investment efficiency ($R = -0.6538, p < 0.05$). The correlation is significant both at the 5% and 1% levels of confidence. The firm size also has a negative association with in house investment management choice ($R = -0.2581, p < 0.05$). This can be interpreted to mean that increasing firm sizes makes firms more likely to avoid choosing in house management as their IMS. Delegated investment management had positive correlations with both investment efficiency and firm size but the correlations were not statistically significant. This can therefore be interpreted to mean that pursuit of investment efficiency by large firms leads them towards delegation. These results are presented in table II.

Table II
Correlation Matrix between IMS and the Explanatory Variables

		Delegation IMS	In house IMS
Investment Efficiency	Pearson's correlation	0.0145	0.658**
	Sig. (2 tailed)	0.005	0.003
	N	13	25
Firm Size	Pearson's correlation	-0.2741	-0.2581
	Sig. (2 tailed)	0.0770	0.027
	N	13	25

**Significant at 0.01 level (2 tailed)

Regression analysis was undertaken using the binary logistic regression model presented in the methodology section of this paper. In house management was coded as 0 and delegation 1. From the logistic regression model, investment efficiency had positive and significant odds ratio of 1.1243 in favour of delegation. Therefore, firms were 12.4% more likely to delegate their investment management activities on investment efficiency considerations. This result is in line with Gallagher, Gapes and Warren (2016) that delegation approaches were associated with higher net of cost returns and better risk management.

The logistic regression model outputs are presented in table III.

Table III
Logistic Regression Model Results

Logistic Regression.		Number of obs = 38				
Log Likelihood = -16.1955		LR chi ² (4) = 16.43				
		Prob > Chi ² = 0.0025				
		Pseudo R ² = 0.3366				
A2	Odds Ratio	Std. Err.	z	P> z	[95% Conf. Int]	
Investment Efficiency	1.1243	3.1392	1.130	0.026	0.4360	22.3885
Firm Size	1.4824	0.4678	0.750	0.045	0.0721	3.2278

On firm size, the odds ratio was 1.4824 meaning that firms were 48.2% more likely to delegate compared to in house management, given firm size considerations. This therefore means that firms that had larger capital levels and portfolio sizes were more likely to delegate their investment management activities. This finding contradicts MacIntosh and Scheibelhut (2012) that internal management is directly related to fund or portfolio size. This is explained by the fact that in Kenya, investment management practice is still a nascent and highly concentrated market with only a handful of players. This means that there are few investment professional available in the market, most of whom are retained by the big investment firms. Any insurance firm wishing to increase its returns must therefore seek this expertise from the professional firms. Further to this observation, many of the insurance firms that delegate their investment management activities have investment management subsidiaries or are part of group companies that also engage in investment management service provision.

To firm up the model findings, hypothesis testing was undertaken using the Wald test. There were two null hypothesis in the study as articulated in the hypothesis section of this paper.

H₀₁: Investment efficiency does not significantly influence the choice of investment management structures of insurance companies in Kenya.

H₀₂: Firms Size does not significantly influence the choice of investment management structures of insurance companies in Kenya.

The results of the hypothesis tests are presented in table IV.

Table IV
Hypothesis Testing

Hypothesis	Hypothesis test	Decision rule	W-Statistic (χ^2)	$p > \chi^2$	Decision
Investment efficiency does not significantly influence the choice of investment management structures of insurance companies in Kenya.	Wald test statistic (Wald test) $H_0: \chi^2 = 0$ $H_1: \chi^2 \neq 0$	Reject H_{01} if $p > \chi^2 \leq 0.05$ (otherwise fail to reject)	6.29	0.026	Reject H_{01}
Firm size does not significantly influence the choice of investment management structures of insurance companies in Kenya.	Wald test statistic (Wald test) $H_0: \chi^2 = 0$ $H_1: \chi^2 \neq 0$	Reject H_{03} if $p > \chi^2 \leq 0.05$ (otherwise fail to reject)	5.57	0.045	Reject H_{02}

The first hypothesis postulates that there are other factors other than investment efficiency factors that influence investment management structure choices. The resultant Wald statistic test was statistically significant at the 5% level of significance ($\chi^2 = 6.29, p < 0.05$). The null hypothesis was therefore rejected and a conclusion made that investment efficiency was a statistically significant factor influencing investment management structure choices.

The second hypothesis posits that there are other factors other than firm size that drive firm investment management structure choices. The hypothesis test results gave a Wald statistic that was significant at the 5% level of significance ($\chi^2 = 5.57, p < 0.05$). This led to the conclusion that firm size was a significant factor affecting investment management structure choices of firms.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

From this study, it is evident that pursuit of investment efficiency led firms more towards delegating their portfolio management activities to professional firms. Despite the perception that firms were desirous to reduce the cost of investment management this desire was outweighed by the benefits of higher returns expectations and better risk management through delegation approaches. This study therefore concludes that investment efficiency influences insurance companies in Kenya to choose delegated investment management.

Firm size was found to be a strong factor driving firms towards delegation. Larger levels of capital base and portfolio sizes led firms toward delegating their portfolios to external managers. With higher capital levels and portfolios sizes, firms enjoy economies of scale and can negotiate lower fees from professional managers. Therefore, this study concludes that as firm sizes increase, the benefits of delegating their portfolios such as additional returns, risk management capacity, lower expense ratios and capacity creation become more appealing.

Based on the findings of this study, it is recommended that firms become more methodical in their decisions regarding the investment management structures they adopt. They should carefully consider their investment efficiency needs such return targets and costs considerations as well as their sizes. These are influential factors that can deliver higher returns and cost savings to the firm. Indeed, firms should declare the investment management structure choices in their statement of investment policies as well as provide justification for those choices. They should also periodically review those choices to ensure they remain aligned to their objectives.

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