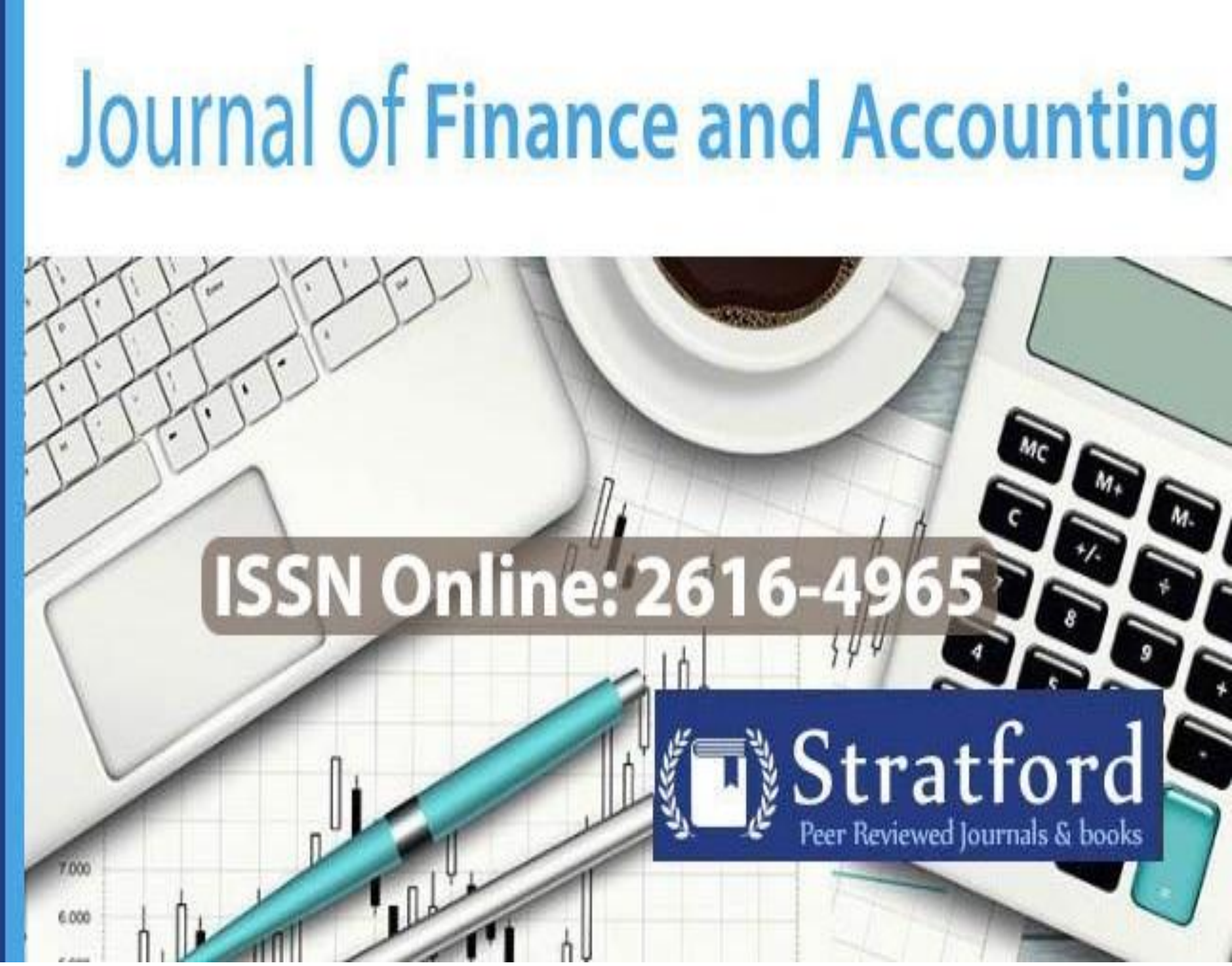

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Corporate Audit Committee Independence and Financial Performance of Insurance Companies in Kenya

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Abstract

While the insurance industry in Kenya plays a critical role in economic stability through risk mitigation, financial protection, and investor confidence, it has faced persistent financial challenges that have contributed to the collapse of some firms. This study examined the effect of audit committee independence on the financial performance of insurance companies in Kenya. The study was guided by agency and shareholder primacy theories. A positivist philosophy and causal research design were adopted to analyse the relationship between audit committee independence and firm performance. A census approach was applied, covering 49 insurance firms over a 10-year period from 2015 to 2024. Data were obtained from audited financial statements, annual reports, and regulatory sources. The study relied on secondary panel data capturing audit committee independence and return on equity (ROE) as the measure of financial performance. Both descriptive and inferential statistical techniques were applied. The findings indicate that audit committee independence has a statistically significant negative effect on ROE after controlling for firm and time effects. The results suggest that increased independence strengthens monitoring, enhances oversight of financial reporting and risk management, and reduces managerial discretion, but may also lead to more conservative financial practices and higher compliance costs that constrain short-term profitability. The findings show that governance mechanisms operate within a context where improved accountability and transparency do not always translate into immediate financial gains. The study provides evidence that audit committee independence remains an important governance mechanism, with its influence on performance reflecting a trade-off between strengthened oversight and short-term financial outcomes in Kenya's insurance sector.

Keywords: *Audit Committee Independence, Corporate Governance, Financial Performance, Insurance Companies, Return on Equity*

1.0 Background to the Study

The insurance sector plays a major role in financial intermediation, risk transfer, and capital mobilisation within modern economies. Recent global estimates place total insurance premiums at approximately US$7.19 trillion, accounting for about 7 percent of global gross domestic product, which confirms the sector's economic weight and its link to financial system stability (Swiss Re Institute, 2024). Despite this importance, insurance firms operate within a governance structure where ownership is separated from control. This separation creates agency conflicts between managers and shareholders, which can lead to suboptimal decisions, earnings management, and weakened financial outcomes when monitoring is inadequate (Kasbar et al., 2022; Tayeh et al., 2023). Corporate governance mechanisms are therefore necessary to align managerial actions with shareholder interests. The audit committee remains one of the key structures within this framework. Recent empirical work shows that audit committees improve financial reporting quality, strengthen internal controls, and reduce information asymmetry between management and external stakeholders (Yamin & Aryati, 2024). Audit committee independence, in particular, has been reported to enhance objectivity in oversight and limits managerial influence over financial reporting processes, which improves transparency and accountability (Abraham et al., 2025).

In the United States, post-crisis reforms gave audit committees a more formal role in supervising external audit, internal control, and financial reporting, with strong emphasis on independence and expertise. Recent scholarship continues to treat these reforms as a turning point in the institutionalisation of audit committees as board-level monitoring bodies (Coates, 2007). Comparable developments have been observed in other settings where governance codes and regulatory frameworks have strengthened committee composition, independence, and oversight responsibilities in response to investor demand for credible reporting and stronger accountability (Alhababsah & Yekini, 2021; Alodat et al., 2023). In countries such as Australia and the United Kingdom, the broad direction of reform has been similar, with audit committees moving from recommended governance practice toward embedded expectations within listing, reporting, and assurance frameworks. Cross-country evidence also shows that the effect of such reforms depends on enforcement quality and the wider governance environment (Kuo & Lee, 2024).

At the regional level, African governance systems have also given greater weight to audit committees as instruments of accountability and financial reporting oversight. Recent evidence from Egypt links internal corporate governance mechanisms to better financial segment disclosure, which is consistent with the view that stronger governance structures improve reporting quality and transparency (Abdelhak & Hussainey, 2025). Recent Nigerian evidence also shows that audit committee attributes are associated with firm performance, confirming the continued importance of committee structures in listed-company governance (Rashid et al., 2024).

The audit committee was formally integrated into corporate governance practice in Kenya following the introduction of the corporate governance code in 1999, which was later reinforced by Capital Markets Authority guidelines in 2002 that made audit committees mandatory for listed firms (Gakeri, 2013). This framework was strengthened further by sector-specific regulation under the Insurance Regulatory Authority's (IRA) corporate governance guidelines, which were issued in 2011 and require insurers to maintain audit committees as board subcommittees responsible for financial reporting oversight and internal controls. Although the Kenyan insurance sector has grown over time, it still faces structural and performance constraints. Over the study period, insurance penetration in Kenya has declined from 2.79% in 2015 to 2.75% in 2016 and 2.71% in

2017, before falling further to 2.43% in 2018 and 2.24% in 2021, and then recovering slightly to 2.4% in 2024. While the sector contributes to financial stability and savings mobilization, it has also seen cases of governance failure, financial distress, and low profitability. These conditions provide a solid foundation for investigating how audit committee characteristics relate to financial performance within the sector.

1.1 Statement of the Problem

The insurance industry helps to drive economic development by transferring risk, providing financial protection, and mobilising long-term savings. In Kenya, the sector generated gross written premiums of Kshs 395.3 billion in 2024, accounting for approximately 2.4 percent of GDP, demonstrating its importance within the financial system (IRA, 2024). Despite this contribution, the industry continues to face persistent performance challenges, including firm failures, financial distress, and volatile profit trends (Kitaka et al., 2020; Kiptoo et al., 2021). Several insurers have been placed under statutory management, with governance issues frequently cited as a contributing factor. Industry performance indicators also vary, with return on equity (ROE) falling from 11.4 percent in 2015 to 3.9 percent in 2020 before recovering to 8.4 percent in 2024. These trends raise questions about the effectiveness of current governance structures in ensuring stable financial performance.

The empirical evidence on the relationship between audit committee independence and firm performance is mixed and inconclusive. Some studies suggest that independence improves monitoring and performance outcomes. Evidence from Ghana and Nigeria demonstrates a positive and statistically significant relationship between audit committee independence and profitability measures, implying that independent members improve oversight and reduce managerial opportunism. Similar findings were reported in the Kenyan insurance context, where independence was linked to better financial performance (Ibrahim et al., 2019). In contrast, other studies show negative or insignificant relationships. Evidence from Bahrain, Saudi Arabia, and Nigeria suggests that audit committee independence may be associated with lower profitability or poor performance effects, particularly when stronger monitoring introduces conservative financial practices and higher compliance costs (Al-Jalahma, 2022; Habtoor, 2022; Kurawa & Shuaibu, 2022). Additional studies have found insignificant relationships in contexts such as SACCOs in Kenya and private firms in Uganda, indicating that independence does not always translate into better financial outcomes (Machora & Oluoch, 2019; Rwakihembo et al., 2022). These disparate findings demonstrate that the impact of audit committee independence on financial performance varies by context, institutional setting, and measurement method.

Most previous research has focused on listed firms operating in stricter regulatory and disclosure environments, which may not accurately reflect the structure of Kenya's insurance sector, where a significant proportion of firms are not publicly listed. Differences in governance frameworks, institutional enforcement, and performance measures further limit the generalisability of previous findings. This necessitates context-specific evidence to establish how audit committee independence relates to financial performance within Kenyan insurance firms, particularly in a sector characterised by regulatory oversight, governance concerns, and fluctuating profitability.

1.2 Research Objective

The specific objective of this article is:

To establish the effect of audit committee independence on financial performance of insurance companies in Kenya.

1.3 Research Hypothesis

H_{01}: Audit committee independence has no statistically significant effect on financial performance of insurance companies in Kenya.

2.0 Literature Review

The section present the theoretical framework and literature review for each of the concepts.

2.1 Theoretical Framework

This study is based on two complementary theoretical perspectives: agency theory and shareholder primacy theory. Agency theory originated in early economic thought and corporate ownership analysis, including the works of Smith (1776) and Mitnick (1975), and rose to prominence in management research after Jensen and Meckling (1976). The theory explains conflicts that arise when ownership and management are separated, and principals delegate decision-making authority to agents with the goal of increasing wealth. Information asymmetry and goal divergence lead to adverse selection and moral hazard, necessitating monitoring and bonding costs for principals to align interests (Jensen & Meckling, 1976). Managers may put in less effort, seek private benefits, or adopt investment horizons and risk preferences that differ from those of shareholders (Farinha, 2003). Agency relationships in insurance firms extend beyond shareholders and managers to include intermediaries and policyholders, resulting in layered monitoring challenges (Pyback, 2014). Agency theory serves as the primary conceptual foundation for the current study. It explains why audit committee independence is required, as independent members, free of managerial influence and material conflicts of interest, provide objective oversight of financial reporting, risk management, and internal controls. Through this structural separation from management, independence reduces the likelihood of opportunistic behaviour, limits agency costs, and protects shareholder returns, with ROE serving as the measurable financial outcome.

Shareholder primacy theory adds another perspective to interpreting return on equity as the primary performance metric. The theory, most closely associated with Friedman (1970), holds that the firm's primary goal is to maximise shareholder wealth. In this context, ROE measures how effectively firms generate returns on shareholders' invested capital. Audit committee independence, while intended to strengthen oversight and protect shareholder interests, may result in a short-term performance trade-off. Independent members typically enforce stricter controls, improve compliance, and promote conservative financial reporting, which can reduce immediate profitability. However, these governance actions help to protect shareholder value by increasing transparency, reducing risk exposure, and strengthening accountability. The theory thus helps explain why increased independence may be associated with lower short-term ROE, as governance mechanisms prioritise protecting shareholder interests over immediate financial returns.

2.2 Audit Committee Independence

The extent to which audit committee members, particularly the chair and non-executive members, are structurally separated from management allows them to provide objective oversight of financial reporting, internal controls, and risk management. In the current study, independence was measured by the proportion of independent non-executive members on the audit committee, as well as the audit committee chair's independence status. This governance attribute is expected to reduce managerial influence over financial reporting, improve accountability, and limit opportunistic behaviour caused by information asymmetry (Jensen & Meckling, 1976; Abraham et al., 2025). However, the effectiveness of independence may be influenced by the institutional and regulatory context. While greater independence can improve oversight and reporting credibility, it may also result in increased monitoring intensity, compliance requirements, and prudent financial practices. These mechanisms can protect firms from governance failures while constraining short-term profitability, leaving the relationship between audit committee independence and financial performance theoretically and empirically contested.

2.3 Financial Performance

Financial performance reflects a firm's ability to generate returns from the resources entrusted to it. In this study, financial performance was measured using return on equity (ROE), which is defined as profit after tax divided by total shareholder equity. ROE was chosen because it directly captures the return generated by shareholders' invested capital and thus aligns with the shareholder primacy perspective, which emphasises the protection and maximisation of shareholder value (Friedman, 1970). Throughout the study period, the Kenyan insurance sector's profitability fluctuated significantly, including periods of financial distress and governance concerns. This variability makes ROE an appropriate outcome for evaluating whether stronger audit committee independence is associated with improved or constrained financial returns in a highly regulated financial-services environment (IRA, 2024).

2.4 Audit Committee Independence and Financial Performance

The empirical literature contains a cluster of studies that show a positive relationship between audit committee independence and firm financial performance. Evidence from Ghana and Nigeria indicates that independent audit committees improve profitability indicators such as Return on Assets (ROA), Return on Investment (ROI), and Return on Equity (ROE) (Lamido et al., 2023; Musah et al., 2025). Similar findings are reported in Qatar, where effective audit oversight at the committee leadership level is associated with improved performance through improved disclosure practices (Alodat et al., 2023). Ibrahim et al. (2019) found a positive and statistically significant link between audit committee independence and financial performance in Kenya's insurance industry. These studies attribute the positive effect to increased oversight, less managerial opportunism, and stronger financial reporting discipline among independent committee members.

A second group of studies found a negative relationship between audit committee independence and firm performance. Evidence from Bahrain, Saudi Arabia, Nigeria, and Oman suggests that higher levels of independence may lead to lower profitability (Al-Jalahma, 2022; Kurawa & Shuaibu, 2022; Shamsuddin & Alshahri, 2022). Similar findings are seen in banking contexts, where independence is negatively associated with performance measures, possibly due to stricter controls, conservative accounting practices, and higher compliance costs (Haddad et al., 2021). These findings indicate that while independence strengthens monitoring, it may also constrain short-term financial outcomes, particularly in regulated sectors where risk management and reporting requirements are stringent.

A third set of studies found weak, insignificant, or mixed relationships, implying that audit committee independence does not consistently affect firm performance. Evidence from India suggests that independence alone may not explain profitability unless combined with other audit committee characteristics (Singhania & Panda, 2025). In Saudi Arabia, independence becomes

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insignificant under alternative estimation techniques (Habtoor, 2022), while studies in Kenya and Uganda report positive but statistically insignificant relationships (Machora & Oluoch, 2019; Rwakihembo et al., 2022). Other studies also report no meaningful association between independence and firm outcomes, indicating that its effectiveness depends on contextual factors such as governance environment, institutional quality, and measurement approaches. These mixed findings across countries and sectors leave the direction of the relationship unresolved and support the need for context-specific investigation within the Kenyan insurance sector.

3.0 Research Methodology

Positivism holds that social phenomena can be studied using observable and measurable evidence and that variable relationships can be empirically tested (Sekaran & Bougie, 2013). In this context, a causal research design was used to examine how audit committee independence affects insurance firm financial performance. All forty-nine IRA-licensed Kenyan insurance companies between 2015 and 2024 were targeted. Since the population was manageable, a census was used to include all firms with consistent data over the study period. Analysis included a balanced panel of 44 firms after data screening. Audit committee independence, firm size, and financial performance were extracted from published annual reports and regulatory disclosures on company websites, the IRA, and the Association of Kenya Insurers using a structured data extraction sheet. Corporate governance disclosures determined audit committee independence, while audited financial statements measured financial performance use return on equity. To evaluate distributional properties and inferential relationships, descriptive statistics and panel regression in R and SPSS were used on quantitative data (Sekaran & Bougie, 2013; Gujarati, 2013). Financial performance and audit committee independence were estimated by the baseline empirical model:

$$Y_{it} = \beta_0 + \beta_1 X_{it} + \varepsilon_{it}$$

In the model, Y_{it} represents return on equity for firm i at time t, while X_{it} represents audit committee independence. Audit committee independence was measured using a composite index based on the proportion of independent directors and audit committee chair independence, while ROE was computed as profit after tax divided by total shareholders' equity. Robust standard errors were applied where appropriate, while model significance and explanatory power were assessed using the coefficient of determination and joint significance statistics (Gujarati, 2013; Hair et al., 2010; Kim, 2019; Mukherjee & Laha, 2019).

4.0 Findings and Discussion

The final balanced panel comprised 44 insurance companies observed over ten years from 2015 to 2024, yielding 440 firm-year observations. The analysis examined the distribution of audit committee independence and ROE, their bivariate association, and the predictive relationship under pooled, random-effects, and fixed-effects panel specifications.

4.1 Descriptive Statistics

Audit committee independence and financial performance were first summarised using descriptive statistics. Table 1 presents the distribution of the two study variables across the 440 firm-year observations.

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Table 1: Descriptive Statistics

Statistic	Audit Committee Independence	ROE
Range	59%	276.06%
Minimum	28%	-88.87%
Maximum	87%	187.19%
Mean	52%	5.19%
Standard deviation	11%	20.94%
Median	53%	6.96%
Mode	53%	9.74%
Skewness	0.276	0.436
Kurtosis	0.076	16.073

Note: ROE = Return on Equity. N = 440 firm-year observations.

Across the 440 firm year observations, audit committee independence ranged from 28% to 87% (range = 59%), with a mean of 52% (SD = 11%), and both the median and mode at 53%. This indicates moderate levels of independence across audit committees, with most firms clustering around the midpoint of independence representation. Firm financial performance, measured by ROE, ranged from −88.87% to 187.19% (range = 276.06%), with a mean of 5.19% (SD = 20.94%), a median of 6.96%, and a mode of 9.74%. This shows substantial variability in profitability across insurance firms, with some firms recording extreme losses while others achieved very high returns. The distributional statistics show that audit committee independence exhibits slight positive skewness (skewness = 0.276), which indicates a mild concentration of observations toward lower independence levels with fewer firms at the higher end. In contrast, ROE shows moderate positive skewness (skewness = 0.436), which reflects a longer right tail driven by high-performing firms. Kurtosis values indicate that independence is approximately normally distributed (kurtosis = 0.076), while ROE is highly leptokurtic (kurtosis = 16.073), confirming the presence of extreme observations in firm performance.

4.2 Inferential Statistics

4.2.1 Correlation between Audit Committee Independence and Financial Performance

Pearson correlation analysis was conducted to establish the direction and strength of the relationship between audit committee independence and financial performance. The findings are presented in Table 2.

Table 2: Correlation Analysis

Variable	Audit Committee Independence	Financial Performance (ROE)
Audit Committee Independence	1.000	
Financial Performance (ROE)	-0.330**	1.000
Sig. (2-tailed)	0.000	

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The Pearson correlation results indicate that firm financial performance, measured by ROE, is negatively and statistically associated with audit committee independence ($r = -0.330$, $p < 0.01$). This indicates that higher levels of independence are associated with lower short-term financial performance among the sampled insurance firms. The negative correlation suggests that increased representation of independent members may be linked to stricter oversight, more conservative financial decisions, and enhanced scrutiny of managerial actions, which can reduce reported profitability in the short run. The result provides preliminary evidence of an inverse relationship between governance strength and firm performance within the study context. The inverse correlation is consistent with studies reporting that greater audit committee independence can be associated with lower short-term profitability where stronger oversight produces conservative financial practices and higher compliance costs (Al-Jalahma, 2022; Kurawa & Shuaibu, 2022; Shamsuddin & Alshahri, 2022). However, the wider literature remains mixed, with positive relationships reported by Musah et al. (2025), Lamido et al. (2023), and Ibrahim et al. (2019), and weak or insignificant effects reported in other contexts (Habtoor, 2022; Machora & Oluoch, 2019; Rwakihembo et al., 2022).

4.2.2 Regression Analysis

Panel regression analysis was undertaken to assess the predictive relationship between audit committee independence and ROE and to test H_{01}. Pooled and random-effects estimates were first compared using cluster-robust standard errors, followed by a fixed-effects cluster-robust specification.

Table 3: Pooled and Random-Effects Cluster-Robust Regression Results

Predictor / Statistic	Pooled OLS				Random Effects			
	β	SE	t	p	β	SE	t	p
(Intercept)	0.464	0.023	20.040	<0.001	0.464	0.023	20.040	<0.001
Audit Committee Independence	-1.100	0.055	-20.094	<0.001	-1.100	0.055	-20.094	<0.001
R^2	0.522				0.522 (within)			
Adjusted R^2	0.521				0.521 (between)			
Overall R^2	0.522				0.522			
Wald χ^2	403.753			<0.001	403.753			<0.001
Observations	440				440			
Firms	44				44			

The base model shows identical pooled OLS and random-effects estimates under cluster-robust inference, indicating that accounting for insurer-level heterogeneity does not materially alter the estimated relationship in this specification. Audit committee independence is negatively associated with ROE and is statistically significant at the 1 percent level in both models. Under the random-effects specification, audit committee independence records a coefficient of −1.100 (SE = 0.055, $t = -20.094$, $p < 0.001$). The pooled OLS estimates are identical, with independence ($\beta = -1.100$, SE = 0.055, $t = -20.094$, $p < 0.001$). This indicates a strong and consistent inverse relationship between audit committee independence and firm financial performance across insurers and over time. ROE was modelled as a function of audit committee independence, with the model explaining about 52.2 percent of the variation in performance ($R^2 = 0.522$). Joint significance tests (Wald $\chi^2 = 403.753$, $p < 0.001$) confirm that audit committee independence possesses strong explanatory power for ROE in Kenyan insurance firms.

Table 4: Fixed-Effects Cluster-Robust Regression Results

Predictor / Statistic	β	SE	t	p-value
Audit Committee Independence	-1.201	0.057	-21.083	<0.001
R^2 (within)	0.570			
R^2 (between)	0.522			
R^2 (overall)	0.546			
Wald χ^2	444.480			<0.001
Observations	440			
Firms	44			

The fixed effects cluster-robust base model shows that audit committee independence affects ROE within an insurer. Audit committee independence remains negative and statistically significant at the 1% level, indicating a recurring relationship between governance structure and financial performance within insurers. A coefficient of −1.201 (SE = 0.057, t = −21.083, $p < 0.001$) suggests that firms with higher independence have lower ROE. The negative association in the pooled and random-effects models is confirmed when controlling for unobserved firm-specific characteristics. The within R^2 of 0.570 indicates that audit committee independence changes explain 57.0% of ROE variation within firms over time. Cross-firm differences in independence explain 52.2% of the variation in average ROE across insurers, as indicated by the R^2 of 0.522. The model explains 54.6% of ROE variation, with slightly stronger explanatory power within firms over time than across firms. The model shows significant evidence (Wald $\chi^2 = 444.480$, $p < 0.001$) that audit committee independence significantly impacts financial performance in Kenyan insurance firms.

The audit committee independence hypothesis is rejected by the random effects baseline model with cluster-robust standard errors. Audit committee independence negatively correlates with ROE statistically. Audit committee independence coefficient: -1.100 (SE = 0.055, t = -20.094, $p < 0.001$). Increased independence reduces firm financial performance when other factors remain constant. The low p-value and large absolute t-statistic strongly reject the null hypothesis of no relationship. This shows that audit committee independence affects Kenyan insurance companies' financial performance statistically.

Results indicate a significant negative correlation between audit committee independence and return on equity in Kenyan insurance firms ($\beta = -1.100$, SE = 0.055, t = −20.094, $p < 0.001$). Higher independence is linked to lower short-term profitability. Increased independence may improve oversight, limit managerial discretion, and encourage cautious financial decision-making. Stricter provisioning, conservative revenue recognition, and tighter internal controls may lower short-term earnings. Governance structures are strengthened during regulatory pressure or internal adjustment, resulting in a short-term trade-off between financial performance and oversight intensity.

The independence–performance relationship is inconsistently empirical. Al-Jalahma (2022), Kurawa and Shuaibu (2022), and Shamsuddin and Alshahri (2022) found a negative relationship between audit committee independence and firm performance. Haddad et al. (2021) show that independence may not improve banking profitability. However, Musah et al. (2025), Lamido et al. (2023), and Ibrahim et al. (2019) find positive and significant relationships between independence and firm performance, suggesting that independent committees can improve monitoring and outcomes. Habtoor (2022), Machora and Oluoch (2019), and Rwakihembo et al. (2022) find weak or insignificant effects, while Berkman and Zuta (2017) find no significant relationship between independence and adverse firm outcomes. Abu (2024) shows that independence can hurt performance depending on the measure. These differences show that independence depends on institutional context, sector characteristics, governance quality, and performance indicator.

According to agency theory, the negative coefficient indicates increased monitoring to reduce manager-shareholder agency conflicts. According to Jensen and Meckling (1976), independent directors limit opportunistic behaviour caused by information asymmetry and goal divergence by controlling managerial actions. Independent oversight of financial reporting, risk exposure, and managerial decisions improves in insurance firms, where multiple agency relationships and risk management are central. This monitoring function reduces agency costs over time but may increase short-term costs through conservative financial practices and stricter controls. Return on equity measures how well firms deliver value to shareholders (Friedman, 1970), and governance mechanisms like independence may prioritise risk control and reporting credibility over immediate profitability. The trade-off predicted by agency theory is that stronger governance mechanisms improve accountability and align interests, while shareholder primacy shows that these controls can moderate short-term returns to protect value.

5.0 Conclusion

The study finds that audit committee independence is associated with a statistically significant decline in the financial performance of insurance companies in Kenya. The negative coefficient indicates that increased independence corresponds with lower short-term profitability. This outcome reflects conditions where firms strengthen governance structures through greater independence, often in response to regulatory requirements or internal adjustments. Independent members enhance objectivity and oversight, which can lead to stricter financial scrutiny, conservative accounting practices, and tighter control systems. These mechanisms may reduce reported earnings in the short run while improving accountability and the credibility of financial reporting. The findings therefore indicate that independence remains an influential governance attribute, although its effect emerges within a context where firms are balancing performance objectives with compliance and risk management demands. The results suggest that audit committee independence does not operate as a short-term profit-enhancing mechanism but plays a critical role in strengthening governance quality. The observed negative relationship is consistent with a short-run trade-off, where improved monitoring and control reduce managerial discretion and risk-taking, which in turn affects immediate financial outcomes. This indicates that independence should be interpreted as a governance safeguard rather than a direct driver of profitability, particularly in regulated sectors such as insurance where prudential oversight and financial discipline are central.

6.0 Recommendations

Audit committee independence should therefore remain a priority in corporate governance frameworks. Firms should maintain transparent and merit-based appointment processes, clear reporting structures, and safeguards that protect the autonomy of independent members. Boards should focus on enhancing the effectiveness of independent directors through access to timely information, continuous training, and active engagement in oversight functions. At the regulatory level, the IRA can strengthen sector-wide governance by enforcing independence requirements and providing guidance on effective audit committee composition and functioning. These measures will support the development of robust governance systems that enhance long-term financial stability, even where short-term performance adjustments are observed.

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