DETERMINANTS OF PERFORMANCE OF INSURANCE COMPANIES IN KENYA

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DECLARATION

This research project is my original work and has not been presented for examination for award in any other University.

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DEDICATION

I dedicate this project to Dr. Robert Momo Kpoto and Dr. Louise Marpleh Kpoto for their support and encouragement I received during my MBA programme.

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I would like to thank the Almighty God for giving me good health and guidance to complete this project and the entire MBA programme successfully.

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ABBREVIATIONS

AKI : Association of Kenya Insurers

GDP : Growth Domestic Product

R&D : Research and Development

RBV : Resource Based View Theory

ABSTRACT

In the past decade, the number of players in the insurance sector have increased significantly with currently 54 insurance companies offering services nationwide. This has changed the dynamics of operations in this sector as the companies are faced with harder task in attaining competitive advantage. However, the available literature is not sufficient to determine what exactly affects how the insurance companies in the country perform. This study sought to establish the determinants of performance of Insurance Companies in Kenya. The study adopted descriptive research design with the population being all the insurance companies that are registered in Kenya. Census approach was adopted to cover all the insurance companies in Kenya while data was collected by using questionnaires. Data was analyzed using descriptive statistics and presented by tables. The study found out that cash flows, liquidity, organization structure and size all have a positive and significant effect on how the firms performed. The study further found out that these factors had a positive and significant effect on the performance of the insurance companies. The study thus concludes that in order to improve performance in the insurance companies, these factors ought to be carefully evaluated and prioritized in the organization's strategies. The study thus recommends that the management at these firms ensure that their assets are liquid enough to meet both current and future obligations. The study also recommends that the organization structures should be implemented in such a way that it enables enhanced communication between the employees and management. Additionally, the study recommends that the government should come up with measures to grow the country's real GDP as this would enhance the economic growth of the country and the insurance industry's growth as well.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Due to the high competency requirements, most organizations aim to generate the kind of performance that can bring the most profit (Kami and Shakiba, 2013). Performance is termed as the organization's ability to properly utilize the available resources, both physical and human capabilities in achieving the set organization's goal and targets. There are various factors which have been established to highly determine how organizations perform both internally and externally. This also relates to the insurance companies that operate by providing protections to both individuals and organizations regarding certain speculated risks that are prone to happen. They thus have to ensure that they remain profitable while still catering for their customers' wellbeing (Baltensperger *et al*., 2007).

Organizations are seeking to create much competition between them, taking more market, more customers, more sales, etc. (Gupta, 2008). Various theoretical frameworks available try to bring out the determinants of performance in organizations and how to manage them. The Open Systems Theory depicts the concept of a system as a situation where all are characterized by an assemblage or combination of parts whose relations make them interdependent. Resource based view theory (RBV) connects the organization's exhibitions on enhancement and item advancement strategy. Whereas, the Dynamic Capabilities Theories hold that organizations should understand the capabilities which they are best in and maximize them.

Company performance varies among economic sectors, countries and regions (Chache, 2016). Through the determination of the indicators of performance in the companies, it enables them in formulating strategies that may enable the organization to gain competitive advantage. Particularly, this is important in the insurance sector whereby the performance is essential for sustainability and survival. Poor fundamentals in the operations do not only indicate low investment opportunities, but also result in diminished growth. The available literature however is not sufficient enough in enumerating the exact factors that undermine performance with the studies done being inconclusive (Kimani and Njuguna, 2016).

In Kenya, the insurance sector plays an important role in enhancing economic growth and development. The sector has grown drastically in the past two decades to become a leading GDP contributor. However, the impressive growth in premiums and incomes has not been matched with penetration into the potential market (Olima, 2010). This shows that the sector may be improved even further if much emphasis is given towards the underlying factors that determine how the insurance companies perform.

1.1.1 Organizational Performance

Performance is described as how well a firm is able to utilize its available resources in accomplishing its set targets and goals (Odemba, 2013). It can also be described as the ability of an organization to gain and manage its resources in a way to develop competitive advantage. Similarly, Kaplan and Norton, (2008) described performance as a comparison of returns of a particular organization against the returns of similar organizations in the same field. The concept of performance is connected to the ideas of effectiveness and efficiency. Performance is termed as the organization activities which ensure that the goals are consistently being met in an effective and efficient manner. The assessment of performance is important in determining the general position of the company and its capability in not only managing the current operations but also planning on the future. This enables determination of both the short term and long-term achievements (Chache, 2016). Performance is also termed as the organization's capability in gaining competitive advantage through maintaining efficiency in its operations (Iswatia and Anshoria, 2007).

A firm's performance is measured by the firms' profitability, market penetration into new markets as well as attractiveness of its products and service to the customers (Ireland *et al*., 2011). The performance may also be accessed by comparing the actual output against the intended output, using both the financial and non-financial measures (Kaplan and Norton, 1996). Generally, performance in insurance companies can be estimated by measuring their profitability, which is a relative measure of success for a business. The profitability occurs as the excess of revenues obtained from the underwriting activities over the costs in generating them.

However, profits alone cannot be used to compare performance between different companies hence profitability is suitably measured by financial ratios (Abate, 2012).

The most important of these ratios is the current ratio that measures the speed at which an insurance company is able to settle claims. Others include; annual turnover, Return on Investments, and Return on Equity. Ratios aid in determining both the financial strength and ability to settle claims and remain relevant in business (Kumba, 2011).

1.1.2 Concept of Insurance

Insurance is a financial institution that serves as an insurance agency or risk management. Similarly, Baltensperger *et al*., (2007) defines insurance as a platform collector of funds and can be used to finance economic development. This entails providing protection to the policy holders against certain risks that they are vulnerable to such as damage to their property, loss of their property, health and casualties. In return for the risk protection, the companies receive premiums from the policy holders which are used to cover for their operating expenses and cater for these expected risks (Kazemi and Shakiba, 2013).

In Kenya, the insurance concept was initially introduced by Britain Colony whereby they used to insure their interest using insurance brokers. This was on the behalf of the foreign based companies. It was not until the mid-1980s that the role of insurance ceased to be mainly by the insurance agents or brokers (Hodgin Ray, 1988). The insurance sector stabilized in the late 1990s, with more players and services being introduced in the insurance market. As per now, the Insurance Regulatory Authority has the mandate to oversee and formulate regulatory measures to the insurance companies.

1.1.3 The Insurance Industry in Kenya

The Insurance Industry in Kenya has drastically grown in the recent years since 2005, with its importance to the economy being recognized internationally. Currently, the sector is among the leading in terms of both attractiveness and growth in the potential. This has seen investors both locally and internationally to enter in the market to buy stakes in the already existing local insurance companies and also invest in future ventures (AKI, 2014). The sector is among the leading contributors to the GDP contributing to a gross written premium of over Ksh.160 billion in 2014 which is an increase from Ksh. 130 billion in the year 2013 translating to a 23% increase.

However, the insurance sectors' penetration still remains relatively low with the penetrations still being less than 5%. But the insurance penetration in Kenya is better compared to the rest of the countries in Africa which have an average penetration of 2%. The low penetration levels imply that the sector still has a huge potential of improving. This can be realized by venturing into new markets such as the oil and real estates, while addressing the challenges facing the sector (Chache, 2016). This will ensure diversifications in the services and products being offered by the insurance companies.

1.1.4 Insurance Companies in Kenya

The main players in the Kenyan insurance sector are insurance companies, risk managers, brokers, insurance agents, re-insurance companies and other service providers (Insurance Regulatory Authority, 2010). There were over 5000 insurance companies as at the end of 2015 (AKI, 2014). Out of these insurance companies, only 54 had been registered by the end of 2016; 27 being under the non-life insurance sector, 16 under the life insurance sector and 11 under the composite sector which is both life and non-life segment (AKI, 2016).

The insurance companies offer a wide range of services to their customers such as underwriting the insurance companies which include; determining the risk acceptability, terms of coverage and the premiums to be given. They also undertake risk billing, premium collection and investigating the claims that are to be made (Insurance Regulatory Authority, 2010). These activities are aimed at diversifying the risk securities services given to customers. However, the development of the sector has seen more players entered the market with better profitability level been witnessed which enables long-term business survival.

1.2 Research Problem

The increased competitiveness and uncertainties brought about by advancement in technology and globalization calls for organizations to be in constant check of their performance (Kimani and Njuguna, 2016). Particularly, those companies which are constantly underperforming while having diminished returns are most likely to be insolvent and may end up even collapsing. This necessitates the managements in the organization to carefully evaluate the determinants of performance in their respective organizations and how well to attain competitive advantage. However, this still proves

to be a milestone as despite numerous strategies being formulated, most companies are yet to meet their desired targets (Odemba 2013).

In the past decade, the number of players in the insurance sector has increased significantly with currently 54 insurance companies offering services nationwide. However, this has changed the dynamics of operations in this sector as the companies are faced with an even harder task in attaining competitive advantage. This has seen various insurance companies that were not meeting the stakeholder's expectations or experiencing huge losses seeking for other alternatives. Some of this include; Invesco Assurance Company which was placed under receivership in Sanlam Kenya, CIC Insurance that issued profit warnings in 2008 and Standard Assurance which was placed under statutory management in 2009 (Mumo, 2017). This shows that despite the importance of the sector to the economy, it is very delicate which raises concern.

Empirically, studies have found conflicting results on the various factors to be vital in ensuring that organizations perform well. To begin with Almajali, Alamro and Al-Soub (2012) carried out a study to examine and identify the determinants of how insurance companies in Jordan perform between 2002 and 2007. The study found out that the main factors affecting performance to be liquidity, leverage and the size of the company. Mazviona and Mbakisi Dube (2017) conducted a study in Zimbabwe on the determinants of the insurance companies in the country. The findings revealed that expense ratio, claims ratio and the size of a company significantly affect insurance companies' performance negatively whilst leverage and liquidity affect performance positively. Similarly, Phuong and Manh (2017) conducted a study on the listed firms on Hanoi Stock Exchange (HNX) in Vietnam for the 2012-2016 periods. The results show that, R&D spending, dividend payout ratio and firm size are positively and significantly influenced by ROA.

Locally, a study was conducted by Odemba (2013) on life insurance products. The study revealed that insurance products acceptance in Kenya was influenced by poor customer service and complicated nature of the life insurance products. Miyienda (2015) on the impact that mergers and acquisitions have in insurance organizations. The study established that mergers and acquisitions positively affect performance of Kenyan insurance companies, especially after the merger and acquisition take place. Kimani and Njuguna, (2016) conducted a study on the effect of financial factors on

insurance penetration in Nakuru town, Kenya. The study found that all the financial factors investigated had significant relationship with insurance penetration.

This shows inconsistency on the exact determinants of performance of the insurance sector as the studies conducted have all established mixed results. Additionally, most of the studies conducted have concentrated mainly in the developed countries with only few being conducted in the developing countries such as Kenya. The available literature is thus not sufficient in determining what exactly affects the performance of insurance companies in Kenya. Understanding these factors is an important step towards promoting the growth of this sector that plays a huge role in economic development. This study aimed at addressing this research gap while answering the research question; what are the determinants of performance of Insurance Companies in Kenya?

1.3 Research Objective

The objective of the study was to establish the determinants of performance of Insurance Companies in Kenya.

1.4 Value of the Study

The study is of great importance to the insurance companies in Kenya. It will enable the understanding on the factors that determine how these companies perform. This will be of great help to the managers in these companies in formulating various strategies to address these factors. By being aware of these factors, they will be able to maximize them and utilize them in gaining competitive advantage.

The study will be of importance to the regulatory and policy bodies and will provide valuable information concerning the determinants of performance of insurance companies. Understanding the exact factors that determine the performance of insurance companies will enable them in formulating appropriate policies that will enhance the growth of the sector. As such, the Insurance Regulatory Authority (IRA) may use the findings to be obtained in the study to improve the industry's performance.

The study will bring insights on what exactly determines the returns in insurance companies in Kenya. This will broaden the understanding on the concept of insurance which has gained the interest of most researchers. The study will thus form a basis upon which future studies will be conducted.

Additionally, the recommendations made at the end of the study will act as a guideline on how the organizations align their resources and operations. This will act greatly in improving the performance of these companies which have been stagnated for a while.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section highlights the available literature that discuss the determinants of performance of insurance companies both empirical and theoretical. The chapter reviews theoretical implications to the study, performance, performance measurement, determinants of performance and the empirical studies conducted in the area. The chapter finalizes with a summary of the reviewed literature and research gap overview.

2.2 Theoretical Framework

The theoretical section tries to uncover whether or not the existing theories suggest what determines the performance of various organizations. The study adopts three main theories namely; Resource Based View Theory, Open Systems Theory and Dynamic Capability Theory.

2.2.1 Resource Based View

The Resource Based View Theory was introduced by Wernerfelt, (1984) and aims at explaining the advantages of resources in organizations. The theory holds that the competitive advantage in organizations lies entirely on how well they are able to organize their resources. The theory explains that an organization may be able to attain the desired competitive advantage through proper utilization of its available resources. The resources entail both human capabilities and physical utilities used in achieving the organizations' set objectives and targets. The organization resources ought to be well aligned so that their outcomes may not be imitated by their competitors (Barney, 2013).

The theory makes the assumption that each organization has unique resources from the other competitors. This is not usually the case as organizations tend to imitate resources from their competitors, thus limiting the competitive advantages obtained. The theory's implication to the study is that the available resources at the insurance companies are a huge determinant on how they perform. As such, the managers at the insurance companies should ensure full maximization of their available resources, for

them to perform financially. They should also ensure that they possess resources which are unique to them which are not easily mimicked by their competitors in the insurance sector.

2.2.2 The Open Systems Theory

The Open Systems Theory was proposed by Bertalanffy, (1969) and has been modified to explain disciplines in various sectors. The theory states that organizations exist in an open setting whereby their activities are influenced greatly by the environment surrounding them. The organizations are thus exposed to outside forces that are way beyond their control. This includes, competition from other players in the industry, the macro-economic environment, surrounding communities, political condition and current state of the economy. According to Open Systems Theory, the organizations should create a way of ensuring that they not only adapt, but also gain advantage from the risks posed by interactions with the open system.

The theory makes the assumptions that no organization can exist entirely on their own and thus they depend on external influences for their survival (Bertalanffy, 1969). Its proposition to the study is that through having properly structured and coordinated functioning with the external environment, the insurance companies will attain competitive advantage. This implies that the external factors are a huge determinant on the performance of insurance companies and as such ought to be highly prioritized when formulating the organizations' strategies and plan. The insurance companies should be ready to place appropriate measures in response to any changes in the external environment and also anticipate actions by other players in the insurance sector.

2.2.3 Dynamic Capability Theory

The Dynamic Capability Theory was initially proposed and developed by Teece, Pisano and Shuen, (1997). The theory provides insights on how organization acquires, integrate and reorganize both the internal and external competencies in order to remain dominant and gain competitive advantage. The theory holds that organizations vary in terms of their capabilities. Hence those firms with a greater dynamic capability are more likely to perform better than those companies having lower

capabilities. This makes the organizations endeavor to ensure that they have the required capabilities so as to meet both stakeholders and customers' demands.

The theory makes the assumption that it is impossible for organizations to have similar capabilities and this result to difference in their performances. The theory's proposition to the study is that the external environment causes a difference in the dynamic capabilities of the organizations. Therefore, the companies which are advantageous in terms of their internal capabilities are more likely to perform better. This implies that the performance is determine mainly by how well the insurance companies are able to acquire, align and integrate their capabilities in gaining competitive advantage.

2.3 Determinants of Performance

In the recent past, organizations are looking forward to having a competitive advantage against the threats present in globalization (Kami and Shakiba, 2013). This is comprised of three main aspects, namely; financial performance, product market performance and the returns in the shareholders' value. Particularly, the financial performance deals with the amount of gains achieved and the returns on both assets and investments. Product market performance relates to the level of sales made by the company and the market share attained while shareholder's return encompasses the total returns gained by the shareholders and the economic value added (Sunder and Myers, 2009).

The assessment of performance is important in determining the position of the company and its capability in not only managing the current operations but also planning on the future. There are various factors that have been determined to affect greatly how companies perform. These entail four key variables which include; the current organizations financial structure, the organization's structure, the external environmental factors and quality management. Understanding these factors will enable the insurance sector to grow and increase its low penetration of 2.93% into the Kenyan market (AKI, 2014).

2.3.1 Financial Structure

The financial structure comprises the most integral aspect in any organization. It determines the sustainability and ability of an organization to remain dominant in market. There are various factors determining the level of performance attained in organizations. These include the cash flows, liquidity, size of the organization and the organization structure.

A company's cash flow represents the company's involvement in operating, investments and overall finances. Cash flow is of high importance to the firm as it allows the firm to pursue opportunities that enhance the shareholders' capital. This maybe through; making acquisitions, paying dividends and reducing debt which in turn improves the financial performance of the firms. Cash flow thus acts a numerator in determining the current value of organizations. It accesses the firm's ability to pay for resources to their providers and manage its current obligation (Copeland, 2000). Organizations with diversified and well managed cash flow systems will tend to perform comparatively much better than those that rely on minimal cash flow practices.

Liquidity refers the ratio of the firm's total current assets over the firm's total current liability. This constitutes the organization's ability to meet not only its operational costs but also its obligations at a particular time. Liquidity can be measured through percentage terms and absolute terms (Maina, 2014). The liquidity of a firm affects financial performance in that, a company with more liquid assets is able to release cash at any given time to meet its operations cost as and hence is exposed to few liquidity risks (Shiu, 2004). Low liquidity assets in firms may result in selling of the company's investments in order to settle claims, this cause a decrease in performance due to losses incurred.

Firm size relates to how big the organization is, in relations to the amount of assets owned, investments made, and the employees number. The larger companies are more likely to gain an upper hand in the competitive market than the smaller companies (Mehari and Aemiro, 2013). This is because the larger companies are able to have more management layers, increased specialization, and wide range of resources. Hence most small organizations endeavor to expand their organization's assets and

resources in orther to attain the large status which also increases their ability to acquire additional finances from various financial institutions (Daft, 1995).

2.3.2 Organizational Structure

Organizational structure refers to the systematic alignment of how organizations conduct their operations. Specifically, the structure entails how the management oversees operations, the alignment of the organization's objectives, communication between the employees and the procedures through which tasks are undertaken (Ajagbe, 2007). This thus acts in providing a sense of direction and guidance to both the management and the employees in attaining the organization's objectives. As such, organizations having efficient structures will have enhanced performance due to well-coordinated activities.

The efficiency in organizational structures comes about through how well the inputs and outputs are balanced in all aspects (Long *et al.*, 2012). The organizational structures create vertical and horizontal structures that facilitate communication hence ensuring proper controls in target setting, measuring or monitoring, use of feedback, rules, standards, and internal procedures Csaszer (2008). This aids in ensuring that the structure is well designed to suit its demands in the market. Good structure alignment should constitute the key priority in most market strategies formulations.

2.3.3 Environmental factors

The environmental factors refer to the external factors that exert a level effect on the amount of profits gained by organizations (Kiveu, 2013). These factors pose a great challenge to the companies as unlike the internal factors, the organizations have minimal influence over. This may include the nature of competitiveness, the industry segment and the macro-economic environment. Gaining competitive advantage against rivals is very likely to have a positive impact on the organization through enabling dominance in the market while industrial segment that the organization belongs to influences the strategies employed as some sectors contain more players and are thus more competitive than others.

Additionally, the macro-economic environment affects the performance through inflations, interest rates, exchange rates and GDP growth rate (Kuratko and Hodgetts, 2004). These factors determine the amount of money flow in the economy which in turn affects the level and extent of business transactions. As such, unfavorable macro-

economic variables will discourage the customers from investing or spending their money. Hence the managers should pay close attention to the environmental factors because if they outweigh the firm it will lead to losses and result in the organization even collapsing.

2.3.4 Quality Management

Quality management refers to all the procedures and practices aimed at ensuring that the goods and services provided meet the required standards while attaining customer satisfaction (Wachira, 2013). It constitutes managerial endeavors geared towards planning, control and improvement. The measures of quality management entails improved organizational performance, efficient operations and increased organizational competitiveness. Aspects of quality management which include quality assurance and quality control aim at ascertaining that the products and services rendered will attain the required specifications (Njunguna, 2013).

Maintenance of quality management practices in organization is essential in ensuring both current business success and future planning. This is attributed to the fact that it enables the management to keep track of the programs and processes of the firm. As such, studies conducted have revealed that the firms that had quality management practices had better performance as compared to those that did not (Altiok, 2012). However, the Contingency Theory tends to contrast this by holding that there is no best way to ascertain that the managerial practices will be efficient enough to attain maximum performance.

2.4 Empirical Literature

Studies have been conducted both locally and internationally, trying to establish what exactly determines how organizations perform.

2.4.1 International Studies

Almajali, Alamro and Al-Soub (2012) carried out a study to examine and identify the factors affecting the financial performance of Jordanian insurance companies during the period 2002 to 2007. ROA was used as the dependent variable while leverage, liquidity, age, size and management competence index were independent variables. The results the factors that had no relation at all to the performance. The study however was conducted in Jordan, an international setting and thus the findings may not be replicated to the local insurance companies in Kenya.

Cristina *et al*. (2015) conducted a study on the determinants of insurance in European Countries. The study used cross-country European aggregate data to establish the relationship between the insurer's profitability and macroeconomic variables. The study used panel data approach and Generalized Method of Moments methodology. The results obtained showed that the most important indicator of insurers' performance and healthiness is its profitability. This implies that the companies should endeavor to mostly ensure that they remain profitable so as to perform. The study was however able to determine other factors influencing the performance.

Phuong and Manh (2017) conducted a study on the effect of R&D spending on firm's financial performance. Return on assets (ROA) is used to measure the financial performance. The data is collected from 359 listed firms on Hanoi Stock Exchange (HNX) in Vietnam for the 2012-2016 periods. Dividend payout ratio, year of company, firm size and financial leverage factors determining company's financial performance also are investigated. The results show that, R&D spending, dividend payout ratio and firm size are positively and significantly influenced to ROA. This shows that research and development may be used by organizations in attaining competitive advantage, the study was focused entirely on the listed firms, which could not be the same as the insurance sector.

Omidi, Abadar, and Adibeh (2017) conducted a study on the role of creativity and innovation in development of marketing and increase in sale of products and services of insurance companies. The study established that the development of creativity in insurance industry could lead to improvement of indices such as profitability, market share, sale, customer satisfaction, subjectivity and positive image of organization and quality of services. This shows that the insurance companies should yearn to be innovative so as to gain competitive advantage. This study will aim at determine whether the same applies to insurance companies in Kenya.

Mazviona and Mbakisi Dube (2017) investigated the factors affecting the performance of insurance companies in Zimbabwe. The study utilized secondary data from twenty short-term insurance companies. The data was for the period from 2010 to 2014. We used factor analysis and multiple linear regression models to determine the factors affecting performance and identifying their impact. The findings revealed that expense ratio, claims ratio and the size of a company significantly affect

insurance companies' performance negatively. Whilst leverage and liquidity affect performance positively. The study shows that insurance companies should introduce mechanisms that reduce operational costs such as automated systems. The study's findings were however inconclusive as both positive and negative results were obtained.

2.4.2 Local Studies

Kimani and Njuguna, (2016) conducted a study on the effect of financial factors on insurance penetration in Nakuru town, Kenya. The financial factors examined included administrative costs and agency costs. This study adopted a cross-sectional survey research design. The study focused on the 417 employees working with insurance firms in Nakuru town. A sample of 61 respondents was selected using stratified random sampling method. Findings were presented in tables. The study found that all the financial factors investigated had significant relationship with insurance penetration. The study shows that the financial factors ought to be well managed so as to remain dominant in the industry. However, the exact financial factors that are relevant in maintaining performance were not determined.

Mumo, (2017) conducted a study on the factors influencing the performance of insurance companies. The data collection method was based on a structured approach due to the target population and their nature of work. The study showed that organizational structure affects the performance of insurance companies through innovation and organizational learning. The study also concludes that large firms are more stable and mature, therefore generate greater sales because of their great production. The study was however concentrated on two main variables namely size and organizational structure with giving consideration to other factors.

Owino, (2017) conducted a study on the relationship between organizational factors and performance of insurance brokerage firms in Kenya. Primary data was obtained using self-administered questionnaires. Descriptive statistics were used to generate frequencies, percentages, mean score and standard deviation while correlation and multiple regression analysis were used to ascertain the association between pairs of variable and the influence of the variables on performance. It was found that information technology integration and advancement had the greatest effect on the performance of insurance brokerage firms, followed by organization structure, and

discontinuous innovation. The study did not investigate the external factors determining the returns in the industry and this study will aim at addressing this.

2.5 Summary of Reviewed Literature and Research Gaps

The insurance companies have proven to be essential to not only business but also individuals in assuring them to recovery even after a particular risk has occurred. However, the insurance sector in Kenya is not performing as well as expected as compared to most developed countries such as the US. Though the available theoretical frameworks such as Open Systems Theory, Resource Based View Theory and Dynamics Capability Theory try to place a framework through which the factors that enhance the performance of the insurance companies may be understood, the studies not been fully conclusive.

Particularly, mixed findings have been obtained on the underlying factors, with no uniformity being attained on what exactly determines how the insurance companies will perform. This could be due to the organizations varying greatly in terms of both the resources and organization structure. Additionally, there is scarcity of studies conducted locally especially on the insurance sector. Most studies are concentrated in the well-developed states. This study aimed at addressing this research gap by determining what determines how insurance companies in Kenya perform.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the procedure that was employed in conducting the study. It shows the research design, study's population, data collection and the data analysis techniques. This will act as a guide in addressing the research objectives.

3.2 Research Design

The research design is the systematic collection and analysis of data in a way that brings together the research objectives, purposes and relevance (Claire, Wrightsman and Cook, 1962). Research design provide a plan of study that permits accurate assessment of cause and effect relationship between independent and dependent variables. The study adopted descriptive research design.

This research design is the most appropriate for the study as it enables close association among the research variables and where possible makes valid conclusions (Fatuma, 2014). The research design also ensured minimal interference by the researcher hence no biasness. The design enabled the collection of the information pertaining to who, what, where, when or how much (Cooper and Schindler, 2008).

3.3 Population of the Study

The study population refers to a large collection of individuals or objects that is the main focus of a scientific query. The study's population was all the insurance companies that are registered in Kenya. As at June, 2017, there were a total of 54 registered insurance companies as per appendix II and this is the population that was targeted (AKI, 2017).

The study only considered the head offices located within Nairobi due to them being in close proximity to the researcher. Particularly, the head finance and marketing departments were targeted as they are the conversant with the factors, both internal and external that affects how their insurance companies perform. The choice of

insurance firms in Kenya is driven by there being little growth achieved by the sector in Kenya despite its huge potential.

3.4 Data collection

The study used purely primary data. The primary data entails first-hand information that is yet to be documented in books, journals or any other form of publication. This is considered more appropriate as the information is accurate, current and has minimal possibility of being altered. The primary data was collected using the questionnaires as the data collection instruments.

The questionnaires were semi structured having both open ended and close ended sections. Whereby the open-ended sections aimed at collecting qualitative data and the close ended section aimed at collecting quantitative data. The questionnaire was divided into three sections. Part A was on the general information of both the respondents and the insurance companies, Part B was on the various determinants that are perceived to have an effect on the performance of the companies while Part C was on the performance of the insurance companies.

The questionnaires were delivered to the companies directly through a drop and pick method so as to give the respondents an ample time in filling them. Follow ups were done through calls and emails to ensure that all the questionnaires are filled and collected for analysis. Thus this made a total of 54 respondents, taking the one top manager respondents from each of the companies.

3.5 Data analysis

Data analysis refers to the process through which the raw data collected in the field is extracted and organized to meaningful information. Data analysis also refers to the process of evaluating data using analytical and logical reasoning to examine each component of the data provided.

The completed questionnaires were first checked for completeness and consistency to ensure accuracy in the data collected. Due to both qualitative and quantitative information collected by the study, triangulation method was employed. A Likert

Scale was used in rating the responses given by the respondents. This aimed at obtaining comprehensive data concerning the study in a systematic way.

Descriptive statistics such as frequencies, percentages, standard deviation and arithmetic mean were used in the analysis with the analysed data being represented in figures and tables. The qualitative data were analyzed using content analysis of the open ended questions while quantitative data were analyzed using interpretations using the statistical package for social sciences (SPSS).

To determine the relationship between the study variables, the following regression model was used:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_i$$

Where;

Y= Financial Performance

β_0 =constant

$\beta_1 \ldots \ldots \beta_4$ = parameter estimates

X_1 = Cash flows

X_2 = Liquidity

X_3= Organization Structure

X_4= Size of the firms

ε = Error term, normally distributed, with mean zero and a constant variance

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study on the determinants of performance of Insurance Companies in Kenya. It represents the findings obtained on the key research variables and interpretations.

4.2 Response Rate

The study targeted all the 54 insurance companies in Kenya with the target respondents being the head of finance and marketing department in each firm. As such, a total of 54 questionnaires were issued, of which 33 of them were duly filled and returned. This translates to a response rate of 61% as shown by Table 4.1. This response rate is considered large enough to enable comprehensive determination of the phenomenon that exists it is in line with Mugenda and Mugenda, (2003) assertion. He states that a response rate of 60% and above is adequate enough for data reporting and analysis.

Table 4. 1 Response Rate

Response Rate	Frequency	Percent
Responded	33	61%
Not Responded	21	39%
Total	54	100%

Source: Research Findings (2017)

4.3 Background Information

This section constitutes the background information concerning both the respondents and the insurance companies.

4.3.1 Gender of the Respondents

The study sought to determine the gender distribution among the respondents. The findings obtained are as shown by Table 4.1.

Table 4. 2 Gender of the Respondents

Gender	Frequency	Percent
Male	21	64%
Female	12	36%
Total	33	100%

Source: Research Findings (2017)

As shown, 64% of the respondents were male while the remaining 36% were female. This shows that management at the insurance companies was mostly dominated by the male population. Gender balance in the firms is important in ensuring that there is equal representation on all aspects.

4.3.2 Age of the respondents

This section aimed at determining the age of the respondents as a measure of the maturity and knowledge ability. The findings are as shown by Table 4.2.

Table 4. 3 Age of the Respondents

Age Brackets	Frequency	Percent
Less than 25	2	6%
25 – 30	9	27%
31 – 40	12	36%
41 - 50	6	18%
Over 50 Years	4	12%
Total	33	100%

Source: Research Findings (2017)

As shown, 36% were between the ages of 31 – 40, 27% between the ages of 25 – 30, 18% between the ages of 41 – 50, 12% over 50 years while the remaining 6% under 25 years. This implies that majority of the respondents (over 60%) were above 25 years hence mature enough to provide valid and reliable information.

4.3.3 Education of the respondents

The study sought to find out the academic background of the respondents based on the highest education attained. The findings obtained are shown by Table 4.4.

Table 4. 4 Education of the Respondents

Education	Frequency	Percent
Tertiary(certificate)	2	6%
Diploma	4	12%
Undergraduate Degree	14	42%
Master's Degree	9	27%
PhD degree	4	12%
Total	33	100%

Source: Research Findings (2017)

As shown by Table 4.4, 42% had undergraduate degrees, 27% had master's degrees, 12% each had doctorates and diplomas while only 6% had tertiary. This shows that the respondents were well educated thus qualified for their respective positions hence provided all the required information.

4.3.4 Position at Company

This section sought to determine the position the respondents held in the organizations. This is important as it relays their involvement with the organizations' activities. The results obtained are shown by Table 4.5.

Table 4. 5 Respondents Current Position

Position	Frequency	Percent
Top management	10	30%
Middle level management	14	42%
Non managerial staff	9	27%
Total	33	100%

Source: Research Findings (2017)

The findings as shown by Table 4.5 show that 42% were in middle level management, 30% were in the top management while 27% were non managerial staff. This shows that all the respondents were involved directly with the day to day operations of the insurance firms hence well conversant with the study topic.

4.3.5 Years worked at Company

This section aimed at establishing the number of years the respondents had been in the insurance companies. This was used as a measure of how well expertise and knowledge of their respective firms. The findings are shown in Table 4.6.

Table 4. 6 Years Served at Company

Years	Frequency	Percent
Less than 1 year	4	12%
1 – 3 years	7	21%
4 - 6 years	13	39%
More than 6 years	9	27%
Total	33	100%

Source: Research Findings (2017)

As shown, 39% had worked for a period of 4-6 years, 27% for more than 6 years, 21% for a period of 1-3 years, while the remaining 12% for a period of Less than 1 year. The findings thus show that majority of the respondents (more than 70%) had worked in their organizations for a period not less than three years. Therefore, they were well informed of the company's practices and could provide the required information.

4.3.6 Years Insurance Companies Asset Base

This section aimed at establishing the asset base of the insurance companies. This was used to measure the size of the insurance companies. The results obtained are presented by Table 4.7.

Table 4. 7 Insurance Companies Asset Base

Asset Base	Frequency	Percent
1- 5 Billions	16	48%
6-10 Billions	9	27%
11-15 Billions	5	15%
Over 15 Billions	3	9%
Total	33	100%

Source: Research Findings (2017)

The findings indicate that 48% had an asset base of 1- 5 billion, 27% an asset base of 6-10 billion, 15% an asset base 11-15 billion while 9% an asset base of over 15 billion as shown in table 4.5 below. The results thus portrays that most companies had asset bases of below 5 below, indicating they are yet to reach their maximum potential.

4.3.7 Insurance Companies Number of Branches

The study sought to establish the number of branches the insurance companies had. This was important in determining how the companies were spread in the country in offering their services. The findings are shown by Table 4.8.

Table 4. 8 Insurance Companies Number of Branches

Branches	Frequency	Percent
Less than 5 Branches	9	27%
5 – 10 Branches	14	42%
11- 15 Branches	6	18%
Over 15 Branches	4	12%
Total	33	100%

Source: Research Findings (2017)

As shown, 42% were established to have 5 – 10 branches, 27% were established to have less than 5 branches, and 18% were established to have 11- 15 branches, while the remaining 12% had over 15 branches. This revealed that most insurance companies had over 5 branches, an indication of a wide spread in the country so as to serve more insurance customers.

4.4 Determinants of Performance at the Insurance Companies

The study sought to determine the various determinants which affect performance in the insurance companies. Specifically, four main variables were investigated namely; cash flows, liquidity, organizational structure and size.

4.4.1 Cash flow

This section aimed at identifying the effect that cash flows have on the performance of the insurance companies. The findings are presented by Table 4.9.

Table 4. 9 Cash flow

Cash flow	Mean	Std Dev
There is high Cash flow from operations	3.24	0.5273
Cash flows help in managing the organization's current and future obligations.	4	0.8322
The organization has a wide range of cash generating activities.	3.90	0.7920
There is a well-designed protocol on how cash flows are managed.	3.09	0.3776
The management highly priorities investments and acquisitions.	3.36	0.4831
The cash flow in the organization is sufficient enough in managing the organization's operations.	3.72	0.7169

Source: Research Findings (2017)

The respondents indicated that cash flows help in managing the organization's current and future obligations to a very large extent with a mean of 4. Also, the organization

having a wide range of cash generating activities and cash flows being sufficient enough were also indicated to also affect the performance to a large extent with means of 3.9 and 3.72. On there being high cash flows and well-designed protocols to manage cash flows, means of 3.24 and 3.09 were obtained, which indicate moderate extents of adoption.

This implies that the cash flows were highly perceived to creating a preferred financial position in the firms. In addition, cash flows are of high importance to the firm they allow the firm to pursue opportunities that enhance the shareholders' capital. Proper management of the cash flows would mean increased accountability and transparency in all the financial activities in the organizations. However, the cash flow protocols were yet to be full developed.

4.4.2 Liquidity

This section aimed at identifying extent of liquidity in the performance of insurance companies. The findings as presented by Table 4.10, show that 36% indicated a small extent, 30% indicated a moderate extent, 15% indicated a large extent, 12% indicated a very small extent while only 6% indicated a very large extent. This implies that the insurance firms had relatively low liquidity levels.

Table 4. 10 Extent of Liquidity

Extent	Frequency	Percentage
Very Large Extent	2	6%
Large Extent	5	15%
Moderate Extent	10	30%
Small Extent	12	36%
Very Small Extent	4	12%
Total	33	100%

Source: Research Findings (2017)

The study further sought to determine the effect that liquidity have on the performance of the insurance companies. The findings as shown by Table 4.11, indicate that on there the organizations having good liquidity management systems, the highest mean of 3.55 was attained which implies a large extent. On there being a high portfolio‘s level of cash and short-term investments, a mean of 3.36 was attained. On the investments in the firms being mostly liquid and having adequate financial strength to meet the stakeholders’ expectations, means of 3.18 and 3.15 were attained which imply moderate extents.

While on the company selling off their investments if it does not have enough money to settle claims and Portfolio‘s level of readily saleable securities, the lowest means of 3.0 and 2.70 were attained. This shows though the insurance companies had good liquidity management systems, the liquidity measures in the company still remained fairly low. This is important as the level of liquidity in an organization will predetermine how it conducts its day to day operations.

Table 4. 11 Liquidity

Liquidity	**Mean**	**Std. Dev**
The investments are mostly liquid in the company	3.18	0.5521
The company sells off their investments if it does not have enough money to settle claims	3.00	0.5380
The Company's financial strength is adequate to meet the ongoing policyholders' obligations	3.15	0.4628
The organization has a good liquidity management in sourcing funds.	3.55	0.6551
There is high portfolio‘s level of cash and short-term investments	3.36	0.5614
Portfolio‘s level of readily saleable securities.	2.70	0.3308

Source: Research Findings (2017)

The study further sought to find out the extent to which liquidity affects performance based on the responses of the respondents. Majority indicated a very large extent with a percentage frequency of 27%, 21% indicated a moderate extent, 18% each indicated a very large extent and a small extent while only 15% indicated a small extent. This thus confirms the positive effect that liquidity has on the insurance companies as most respondents affirmed to it. Liquidity is therefore important because it constitutes the organization's ability to meet not only its operational costs but also the obligations at a particular time as well.

Table 4. 12 Effect of Liquidity on Organization Performance

Extent	Frequency	Percentage
Very Large Extent	6	18%
Large Extent	9	27%
Moderate Extent	7	21%
Small Extent	6	18%
Very Small Extent	5	15%
Total	33	100%

Source: Research Findings (2017)

4.4.3 Organizational Factors

This section aimed at identifying the effect that organizational factors have on the performance of the insurance companies. The findings are presented by Table 4.13.

Table 4. 13 Organizational Factors

Statement	Mean	Std Dev.
Enforcing performance controls and behavioral prescriptions in our organization has improved decision-making and increase predictability of performance	4.15	0.9686
Our organizational structure facilitates proper working relationships among various sub-units within the organization	4.30	1.0288
Our organization's structure has been designed in a way to ensure that departments and individuals that need to coordinating their efforts have lines of communication that are built into the structure	3.96	0.7989
Organizational structure in our organization has decreased employee ambiguity and has helped explain and predict employee behavior	3.48	0.5231
The employees are oriented to ensure they give their level best in operations.	3.36	0.5379
The management enhances communication among all aspects in the organization to achieve success	4.09	0.8981

Source: Research Findings (2017)

The findings obtained show that most constructs of organization structure had a very large effect on the firm's performance. This includes the organization structure facilitating proper working relationships among various sub-units within the organization with a mean of 4.30, Enforcing performance controls and behavioral prescriptions in our organization improving decision-making and increase predictability of performance with a mean of 4.15 and the management enhances

communication among all aspects in the organization to achieve success with a mean of 4.09. In addition, the organization's structure been designed in a way to ensure that departments and individuals that need to coordinating their efforts have lines of communication that are built into the structure also had a large extent of adoption with a mean of 3.96.

While organizational structure in our organization decreasing employee ambiguity and the employees being oriented to ensure they give their level best in operations had the lowest means of 3.48 and 3.36 showing moderate extents. This implies that the organization structures in the insurance companies were highly developed and organized which resulted in a positive effect on the firms. Specifically, the organization structure facilitating working relationship had the highest influence. This is because this will enable smooth flow of ideas, communication and cooperation within the employees and managements as well. As such, the organizational structures will create vertical and horizontal structures that facilitate communication hence ensuring proper controls in target setting, measuring or monitoring, use of feedback, rules, standards, and internal procedures (Csaszer, 2008).

4.4.4 Size

This section aimed at identifying the effect that size has on the performance of the insurance companies. The findings presented by Table 4.14 show that, on the sizes of the companies, 30% indicated moderate size, 27% indicated small size, 21% indicated large sizes, 12% indicated large sizes and very small sizes each while the remaining 9% indicated very large sizes. This implies that majority of the insurance firms, (over 50%) were relative big and therefore had large scale operations.

Table 4. 14 Size of the Companies

Extent	Frequency	Percent
Very Large	3	9%
Large	7	21%
Moderate	10	30%
Small	9	27%
Very Small	4	12%
Total	33	100%

Source: Research Findings (2017)

On the exact influence that size has, as shown by Table 4.15 most constructs had very large extents of effect to the performance. This includes the managers endeavor to

increase the company's size at all costs with a mean of 4, firm size is an important determinant of an insurance company's returns with a mean of 4.12, large firms face less difficulty in getting access to credit facilities from financial institutions, thus achieve greater strategic diversification with a mean of 4.06, and large firms are more stable and mature therefore generate greater sales because of their great production capacity with a mean of 3.94.

Whereas on large firms enjoy economics of scale and their average cost of production is low ensuring efficient operational activities the lowest mean of 3.42 was attained indicating a moderate extent. This implies that size was a great determinant of the ease and extents to which the insurance companies conducted the operations. That's why most of the insurance companies endeavored to increase their sizes so as to attain the large size status. Additionally, the larger companies are more likely to gain an upper hand in the competitive market than the smaller companies (Mehari and Aemiro, 2013).

Table 4. 15 Effect of size

Statement	Mean	Std. Dev
The managers endeavor to increase the company's size at all costs	4	0.9793
Large firms are more stable and mature, therefore generate greater sales because of their great production capacity	3.94	0.7472
Firm size is an important determinant of an insurance company's returns	4.12	0.9865
Large firms face less difficulty in getting access to credit facilities from financial institutions, thus achieve greater strategic diversification	4.06	0.9190
Large firms enjoy economics of scale and their average cost of production is low ensuring efficient operational activities	3.42	0.5247

Source: Research Findings (2017)

4.5 Regression Analysis

Multiple regression analysis was used to establish the relationship that exists between the independent and dependent variables of the study. The results of the regression model are shown by Table 4.16

Table 4. 16 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.781a	0.732	0.681	0.0044

a. Predictors: (Constant), cash flows, liquidity, organization structure, size

Source: Research Data, 2017

The R square value is 0.781 implying that about 78.1% of the variation seen in insurance companies is explained by the factors in the regression model. This further means that only 21.9% of the variation seen in insurance performance is unexplained by other variables which are not in the model.

Table 4. 17 Model Analysis of Variance

	Sum of Squares	d.f	Mean Square	F	Sig.
Regression	1.243	3	0.4143	65.302	.000a
Residual	0.022	32	0.0007		
Total	1.265	35			

a. Predictors: (Constant), cash flows, liquidity, organization structure, size

b. Dependent Variable: Performance

Source: Research Data, 2017

From Table 4.17, results indicate that overall, the model is highly significant. This is because the p-value obtained of 0.000 is less than both 0.01 and 0.05. Thus implying that at 5% level of significance, at least one of the variables included in the model is useful in predicting the performance of the insurance companies.

The model coefficients obtained by the study are shown in Table 4.17. As shown in the model, cash flow has 0.0100, liquidity 0.0130, organization structure 0.4320 and size has 0.9920. The positive coefficient shows that all the variables have a positive effect on the financial performance. This implies that an increase in these variables would result in increased performance in the firms. All the models except size are significant at 5% level since their p-values are less than 0.05. The predictive model

thus developed by the study is Y = 0.5230 + 0.0100 X_1+ 0.0130 X_2 + 0.4320 X_3+ 0.9920 X_4 Where; Y is the performance measured by Returns on Asset, X_1 is cash flows, X_2 is liquidity, X_3 is organization structure and X_4 is size.

Table 4. 18: Model Coefficients

			Standard Coefficients		
Unstructured coefficients	B	Std. Error	Beta	T	Sig.
(Constant)	-0.5230	0.2940		-1.7810	0.0830
Cash flows	0.0100	0.0030	0.1100	2.9910	0.0050
Liquidity	0.0130	0.0060	0.1330	2.3250	0.0260
Organizational factors	0.4320	0.2800	0.1210	1.5450	0.0310
Size	0.9920	0.0890	1.0290	11.1210	0.2156

a. Dependent Variable: Financial Performance

Source: Research Data, 2017

4.6 Discussion

The study sought to determine the effect that cash flows have on the performance of the insurance companies. The cash flows help in managing the organization's current and future obligations had the highest mean while there being well designed protocols had the lowest mean. This implied that cash flows are of high importance to the firm as they allow the firm to pursue opportunities that enhance the shareholders' capital. This is in line with Copeland, (2000) who hold that organizations with diversified and well managed cash flow systems will tend to perform comparatively much better than those that rely on minimal cash flow practices. Similarly, Kimani and Njuguna, (2016) who conducted a study on the effect of financial factors on insurance penetration in Nakuru town, Kenya and found out those cash flows had a significant relationship with insurance penetration.

The study also sought to find out the effect that liquidity have on the performance of the insurance companies. The findings were that though the insurance companies had good liquidity management systems, the liquidity measures in the company still

remained fairly low. While on the extent to which liquidity influences performance, majority indicated a very large extent thus confirming the positive effect that liquidity has on the insurance companies as most respondents affirmed to it. This is supported by Shiu, (2004) who hold that the liquidity of a firm affects financial performance in that, a company with more liquid assets is able to release cash at any given time to meet its operations cost as and hence is exposed to few liquidity risks. In a similar way, Mazviona and Mbakisi Dube (2017) investigated the factors affecting the performance of insurance companies in Zimbabwe and revealed that leverage and liquidity affect performance positively.

The study also aimed at determining the effect that organizational factors have on the performance of the insurance companies. The study found out that most constructs of organization structure had a very large effect on the firm's performance. This implies that the organization structures in the insurance companies were highly developed and organized which resulted in a positive influence in the firms. Specifically, the organization structure facilitating working relationship had the highest influence. As stated by, Ajagbe, (2007) organization structure acts in providing a sense of direction and guidance to both the management and the employees in attaining the organization's objectives. As such, organizations having efficient structures will have enhanced performance due to well-coordinated activities. Additionally, a study by Mumo, (2017) on the factors influencing the performance of insurance companies showed that organizational structure affects the performance of insurance companies through innovation and organizational learning.

Additionally, the study sought to determine the effect that size have on the performance of the insurance companies. Size was found out to be a great determinant of the ease and extents to which the insurance companies conducted the operations. That's why most of the insurance companies endeavored to increase their sizes so as to attain the large size status. However, large firms enjoying economics of scale had the least extent. Hence most small organizations endeavor to expand their organization's assets and resources so as to attain the large status which also increases their ability to acquire additional finances from various financial institutions. Studies conducted concur to this as Owino, (2017) conducted a study on the relationship

between organizational factors and performance of insurance brokerage firms in Kenya and established that size played a key role.

To determine the relationship that exists between the study variables, regression analysis was conducted. The coefficient of determination was 0.781 implying that about 78.1% of the variation seen in insurance companies is explained by the factors in the regression model this further means that only 21.9% of the variation seen in insurance performance is unexplained by other variables which are not in the model. The overall model was significant as the p-value obtained of 0.000 is less than both 0.01 and 0.05. This thus shows that the dependent variables were sufficient enough in explaining changes in the performance.

The model coefficients obtained were cash flow with 0.0100, liquidity 0.0130, organization structure 0.4320 and size has 0.9920. The positive coefficient shows that all the variables have a positive effect on the financial performance. This implies that an increase in these variables would result in increased performance in the firms. All the models except size are significant at 5% level since their p-values are less than 0.05. The predictive model thus developed by the study is $Y = 0.5230 + 0.0100 X_1 + 0.0130 X_2 + 0.4320 X_3 + 0.9920 X_4$ Where; Y is the performance measured by Returns on Asset, X_1 is cash flows, X_2 is liquidity, X_3 is organization structure and X_4 is size.

The findings of this study relate with Almajali, Alamro and Al-Soub (2012) who carried out a study to examine and identify the determinants of how insurance companies in Jordan perform between 2002 and 2007 and found out that the main factors affect performance to be liquidity, leverage and the size of the company. Similarly, Phuong and Manh (2017) conducted a study on the listed firms on Hanoi Stock Exchange (HNX) in Vietnam for the 2012-2016 periods. The results show that, R&D spending, dividend payout ratio and firm size are positively and significantly influenced to ROA. Hence improving this factors will significantly improve the financial performance of the insurance firms.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter contains summary of the study, conclusions and recommendations and areas for further research. Data analysis, summary of findings and conclusions were made in line to the study objective which was to establish the determinants of performance at Insurance Companies in Kenya.

5.2 Summary of Findings

This study sought to establish the determinants of performance at Insurance Companies in Kenya. Descriptive research design was adopted by the study. The study targeted all the 54 insurance companies in Kenya with the target respondents being the head finance and marketing department in each firm. The data was collected mainly through primary means which was by the use of questionnaire As such, a total of 54 questionnaires were issued, of which 33 of them were duly filled and returned. This translates to a response rate of 61% which was considered appropriate enough. The data was analyzed by descriptive statistics and presented in form of tables.

On the effect that cash flows have on the performance of insurance companies, the study established that cash flows help in managing the organization's current and future obligations had the highest mean while there being well designed protocols had the lowest mean. On the effect that liquidity has on the performance of insurance companies. The findings were that though the insurance companies had good liquidity management systems, the liquidity measures in the company still remained fairly low. On the effect that organizational factors have on the performance of the insurance companies. The study found out that most constructs of organization structure had a very large influence on the firm’s performance. The study also sought to determine the effect that size have on the performance of insurance companies where size was found out to be a great determinant of the ease and extents to which the insurance companies conducted the operations.

To determine the relationship that exists between the study variables, regression analysis was conducted. The coefficient of determination was 0.781 implying that about 78.1% of the variation seen in insurance companies is explained by the factors in the regression model this further means that only 21.9% of the variation seen in

insurance performance is unexplained by other variables which are not in the model. The model variables had positive coefficient shows that all the variables have a positive effect on the financial performance. This implies that an increase in these variables would result in increased performance in the firms. All the models except size are significant at 5% level since their p-values are less than 0.05. The predictive model thus developed by the study is $Y = 0.5230 + 0.0100 X_1 + 0.0130 X_2 + 0.4320 X_3 + 0.9920 X_4$ Where; Y is the performance measured by Returns on Asset, X_1 is cash flows, X_2 is liquidity, X_3 is organization structure and X_4 is size.

5.3 Conclusion

Based on the study findings, the study makes a number of conclusions. To begin with, the study concludes that based on the period under which the study was conducted the insurance companies are concluded to have varying performance which may be attributed by factors both internal and external. The study found out those cash flows, liquidity, organization structure and size affect how the firms performed. However, these measures where yet to reach their desired levels on the firms. The study thus concludes that in order to improve the performance in the insurance companies, these factors ought to be carefully evaluated and prioritized in the organization strategies. On the relationship that existed between the variables, these four variables are concluded to have a positive and significant relationship with the performance.

5.4 Recommendations

The study concludes that there various determinants of how insurance companies perform. The study thus recommends that the management at these firms to ensure that their assets are liquid enough so as to meet both current and future obligations. The study also recommends that the management put in place mechanisms to enhance efficient cash flow systems to facilitate proper financial management. The study also recommends that the organization structures should be implemented in such a way that it enables enhanced communication between the employees and management. Additionally, the study recommends that the government should come up with measures to grow the country’s real GDP as this would enhance the economy’s growth and the insurance industry’s growth as well.

5.5 Limitations of the Study

The researcher encountered various limitations that were likely to hinder access to information sought by the study. The researcher encountered problems of time as the research was being undertaken in a short period with limited time for doing a wider research. Also, this study centered only on a particular variables of impacting on financial performance. The study did not consider any other external factors that inevitably affect the financial performance regardless of the measures put in place in the organizations such as the macroeconomic and technological factors. Despite of this, the information provided did provide an accurate picture of the determinants of the financial performance in the insurance companies.

5.6 Suggestions for Further Research

While the objectives were clear and successfully accomplished, several areas remain unclear and require further research. First the study focused only on few aspects of corporate governance. Future studies should focus on other aspects of financial performance in organizations other than the ones studied such as inflations and economy growth rate. Also, this study focused entirely only the insurance companies that are registered by IRA and this may not be the actual representation of the factors affecting financial performance of other firms. To enable generalization of the research findings, future researchers could consider carrying out a similar study in a different sector or sectors to assess any variation in responses. A similar study should be carried out after at a different time frame to determine whether the same factors will be prevailing.

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APPENDICES

Appendix I: Questionnaire

This study aims at determining the factors that affect the performance of the insurance companies in Kenya. Kindly answer the questions frankly and openly as possible. All the provided information will be treated confidentially and used for academic purposes only. Please write or tick in the spaces provided.

PART A: BACKGROUND INFORMATION

1. Name of the organization (optional)………………………………………………….
2. Gender of the respondent
   a) Male ( )
   b) Female ( )
3. What is your position at your organization?
   ……………………………………..........
4. Please indicate your age
   a) Less than 25 ( )
   b) Years25 – 30 ( )
   c) Years31 – 40 ( )
   d) Years41 - 50 ( )
   e) Years Over 50 Years( )
5. Please indicate your highest level of education
   a) Secondary ( )
   b) Tertiary(certificate) ( )
   c) Diploma ( )
   d) Undergraduate Degree ( )
   e) Master's Degree ( )
   f) PhD Degree ( )
6. How long have worked for your organization?
   a) Less than 1 year ( )
   b) 1 – 3 years ( )
   c) 4 - 6 years ( )

d) More than 6 years ( )

7. What is the asset base of your company?

………………………………………………..

8. How many branches does your company have?

………………………………………..

a) Less than 5 ( )
b) 5 – 10 ( )
c) 11- 15 ( )
d) Over 15 ( )

PART B: DETERMINANTS OF PERFORMANCE IN THE INSURANCE SECTOR IN KENYA

9. Cash Flows

This section aims at establishing how cash flows in the insurance companies affect their performance. Please rate the following concepts that describe the various indicators using a Liker Scale of 1–5 whereby 1 is strongly disagree 2 is disagree, 3 is neutral, 4 agree and 5 strongly agree.

Cash Flows	**1**	**2**	**3**	**4**	**5**
There is high Cash flow from operations					
Cash flows help in managing the organization's current and future obligations.					
The organization has a wide range of cash generating activities.					
There is a well-designed protocol on how cash flows are managed.					
The management highly priorities investments and acquisitions.					

The cash flow in the organization are sufficient enough in managing the organization's operations.					

Are there any other ways in which cash flows in the organization help improve performance?

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………

6. **Size**

i. How would you rate the overall size of your organization?

a) Very Large ( )
b) Large ( )
c) Moderate ( )
d) Small ( )
e) Very Small ( )

ii. This section aims at establishing the weather size affects performance in your organization. Please rate the following concepts that describe the various indicators using a Liker Scale of 1–5 whereby 1 is strongly disagree 2 is disagree, 3 is neutral, 4 agree and 5 strongly agree.

Size	**1**	**2**	**3**	**4**	**5**
The managers endeavor to increase the company's size at all costs					
Large firms are more stable and mature, therefore generate greater sales because of their great production capacity					
Firm size is an important determinant of an insurance company's returns					
Large firms face less difficulty in getting access to credit					

facilities from financial institutions, thus achieve greater strategic diversification					
Large firms enjoy economics of scale and their average cost of production is low ensuring efficient operational activities					

ii How size affects performance in your organization? Please explain

…………………………………………………………………………………………….

……………………………………………………………………………………………..

7. Liquidity

i. To what extent would you rate the level of liquidity in your organization?

a) Very Large Extent( )
b) Large Extent ( )
c) Moderate Extent ( )
d) Small Extent ( )
e) Very Small Extent ( )

ii. This section aims at establishing how liquidity affects performance in your organization. Please rate the following concepts that describe the various indicators using a Likert Scale of 1–5 whereby 1 is strongly disagree 2 is disagree, 3 is neutral, 4 agree and 5 strongly agree.

Liquidity	**1**	**2**	**3**	**4**	**5**
The investments are mostly liquid in the company					
The company sells off their investments if it does not have enough money to settle claims					
The Company’s financial strength is adequate to meet the ongoing policyholders’ obligations					
The organization has a good liquidity management in					

sourcing funds.					
There is high portfolio's level of cash and short-term investments Portfolio's level of readily saleable securities.					

iii. To what extent does liquidity affect the financial performance of your insurance company?

a) Very Large Extent( )
b) Large Extent ( )
c) Moderate Extent ( )
d) Small Extent ( )
e) Very Small Extent ( )

8. Organizational Factors

This section aims at establishing the various organizational factors affecting performance in your organization. Please rate the following concepts that describe the various indicators using a Liker Scale of 1–5 whereby 1 is strongly disagree 2 is disagree, 3 is neutral, 4 agree and 5 strongly agree.

Organizational Factors	**1**	**2**	**3**	**4**	**5**
Enforcing performance controls and behavioral prescriptions in our organization has improved decision-making and increase predictability of performance					
Our organizational structure facilitates proper working relationships among various sub-units within the organization					
Our organization's structure has been designed in a way to ensure that departments and individuals that need to coordinating their efforts have lines of communication that are built into the structure					
Organizational structure in our organization has					

decreased employee ambiguity and has helped explain and predict employee behavior					
The employees are oriented to ensure they give their level best in operations.					
The management enhances communication among all aspects in the organization to achieve success					

9. In what ways does the organization prepare itself in countering the external environment in which they have minimal control over?

……………………………………………………………………………………………
……………………………………………………………………………………………
…………………………

10. What are the other factors affecting performance in your organization?

……………………………………………………………………………………………
……………………………………………………………………………………………
…………………………

11. What is the growth rate of your company performance?

a) Very high ( )
b) High ( )
c) Moderate ( )
d) Low ( )
e) Very Low ( )

List the kind of performance that your company needs to improved?

……………………………………………………………………………………………
……………………………………………………………………………………………
……………………….

End

Thank you for your time

Appendix II: Licensed Insurance Companies in Kenya as at June 2017

1. A P A Insurance Limited
2. AAR Insurance Kenya
3. Africa Merchant Assurance Company
4. AIG Kenya Insurance Company
5. Allianz Insurance Company
6. Apollo Life Assurance Limited
7. Barclays Life Assurance Kenya Limited
8. British-American Insurance Company (K) Limited
9. Britam General Insurance Company
10. Cannon Assurance Company
11. Capex Life Assurance Company
12. CFC Life Assurance Limited
13. Chartist Kenya Insurance Company Limited
14. Co-operative Insurance Company
15. Continental Reinsurance
16. Corporate Insurance Company
17. Direct line Assurance Company
18. East Africa Reinsurance Company
19. Fidelity Shield Insurance Company Kenya
20. First Assurance Kenya Limited
21. GA Insurance Company
22. Geminia Insurance Company
23. Heritage Insurance Company- Kenya
24. ICEA LION General Insurance Company
25. ICEA LION Life Assurance Company
26. Intra- Africa Assurance Company
27. Invesco Assurance Kenya
28. Jubilee Insurance Company
29. Kenindia Assurance Company
30. Kenya Orient Insurance
31. Kenya Reinsurance Corporation
32. Liberty Life Reinsurance Corporation

33. Madison Insurance Company Kenya
34. Mayfair Insurance Company
35. Mercantile Insurance Company
36. Metropolitan Life Insurance Kenya
37. Occidental Insurance Company
38. Old Mutual Life Assurance Company
39. Pacis Insurance Company Limited
40. Phoenix of East Africa Assurance Company Ltd
41. Pioneer General Insurance Company Limited
42. Resolution Insurance Company
43. Saham Insurance Company
44. Sanlam Insurance Company
45. Shield Assurance Company Limited
46. Takaful Insurance of Africa
47. Tausi Assurance Company Limited
48. The Heritage Insurance Company Limited
49. The Jubilee Insurance Company of Kenya Limited
50. The Kenyan Alliance Insurance Co Ltd
51. The Monarch Insurance Company Limited
52. Trident Insurance Company Limited
53. UAP Insurance Company
54. Xplico Insurance Co.

Source: IRA, 2017: The Insurance Industry Quarterly Report 2017