# RISK MANAGEMENT STRATEGIES AND CORPORATE GOVERNANCE IN INSURANCE COMPANIES IN KENYA

**BY**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**DECEMBER, 2018**

## DECLARATION

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

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This research project has been submitted for examination with my approval as the university supervisor.

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# DEDICATION

This project is dedicated to the Believers Love world Nation, my daughter and greater family for their faith proclamations, prayers, inspiration and encouragement while undertaking the study. Their support towards the successful completion of this course cannot be wished away. I am also grateful to my Father the Lord God Almighty who has given me supernatural wisdom, supernatural strength, supernatural abilities, supernatural knowledge, supernatural insight, supernatural health and supernaturally increased me while undertaking this course.

# ACKNOWLEDGMENT

My sincere and special thanks go to my supervisor Dr. Caren Angima for her unwavering support, useful comments, guidance and valuable critique that was instrumental in the successful completion of this research work. I also appreciate my mentor, life coach and Father Pastor Rev Dr Chris Oyakhilome Dsc. DD, My Most Highly esteemed Pastors Siji and Taiwo Dara, Pastors Ted and Stella Obieroma, my most precious gift and daughter Christiana Danielle, my family, friends and workmates for their invaluable support during the times that I had to balance between the rigorous masters program and a demanding work environment. Finally my appreciation goes to God Almighty, my buckler and strength, the one in whom I will trust forever.

# TABLE OF CONTENTS

**DECLARATION** .......... **ii**

**DEDICATION** .......... **iii**

**ACKNOWLEDGMENT** .......... **iv**

**LIST OF TABLES** .......... **viii**

**LIST OF FIGURES** .......... **ix**

**ABBREVIATIONS AND ACRONYMS** .......... **x**

**ABSTRACT** .......... **xi**

**CHAPTER ONE: INTRODUCTION** .......... **1**

1.1 Background of the Study .......... 1

1.1.1 Risk Management Strategies .......... 2

1.1.2 Corporate Governance .......... 3

1.1.3 Insurance Industry in Kenya .......... 5

1.2 Research Problem .......... 6

1.3 Research Objectives .......... 7

1.4 Value of the Study .......... 7

**CHAPTER TWO: LITERATURE REVIEW** .......... **9**

2.1 Introduction .......... 9

2.2 Theoretical Foundation .......... 9

2.2.1 Stewardship theory .......... 9

2.2.2 Agency Theory .......... 10

2.2.3 Stakeholder Theory .......... 11

2.3 Risk Management Strategies .......... 12

2.3.1 Risk Governance Strategy .......... 13

2.3.2 Drafting of Risk Policy Strategy .......... 14

2.3.3 Risk Identification and Categorization .......... 14

2.3.4 Risk Evaluation ..... 15

2.3.5 Risk Treatment ..... 15

2.3.6 Risk Monitoring ..... 15

2.3.7 Documentation and Reporting ..... 16

2.4 Risk Management Strategies and Corporate Governance ..... 16

2.5 Summary of Empirical Literature and Research Gap ..... 20

**CHAPTER THREE: RESEARCH METHODOLOGY ..... 22**

3.1 Introduction ..... 22

3.2 Research Design ..... 22

3.3 Population of the Study ..... 22

3.4 Data Collection Methods ..... 22

3.5 Data Analysis Methods ..... 23

**CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION ..... 24**

4.1 Introduction ..... 24

4.2 Response Rate ..... 24

4.3 General Information ..... 24

4.3.1 Level of Management ..... 24

4.3.2 Gender ..... 25

4.3.3 Number of Branches ..... 26

4.3.4 Age of the Insurance Company ..... 26

4.4 Risk Management Strategies and Risk Management Process ..... 27

4.4.1 Risk Identification ..... 27

4.4.2 Risk Evaluation ..... 28

4.4.3 Risk Treatment ..... 29

4.4.4 Risk Monitoring ..... 30

4.5 Corporate Governance ........ 31
4.5.1 Corporate Governance Practices ........ 31
4.6 Risk Management Strategies that affect Corporate Governance within the Insurance Companies ........ 33
4.7 Impact of Risk Management Strategies on Corporate Governance within Insurance Companies ........ 34
4.8 Discussion of Results ........ 36
4.8.1 Risk Management Strategies and the Risk Management Process ........ 36
4.8.2 Corporate Governance ........ 37
**CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS ........ 39**
5.1 Introduction ........ 39
5.2 Summary of Findings ........ 39
5.3 Conclusions ........ 41
5.4 Recommendations ........ 42
5.5 Limitations of the Study ........ 43
5.6 Suggestions for Further Studies ........ 44
5.7 Implication of the Study on Policy, Theory and Practice ........ 45
**REFERENCES ........ 48**
**APPENDICES ........ 53**
Appendix I: List of Insurance Companies in Kenya ........ 53
Appendix II: Data Collection Questionnaire ........ 55

# LIST OF TABLES

**Table 2.1:** Empirical Literatre and Research Gap ........ 21

**Table 4.1:** Level of Management ........ 24

**Table 4.2:** Number of Branches ........ 26

**Table 4.3:** Risk Identification ........ 27

**Table 4.4:** Risk Evaluation ........ 28

**Table 4.5:** Risk Treatment ........ 29

**Table 4.6:** Risk Monitoring ........ 30

**Table 4.7:** Corporate Governance Practices ........ 31

**Table 4.8:** Risk Management Strategies that affect Corporate Governance ........ 33

**Table 4.9:** Impact of Risk Management Strategies on Corporate Governance ........ 35

# LIST OF FIGURES

**Figure 4.1:** Gender of the Respondents ............................................................................. 25

**Figure 4.2:** Age of the Company ........................................................................................ 26

# ABBREVIATIONS AND ACRONYMS

**CRO** - Chief Risk Officer

**IRA** - Insurance Regulation Authority

**MFI** - Microfinance Institutions

**NGO** - Non-Governmental Organization

**OECD** - Organization for Economic Co-operation and Development

**RMC** - Risk Management Committee

# ABSTRACT

Management of risk forms part of the core business of insurance companies. However the relationship between risk management and corporate governance in insurance companies in Kenya has not been explored. The objective of this study was to determine the effects of risk management strategies on corporate governance in insurance companies in Kenya. The study used a descriptive research design as it entailed survey and fact finding inquiry and also had considerable capacity to generate answers to questions like what, who, where and how. The population under investigation was the insurance industry comprised of 53 companies at the time of collecting data. A sample of 42 insurance companies was used, out of which data was collected from 38 companies. Primary data was employed in this study. Standardized questionnaires containing both open ended and close-ended questions were administered and the data collected analysed using descriptive statistics as it was quantitative. The results and findings of the data analysed were presented in tables and charts. The study finds that insurance companies in Kenya have incorporated risk management strategies which include risk avoidance, risk acceptance, risk reduction and risk transfer through a rigorous risk assessment process which involves risk identification, risk evaluation, risk treatment and risk monitoring in their corporate governance strategies. The study concludes that there is a strong connection between risk management strategies and corporate governance of insurance firms in Kenya. However challenges remain occasioned by decisions made by national regulators such as Insurance Regulatory Authority, Competition Authority and Capital Markets Authority on the introduction of their own specific market requirements, and global disagreements on the modalities of implementing supervision that is risk-based. The study recommends that the challenges require insurance companies to execute versatile approaches in their risk management efforts.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

Risk management in business is a very useful concept especially when looking at the insurance industry. Observations put it that businesses emphasize much on risk management since it is a great determinant of business survival and performance (Bansal & Bansal, 2014). Risk management strategies entail risk governance; developing risk policy and procedures; documentation and reporting of risks and risk management processes which include risk identification, evaluation, treatment and monitoring (Arunga & Njunguna, 2012). Corporate governance ensures that resources of organizations are put into good use for maximum output (Eling & Marek, 2009: Kendrick, 2015). Different business organizations adopt different risk management strategies. Implementation of these strategies is dependent upon organizational structures, systems, processes, strategy and style of management and even the shared values that are shaped by corporate governance. Improved corporate governance and proper risk management mechanisms define proper use of organizations' resources, reduced risk levels resulting to maximized output (Smallman, 2010). It has also been observed that poorly governed firms are more susceptible to risks and vice versa.

The theories underpinning this study include stewardship theory (Donaldson and Davis, 1991); agency theory (Jensen & Meckling, 1972) and stakeholder theory (Freeman, 1984). Stewardship theory considers managers to be stewards of organization who perform duties relating to protecting and maximizing shareholders wealth. Stakeholder theory postulates that other than shareholders who possess moral status, an organization has a moral relationship with individuals and groups that consume its products (Mahoney, 2014). The Agency theory (Jensen & Meckling, 1976) looks at a firm as a contractual relationship between people, called principals, who invest their capital and people, called agents, who manage the capital on their behalf. Therefore, this perception is entrenched on the fact that firms have a set of contracting relationships among individual actors that are narrowly self-interested and rationally bound to each other.

These theories generally provide an understanding of how managers can implement risk management strategies in a dynamic business environment considering the relationships involved and the output expected. The theories overlook the institutional context and diversity in partnerships that can curtail risk assessment and treatment posing a threat to corporate governance. Thus, these theories are all applicable to insurance companies which are involved in the business of risk undertaking and there is therefore a direct correlation between risk management strategies and corporate governance.

### 1.1.1 Risk Management Strategies

Risk management strategies are defined as actions that organisations pursue to optimise their operations in a dynamic environment. Risk management is viewed as a process which enables an organization to define the risk exposures it faces and select the most appropriate technique of treating the exposures. According to Kendrick (2015) risk management strategies entail risk acceptance, risk avoidance, risk transfer and risk reduction as techniques used to minimize a firm’s exposure to risks. Effective risk management process involve identifying potential losses to the business, evaluating those losses, selecting appropriate techniques to handle the loss exposures and developing and implementing an appropriate program or policy which would minimize or wholly eliminate the risk. This argument has been supported by Walker (2011) who states that risk management strategies have largely enhanced good corporate governance in organizations as firms develop risk management policies and procedures, adequately and properly document and report risks through the risk assessment process which involves risk identification, assessment, treatment and monitoring and as a result the firm’s loss to catastrophes is minimized thus increased profitability. Industry leading organizations have over time observed that there is need to assign the responsibility of risk management to a specific manager or committee and make it part of performance evaluation (Okpara, 2011).

Organisations should analyse the external and the internal environment and other underlying factors such as culture, structure, systems, processes and underlying values as well as, constraints and opportunities in identifying and assessing risks. All processes may be in vain if organizations do not properly identify risks. Developing of codes and

standards, business plans, industry guidelines and other related corporate documents (Kendrick, 2015) are other key strategies that need to be undertaken in risk management process. Proper risk assessment entails considering the source of risk; the consequence and likelihood of occurrence and potential impact that it may have on the achievement of strategic goals.

Proper documentation and reporting enables the organisation to compare their result against the approved tolerable risk criteria and previously documented policies (Weir & Mcknight, 2012). Documentation can be enhanced by proper integration and use of technologies in the organisation wide system. As per the outcomes, risk management strategies such as transferring or sharing of risks, avoiding the risk, reducing (mitigating) the risk through product/service modification and retaining (accepting) the risk (Reddy & Sharma, 2011) can then be adopted. The risk behaviour of managers and the board of management affect risk management activities. Risk policy is therefore a statement detailing the general direction that a firm wants to undertake regarding risk management and effectively communicates and advices it's workforce.

### 1.1.2 Corporate Governance

Corporate governance is viewed as specific relations that exist amongst the management of an organisation, shareholders, the board of directors, auditors as well as other relevant stakeholders (Rafiee & Sarabdeen, 2011). According to the Capital Markets Authority (CMA) Act of 2002, corporate governance refers to structures and processes used by a firm to control and direct its business affairs. Mason and O'Mahony (2015) through seminal essays on globalization and corporate citizenship explain that the conventional definitions of corporate governance focused only on lawful relationship among the leaders and owners. Current definitions have broadened the governance borders to include various stakeholders' role in determining firm's behavior. Shleifer and Vishny (1997), posits that "corporate-governance mechanisms gives surety to investors in corporations that they will receive satisfactory returns on their investments as highlighted." Hence, to enable businesses to grow and gain advantage of profitable investment opportunities, they have to finance their ongoing operations by use of their own generated cash flows and accumulated financial resources.

Corporate governance is enshrined in the principle of the protection of the interests of shareholders; fair and equal treatment of all the shareholders; role of the shareholders; information dissemination and the responsibilities and transparency of board of directors and executives in the business operations (OECD, 2004). Therefore key aspects of good corporate governance are transparency in the manner in undertaking of activities as detailed in the structure; the accountability of the managers to shareholders and the overall corporate responsibility towards stakeholders (Boukbari, 2011).

The purpose of corporate governance is to increase wealth and accountability with the company with the aim of achieving long term value for all stakeholders. Corporate governance is perceived as a pledge towards repaying a reasonable return on investment. According to ICPSK (2014), corporate governance is the code of behavior that defines the interaction amongst the directors of an organization, stakeholders, and management. It can be seen as the codes of practice by which an organization’s administration is held responsible to those who invested their capital for the efficient use of assets. It shows a firm is governed by its mission, values and philosophy. It can also be said to be a set of interconnected rules that govern the behavior of firms, its administration and its shareholders. It refers to common principles of control set up by an amalgamation of the legal system.

In a democratic society, effective corporate governance strategies safeguard firms against mismanagement (Rafiee & Sarabdeen, 2011). These strategies are pegged on democratic values such as accountability, rule of law, responsibility and transparency and include institution of company’s policy and constitution of the Board of Directors with clearly defined responsibilities. According to Weir et.al., ( 2012) the size of the board should be sufficient relative to the complexity and scale of the operations of the company and should be diverse in experience, compatible, independent and with high level of integrity. Other strategies include communicating with shareholders; committee formation; checking the adequacy of business operation through internal audits, checking the efficiency and effectiveness of internal controls to ascertain compliance with legislation.

Corporate governance has attracted attention because of its alleged positive impact on performance of organizations and society in general. According to a research paper in Kenya by Wanyama and Olweny (2013), lack of good corporate governance has caused failure and stagnations of numerous good performing companies including WorldCom, Anderson, Merrill Lynch, Enron, Uchumi Super Market, CMC Motors and Euro Bank.

The government, industry regulators, professional bodies and other players have developed rules, codes and guidelines on corporate governance. These rules specify the rights and obligations of various stakeholders on the business enterprises and are aimed at ensuring fair, transparent and accountable business environment and therefore improve corporate performance. Therefore, it is generally accepted that risk management strategies need to be supported by good corporate governance especially in complex sectors such as banking and insurance sector.

### 1.1.3 Insurance Industry in Kenya

In Kenya, there are 53 insurance companies, out of which 11 companies are composite, that is, combination of life and non-life insurance business, 27 are purely non-life or general business and 15 are purely life companies (IRA, 2017). The industry has established a way of regulating itself through the Association of Kenya Insurers (AKI). Insurance Companies face varied setbacks ranging from weaknesses in the structure, fraudulent activities by employees and clients, incidences of high claims, delays in settlement of claims, delays in collection of premiums, collapse of firms due to lack of liquidity, lagging rate of economic growth, low rate of penetration of insurance services, industry saturation and evidence of poor governance.

In the last fifteen years, at least 9 insurance companies faced setbacks and eventually wound up because of the various risks. These risks and setbacks that insurance companies in Kenya suffer from have triggered the regulatory body, to initiate an all-inclusive Claims guideline that guides risk management for the insurance sector, effective June 2013. However these guidelines have faced implementation challenges occasioned by conflict of interest from the structural and operating systems embedded in institutions and adopted by various industries

### 1.2 Research Problem

There exists abundance of legal prescriptions governing corporate governance self-regulation in the insurance regulatory framework in Kenya. These prescriptions give insurance companies an opportunity to reap from good governance. Benefits from self-regulation require that individual insurance companies and their stakeholders develop a conviction that managing institutional and environmental risks through self prescribed mechanism is to their own advantage (Clark, 2007). This requires a proper integration of risk management framework into the companies, processes, systems, culture and leadership. Bandara and Werakoon (2012) argue that, in essence, to create value for stakeholders, insurance companies should retain and actively manage some risks as part of the core business operations, while transferring others elsewhere.

Management of risk forms part of the core business of insurance companies. However the aspect of risk management invites the participation of ownership structures that so far have not been coordinated well in most insurance companies in Kenya, in as much as the concept of corporate governance have been praised over the recent past. According to Bhimani (2009) some risks present opportunities through which firms can gain an edge in comparison to the others. However, inadequate risk management strategies regarding such risks have not been explored, leading to poor management strategies. Besides, risk management culture has not been inculcated and made an organisation wide responsibility at all levels of the companies' functional framework. Insurance companies have always adopted the mergers and alliances strategies compromising the efforts of inherent risk management strategies specific to individual institutions; moreover, such alliances hedge them against certain risks while subjecting them to further vulnerabilities that stem from poor governance mechanisms. Proper linking of risk management strategies to corporate governance in insurance firms can be more effective and efficient in understanding the value of the market efficiency.

Many studies on risk management and corporate governance by companies have been done, but less focus has been made on the aspect of risk management strategies and corporate governance in insurance companies in Kenya. The studies of Eling and Marek (2009); Ejuvbekpokpo and Esuike (2014); Kiragu (2014) and, Wanjohi and Ombui (2016)

found out that there are issues in corporate governance that affects the operations of insurance companies. A study on corporate governance and risk taking in United Kingdom Companies by Eling and Marek (2010) found out that risk management and resultant strategies are considered to be crucial for the operations of insurance companies. Wanjohi and Ombui (2016) assessed how risk management strategies affect the performance of insurance firms in Kenya by use of a case study and concluded that insurance companies faced de-regulation and regulation risks, economics related to the industry and competition and they, therefore recommended the use of tools for strategic planning to provide a wider outlook of the industry. Ejuvbekpokpo and Esuike (2014) also conducted research on corporate governance issues and its implementation among insurance companies in Nigeria and concluded that agency-principal relationships affect governance of insurance companies as did Kiragu (2014).

A critical review of the studies shows that they were carried out in different contexts, addressing different issues and using different methods. The findings they gave generally highlighted how organizations can assess risks, audit issues in governance, and how risks affect financial performance. The uniqueness of risks in nature and inherence compel organizations to align their structure both internally and externally to implement risk management strategies. It is clear that none of the above studies highlighted how risk management relates to corporate governance specifically for insurance companies in Kenya. Therefore contextual and conceptual gaps still exist and need to be addressed. This study has sought to fill or otherwise reduced this knowledge gap by addressing the following research question; what relationship exists between risk management strategies and corporate governance in insurance companies in Kenya?

## 1.3 Research Objectives

The objective of this study was to determine the effects of risk management strategies on corporate governance in insurance companies in Kenya.

## 1.4 Value of the Study

This study may be important to insurance companies, students, general public and the insurance regulators as it will make contributions that are valuable from both practical and theoretical perspectives.

Theoretically, this study may increase the general understanding of risk management strategies and how they impact on corporate governance, and to further contribute to it's application and the direction it takes when it comes to corporate governance in insurance companies. The study will contribute to the knowledge that already exists on risk management strategies thereby benefiting scholars. It will also aid in further research on the area of risk management strategies in the financial sector and insurance sub sector.

The study may aid improvement of risk management strategies in insurance companies in Kenya and facilitate adoption of efficient mechanisms to address performance gaps occasioned by occurrence of these exposures. It may enable the companies to realise the opportunity cost incurred in accepting or rejecting a risk and the level of tolerance apportioned to a particular risk. Understanding this and putting it in practice may enable the insurance companies maintain an edge in competition.

The general public stand to benefit from the study through receipt of quality service delivery, arising out of sensitization on quality insurance products and services resulting from good corporate governance achieved from application of appropriate risk management strategies in the firm's daily operations.

The study may be of help to the government, through IRA, in establishing regulations and policies which are essential for the proper functioning of the insurance industry and also ensure that the industry benefits from a globally competitive financial sector. By applying risk management strategies, organizations will eventually achieve efficiency, adaptability and responsiveness, in the light of emerging trends.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter examines the state of theoretical and empirical knowledge on risk management strategies, effects of risk management strategies, corporate governance strategies and how risk management strategies influence corporate governance.

## 2.2 Theoretical Foundation

Risk management strategies are applied to manage and appropriately deal with potential risks and by their application or adoption, organizations acquire the ability to adequately read signals and the precursors of serious disruptive events thereby putting in place necessary and proper policies to minimize losses thus enhancing good corporate governance culminating to excellent service delivery. All risk management strategies and regulations involve the use of such principles to meet the uncertainties, risks and potential disruptions. These strategies inspire and generate confidence and trustworthiness by reducing uncertainties and ambiguities, clarifying facts, involving affected people, fostering exchange of views and perspectives and facilitating responsibility.

This study finds that risk management and corporate governance is informed by agency theory, stewardship theory and stakeholder theory. These theories are embedded in the fact that running a business efficiently entails balancing risks and rewards so that all the concerned stakeholders get an adequate return on their investments. However, in order to fully safeguard the interest of stakeholders, management must implement risk management strategies that are most efficient and effective in their daily operations. For this reason the stewardship theory is the most suitable in this study.

### 2.2.1 Stewardship theory

Stewardship theory as propounded by Donaldson and Davis (1991) brings a clear perspective in understanding the relationships that exists between the management and ownership of the company. The theory argues that there is no conflicting interest between management and ownership, and that governance establishes structure and mechanisms that coordinates the relationship of these parties. The executive control has no inherent challenges, whereas the managers should be in control of their actions (Donaldson, 2008).

Management, therefore, are deemed to be faithful stewards of corporate resources, and are best placed to understand the corporate strengths, weaknesses, opportunities and threats. Flawed risk management strategies depict poor stewardship and weak management thereby de-motivating shareholders.

The assumptions of this theory that the behaviours of the managers consistently match the interests of the principals are in many occasions the case, as management is deemed to be the custodians, implementers and enforcers of the various risk management strategies adopted by organizations, which framework is meant to cultivate and enhance good corporate governance. Thus, this theory is applicable to the study in that it shows there is need for a cordial relationship between shareholders and management for effective application of proper strategies and incorporation of good corporate governance processes which are vital for the existence and sustainability of the company.

### 2.2.2 Agency Theory

This theory looks at a firm as a contractual relationship between the provider of capital and manager of the capital in a relationship of principal and agent respectively (Jensen & Meckling, 1972). This view is entrenched in the fact that firms embrace a set of contracting relationships among individuals whereby the principal bestows the agent with the responsibility of managing the capital in his best interests. This relationship, gives a solution to the problem that arises from the disparities between the goals and the principals' attitude towards risk and the resulting agency cost. According to Bansal and Bansal (2014), agency costs encompasses the costs incurred in structuring the operations, the resulting loss incurred should the charges of enforcing the contracts exceed the benefits expected, harmonising a given set of contracts among agents with conflicting interests, and monitoring costs. In an ideal principal-agent relationship, information flow and risk bearing cost needs to be reflected. However, this is not normally the case prompting the use of systems and rules in regulating the contractual process between the agents and the principals. The system of rules, processes and risk management strategies directing the management of a firm is encapsulated in the corporate governance guidelines relating to the risk identification process which can be hampered by agents (Okpara, 2011).

Thus, this theory asserts the need by firms to set standards, proper rules and policies which are well documented and effectively communicated to management to avoid ambiguities and ensure the strategic goals of firms is firmly achieved through enhanced good corporate governance. The processes and strategies established by firms will only be altered, modified, deleted or added only in instances which are necessary and geared towards the achievement of the organizations ultimate goal of minimizing costs and losses while maximizing on profits.

Since the theory considers management as delegates of the owners with the mandate to implement their wishes, it fails to acknowledge the autonomy exercisable by management as a result of their expertise. The theory is therefore limited as far as the role of managers to formulate and implement risk management strategies in insurance companies in Kenya is concerned.

### 2.2.3 Stakeholder Theory

This theory as advanced by Freeman (1984) argues that the reason why a firm exists is defined by the value proposition it creates to the stakeholders. This theory provides a basis for a framework of structural relationships that exist between managers and various stakeholders divided into three pillars; description pillar, the normative pillar and the instrumental pillar. These pillars are vital in dealing with multi related firms such as insurance companies with special groups of stakeholders. This theory views shareholders as interested parties whose interests need to be balanced for creation of synergy, in this regard, depicting moral obligation. Agency and stakeholder theories are biased towards the recognition of the institutional context relevant to operations of the firm which are contributors to risks (Shaw, 2013; Mahoney, 2014). Stakeholder integration assists in prescribing risk management strategies and evaluating actions. Furthermore, corporate governance issues vary in specific organisations and thus the context of stakeholder participation must be defined so as to develop effective risk management strategies.

This theory, therefore, advances the principle that managers of organisations, as stewards, should strategically analyse the risks that face their organizations so that they can advice and prescribe relevant strategies, prioritize and allocate resources effectively within the threshold of defined cost to avoid conflict of interest between them and the agents and stakeholders who are consumers of their services and products. In recent times business relationships need careful analysis of this interrelationship so as to operate and thrive in the turbulent business environment by adopting and implementing appropriate strategies which enhance good corporate governance and eventually maximizes on profits.

## 2.3 Risk Management Strategies

Risk is referred to as the state of uncertainty that faces upcoming dealings and outcomes. It also describes the likelihood of an event occurring and the impact of the occurrence with the probable influence on the attainment of the objective of a business. Some empirical work perceive risk management as a social practice within the organization (Kiragu, 2014; Arman and Hassan, 2009) and sufficient evidence has been compiled to suggest that risk management strategies have considerable variation across firms and within an industry. In firms, risk management strategies are selected following careful identification, assessment and prioritization of the risks by the board and the management to enhance monitoring, minimization of losses and controlling the probability and the impact of its occurrence (Bhimani, 2009; OECD, 2014).

In risk management, firms adopt different strategies depending on the magnitude of the potential loss and it's impact on the firm's operations. Among key strategies that firms adopt include risk acceptance, risk avoidance, risk transfer and risk reduction. These strategies provide a structured and coherent approach to identifying, assessing and managing risks. They incorporate mechanisms for regular evaluation and updating of risks based on new developments or actions taken. A risk management strategy is desirable and relevant irrespective of the size of the firm as it involves the recognition of risk, identification of risk and evaluation of risk, a process generally referred to as risk assessment. By assessing risks, an organization is able to recognize uncertainty surrounding events or likely adverse outcomes and institute action plans that can be taken to protect the organization, all interested persons and assets involved. The action plan and it's complexity will vary between organizations and is also largely dependent on how much hands-on the staff is.

Risk acceptance as a strategy can either be passive or active. Passive acceptance requires that no action other than documenting the strategy is done. This leaves the management team a wide leeway to deal with the threats or opportunities as they emerge. On the other hand, active acceptance involves the establishment of a contingency plan, contingency reserve, detailing the resources required such as time and money or otherwise required to handle the known or even potentially unknown, threats or opportunities (ICE, 2005).

Risk avoidance is the eradication of hazards, activities, and exposures that can adversely affect an organizations tasks and outcome (Vaughan and Vaughan, 2008). It seeks to avoid compromising events entirely by adopting programmes so that the circumstances triggering the occurrence of a risk event are precluded and hence the risk is averted. While this strategy cannot be applied to all the risks facing an organization, it is the most effectual strategy for forestalling risks before they occur in the firm (Meredith, 2004).

Risk transfer strategy as the name suggests means assigning the responsibility for dealing with a risky event and its impact to another party. This is usually achieved by signing a contract between two parties, that is, the organization and a third party. Example of risk transfer is purchasing insurance for any unforeseen events and, at a premium, an insurer assumes the risk and takes on the financial responsibility for any loss.

Risk control or risk reduction strategies are the defensive measures utilized by organisations to minimize the susceptibilities and therefore manage risks to an acceptable level. There are combinations of strategies that may be applied as a means of defence to counteract a risk or problem. It entails taking proactive steps and procedures to reduce the probability of a loss or the severity thereof. These may involve, instituting rules, and of course, oversight to ensure compliance with the rules (Froot, Scharfstein & Stein, 1993).

### 2.3.1 Risk Governance Strategy

Risk governance according to Rafee and Sarabdeen (2012) focuses on the way sound principles of corporate governance are applied in assessing and managing of risks. This ensures that activities viewed as risk taking are in proper alignment with the capacity of institution to absorb losses and its viability in the long-term. The report further indicates that the board is responsible to oversee and ensure effective implementation of the risk governance framework.

Insurance companies should initiate a control function for risk management in order to provide assistance for the board in making judgment on whether the risk governance framework, oversight processes and internal controls are operating as intended. Therefore inclusion of actors, processes and systems completes the circuit of risk governance (Smallman, 2010).

### 2.3.2 Drafting of Risk Policy Strategy

Risk policies basically outline the guidelines and conditions for identifying, accepting and implementing those guidelines with adequate monitoring and managing of risks. The policies need to be well defined and consistent with the organization's strategy, have a defined scope and be broad to cover the complex activities as well as adequate to support the nature of the business. These policies should be able to explain the embedded relations between a risk management system and the organization's overall framework for governance and culture (Njunguna & Arunga, 2012).

Therefore a typical risk policy statement encompasses a commitment for the organization towards implementation of risk with defined objectives, strategic activities, risk categories and their measures, and the way the framework can be continually improved. It forms part of internal controls and corporate governance arrangements describing the responsibilities and roles of the board of directors and management in managing risk in insurance companies and improving innovations (Soyemi, Ogunleye & Ashogbon, 2014). Organizations that have a well documented risk policy depict good governance.

### 2.3.3 Risk Identification and Categorization

Risk is better managed when it is defined, understood and categorized by insurance organizations. This requires organizations to strive to identify risk sources, events and their causes, potential areas of impacts, and the consequences they will have. This is done in order to come up with a detailed list of risks pegged on the events that might create them, stop them from happening, enhance and motivate the organization in achieving it's objectives or otherwise delay it in doing so (Mulili & Wong, 2011). This can be done through brainstorming and conducting SWOT analysis. The sources of risk for an insurance company include organizational assets, the liabilities gained from underwriting strategies, and the strategies for operations of the organization.

### 2.3.4 Risk Evaluation

Risk evaluation is done after the identification of risk through a wide range of approaches and methodologies. Insurance companies for a long time have involved themselves in evaluation of risks through the process of examining the potential impact of the outcomes of risk and the likelihood of occurrence (Bhimani, 2009). Risks are quantified through stress testing where a certain degree of adversity is measured against the financial impact of that adversity and reverse stress test that identifies scenarios causing insolvency (Niskamen, 2013).

### 2.3.5 Risk Treatment

This is a phase of the risk management which deals with the decisions on how to deal with risks in the external or internal environment. Several alternative strategies available like risk avoidance; risk reduction and risk acceptance through development of risk response planning, as an integrated part of treating risk is key; developing a profile of risk and having a cause control matrix is also a good practice (Amaya & Memba, 2015). Risk treatment strategies entails risk avoidance gauged through past experiences and historical analysis made on re occurrences and a course of action developed. Risk transfer entails dilution of the impact of the risk, while risk mitigation entails stopping the risk before it impacts on activities or bringing it to minimal level and for some risk is accepted.

### 2.3.6 Risk Monitoring

Effective risk monitoring comprises both qualitative and quantitative elements at enterprise-wide levels, local, regional and national levels. For effectiveness, timely and accurate monitoring should be consistently performed across the organization to enable efficiency in performing management decisions (Bhimani, 2009). Risk monitoring, therefore, should be in alignment with the strategic goals and objectives of the organization, incorporating appropriate reference to risk tolerances, risk limits, preferences and overall risk appetite as defined by management.

According to Soyemi et al. (2014) risk monitoring and control may be effected by setting of standards, and establishing procedures and policies that delineate authority and responsibility of managers. The aspect of continual improvement in risk management enhances goal settings for organizations, review of systems, allocation of resources and the review and modification of processes. Insurance companies view development of a risk profile as a meaningful tool for informing the senior management about the way risks are managed and how to prioritize the risk across the corporation.

### 2.3.7 Documentation and Reporting

A good practice in risk management also entails proper documenting of information related to risk and subsequent reporting of the same, thereby aiding development and maintenance of corporate knowledge, compliance with regulatory and legislative requirements, and in the process demonstrating transparency (Arman & Hassan, 2009). Use of technology enhances capabilities in risk management with respect to documentation and reporting. An inclusive system which consolidates portfolio risks crystallizes risk management processes, and coordinates management efforts is recommended (Akhigbe & Madura, 2001).

## 2.4 Risk Management Strategies and Corporate Governance

Corporate governance pursues the improvement of performance of companies for the benefit of policyholders, shareholders, other stakeholders and the wider economic environment through the setting of standards and appropriate rules and policies and adoption of proper risk management strategies to effectively deal with and handle potential losses that may affect the firm’s operations. Thus, in line with the principal-agency theory, it focuses on the interaction between the board of directors, shareholders, the managers, insurer’s owners and clients and examines their conduct which should all gear towards achieving the firm’s strategic goals.

Corporate governance concerns to the systems and processes that direct, control and hold organizations accountable for their actions (Beiner et al., 2012). Good corporate governance seeks to achieve effective, sustainably efficient systems that lead to

employment and wealth creation, and respond to dynamic challenges posed by the potential risks and economic changes in the environment (Smallman, 2010) thus embracing an inclusive approach to participation, democratic ideals and legitimate representation.

Corporations are viewed as legal entities created under the laws of a particular country. As such legal entities are entitled to own assets without reference to visible individuals. The granting of legal existence of a corporation may arise from a general legislation that is wholesome and governs every aspect of the entity to a specific statute that create a specific entity as was the case by the 19$^{th}$ Century according to Boukbari (2011). Corporations are governed by the Articles of Association and Memorandum of Association.

The OECD guidelines on Corporate Governance Principles developed in 1999 and reused from time to time has been the most influential regarding corporate governance and have been continually relied on by countries developing local codes or guidelines relating to management structure of the board and it's processes, disclosing information and transparency in managing finance, conducting audit, defining structure of ownership, exercising proper control of rights and corporate responsibility and compliance (OECD, 2004; OECD, 2014). The parties involved in good corporate governance activities include, agencies and authorities of the government, board of directors including the chairperson, the CEO or the equivalent, management including line management and other executives, auditors and shareholders.

The board of directors perform significant roles and functions in corporate governance. According to Mallin (2004) the board should adopt the strategy of a company, develop a policy defining the direction, conducting appointments, supervision and setting remuneration criteria of senior executives, and seeing that the organisation is accountable to its shareholders by ensuring that risk management strategies adopted pursue this noble course. In this regard, Weir and Mcknight (2012) argue that affiliates of insurance companies are interested, directly or indirectly, in the corporate governance of the corporations. Workers, the board, and the managers earn salaries and brand, while

shareholders receive returns on their investment in the form of dividends. For lenders, the returns are in the form of interest paid on loans. The customers are keen on consistency and quality of services while the providers of purchases are keen on payment for supplies and building relationships (Mcconnell & Servaes, 2010; Walker, 2011; Niskamen, 2013). These parties add value to corporate governance and also expect proper service from the organizations.

Due to globalization and other drivers of economy, corporate business demand transparency and accountability. Among the set of strategies that need to be adopted for achieving this objective include composition of a board of directors with defined functions, formation of board committees; effective communication management, establishment of a code of ethics, gender representation in committees and sub committees and shared governance philosophy with enhanced risk management framework.

Literature demonstrates that the manner in which the board of directors is composed as well as the definition of their responsibility is a key corporate governance practice (OECD, 2004). In this view McConnell (2010) argues that the board of directors supervises the company's management and the conduct of it's affairs. Clark (2007) argues that pursuant to it's mandate the board does the assessment and approval of all strategic decisions, including unexpected shift in strategic direction like mergers and acquisitions, an argument that Beiner et al. (2012) concurs with. The board may form committees for the purpose of discharging its duties to enable it manage its affairs effectively. Some of the committees dealing with specific affairs may include the compensation and governance committee, risk committee which evaluates, monitors and treats risks that are a threat to the organization and audit committee among others (Jensen &Meckling, 1972). Every committee should employ a framework of risk management strategies to identify and manage properly the various risks. Mwangi and Angima (2016) argue that the committees should strive to build synergy in their operations.

Corporations endeavor to inform shareholders about its governance performance, primarily through annual and quarterly reports availed to them. The board appoints the chief executive officer who is responsible for receiving shareholders inquiries and addressing their concerns and clarification. Upon request, directors are given a copy of annual report, interim financial statements and comparative financial statements that accompany auditor's report including all related management's discussion and analysis (Shaw, 2013).

Developing a company's Code of Ethics as a corporate practice entails setting core values that are to be adhered to and practiced, distinct to each company in relation to its employees, suppliers, shareholders, press, media, communities and other segments of society (Mulili & Wong, 2011). The core values range from dignity and respect for people, legality, sustainability, professionalism, transparency, impartiality and integrity. The code guiding the conduct of the corporation reflects its high ethical standards in the way of conducting business and is shared by directors and employees in the corporation with a copy available in the organizations website and other channels. In most organizations, avenues ranging from whistleblower policy to employee hotlines are established and used to report violations of the Code. Compliance with the code are enhanced through annual training and written acceptance of the code (Ferrel, 2008; Wanjohi & Ombui, 2016). The Board strives to encourage the disclosure of any perceived conflicts with abstinence from voting on such matters.

Enhancing risk management framework is a policy action done through identifying the role of the board and aligning the internal governance structure through proper gender representation to incorporate diverse perspectives during decision-making process and widen approaches to risk management (Bandara & Weerakoon, 2012). Comprehensive risk management framework is supported by appointment of CRO and RMC as internal governance with the responsibility of discharging an oversight role on all risks undertaken by institutions like insurance companies (Boukbari, 2011).

Risk management strategies are undertaken within corporate governance principles hence interrelation. Each practice of an organization is geared towards achieving the organizations objectives with related risks that need to be managed (Bandara et al., 2012; Simskin and Ramirez, 2008). By following established principles of corporate governance that focuses on risk management, organizations strive to reach their intended goals. The Board ensures that appropriate systems and techniques such as risk avoidance, risk acceptance, risk reduction and risk transfer are put in place to avoid excessive exposure.

Therefore, risk management strategies adopted by an organization are largely dependent on the composition of the board, the board's independence and diversity in it's membership (Kendrick, 2015), who realize that minimization or elimination of risks is a key strategy to and in any successful organization. The board is therefore responsible for reviewing and eliminating policies that introduce and promote excessive risk-taking for short-term gains. Corporate governance guidelines suggest that the board of directors assume responsibility for stewardship, risk management, internal control and strategic planning (Bhimani, 2009). Risk management is an essential aspect of good corporate governance, and good corporate governance aids the implementation of effective risk management strategies. Corporate failures occur when institutions adopt poor risk management strategies, especially in insurance companies which have made headline news for many years (OECD, 2014). Good corporate governance strategies can reduce risks to minimal levels. It is essential for the Board to acknowledge the risks companies are taking, or recognize deficiencies in the risk management systems through the operating committees (Boukbari, 2011).

## 2.5 Summary of Empirical Literature and Research Gap

In the recent past, several writings and thoughts have been published with a view to inter-relate risk management strategies and corporate governance. However both empirical and theoretical writings and attempts have not exhaustively handled this subject thus need for a continued study and research towards achievement of this goal. Emerging trends and issues constantly make the environment of operation dynamic thus the need for more studies. In the recent past several presentations have been brought to the fore over the subject amongst others.

**Table 2.1: Empirical Literature and Research Gap**

| Authors | Country | Study | Findings | Knowledge gap |
|---|---|---|---|---|
| Mulili and Wong, 2011 | Kenya | Corporate Governance strategies in Kenya | Boards and management are primarily responsible for implementing good corporate governance strategies. | No specific focus on relationship between risk management strategies and good corporate governance in Kenya. |
| Mallin, 2004; Bhimani, 2009 | United Kingdom | Corporate Governance and risk management strategies | Risk management strategies affect corporate. Governance | No indication as to whether firms have fully effected risk management strategies. |
| Smallman, 2010 | United Kingdom | Knowledge Management as risk management; A need for open governance | Knowledge management strategies are key to risk management. | No finding on how to include knowledge management within risk management strategies. |
| Boukbari, 2011 | Netherlands | Corporate Governance issues from the Insurance industry | Governance strategies affect profits | No specific focus on the relationship between risk management strategies and good corporate governance. |
| Reddy and Sharma, 2011 | India | Corporate Governance strategies in Fiji. | Governance strategies affect firm performance | Did not consider the relationship between risk management strategies and good corporate governance |
| Bandara and Weerakoon, 2012 | Thailand | Impact of Risk Management practice on Firm Value | Risk management strategies affect firm value | Does not address impact of risk management strategies on firm value in insurance companies in Kenya. |

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter highlights the way data was collected. It discusses the research design, population of the study and also provides information on the data collection instruments to be used in the survey. It also brings out the modalities applied to carry out the study. It finally shows the data analysis method used.

## 3.2 Research Design

According to Cooper and Schindler, (2011) research design is an outline of fulfilling the research objectives and answering research questions. The authors note that research design is the structure for collecting and analyzing data. This study used a descriptive research design. This design was chosen because it entailed survey and fact finding inquiry and also had considerable ability to generate answers to questions like what, who, where and how. This research design was envisaged to describe the state of affairs at any given time. It was considered useful as it would enable detailed information and a rich understanding of the phenomenon being studied to be gained.

## 3.3 Population of the Study

According to Mugenda and Mugenda (2007) a population is a total collection of elements regarding which inferences are made. The authors note that a population is a collection of the variables being studied. The population under investigation in this study was a census as the insurance companies in Kenya is small in number. The number of insurance companies in Kenya was fifty three (53) as shown by the Insurance Industry Report (2017). The study sampled forty two (42) insurance companies out of the population.

## 3.4 Data Collection Methods

Data collection is the practice of gathering data (Cooper and Schindler, 2011). Primary data was employed in this study. Since the research was dealing with quantitative phenomena, questionnaires were adopted in collecting the data. Standardized questionnaires containing both open ended and close-ended questions were prepared and

administered. The open-ended questions were meant to allow the respondent to give answers based on facts relevant to the study topic. On the other hand closed ended question are specific to what response the researcher is seeking towards the findings.

The questionnaires were divided into two parts; the first part to cover the demographic information, the other parts was further divided as per the sub themes. During data collection, forty two (42) questionnaires with designated questions were issued to senior managers of the insurance companies because they are responsible for the implementation of the risk governance framework adopted by their organizations. Each manager was required to fill one questionnaire as guided by the themes. To ensure high response rate, the researcher dropped and collected the filled questionnaires.

### 3.5 Data Analysis Methods

The collected data was analyzed using descriptive statistics because the data obtained in this study was quantitative. Descriptive statistics entails determining the measures of central tendency, such as mean, median, mode; measures of dispersion such as variance, range, frequency distributions, standard deviation and percentages. Quantitative data is information or observations measured on a numerical scale. The results and findings were presented in the form of tables and charts.

# CHAPTER FOUR

# DATA ANALYSIS, FINDINGS AND DISCUSSION

## 4.1 Introduction

This chapter sets out the data collected and an analysis of data findings on risk management strategies and corporate governance in insurance companies in Kenya**.** The study was conducted on 42 insurance companies in Kenya.

## 4.2 Response Rate

The data collection instruments, which were questionnaires, were distributed to top level managers in all the insurance companies' headquarters in Nairobi. Out of 42 questionnaires distributed, a total of 38 were returned fully filled making a response rate of 79.2%. Kothari (2013) indicates that a response rate of 70% and above is excellent for a study to make valid conclusions.

## 4.3 General Information

The section presents data findings on the positions of the respondents' in the level of management, their gender, as well as the number of branches their organizations had and lastly, duration of existence of the company.

### 4.3.1 Level of Management

The respondents were required to state their respective positions within the organization. Three categories were provided; Chief Executive Officers, General Managers and head of departments. Their response is shown in Table 4.1.

**Table 4.1: Level of Management**

| Level of management | Frequency | Percent |
|---|---:|---:|
| Chief Executive Officers | 5 | 13.2 |
| General Managers | 23 | 60.5 |
| Head of departments | 10 | 26.3 |
| **Total** | **38** | **100.0** |

Source: Research Data (2017)

On the position of the respondent within the company, the data shows that 60.5 percent (%) of the respondents were General Managers, 26.3 percent (%) were heads of departments and 13.2 percent (%) were Chief Executive Officers. This implies that majority of respondents responsible for internal corporate governance and risk management are in senior level management of organizations.

### 4.3.2 Gender

The respondents were asked to state their gender. Gender of the respondents helps in finding out whether gender equality is observed in an organization and how integration of different thought processes, ideas and synergies work for the general good performance of different organizations. They responded as shown in Figure 4.1.

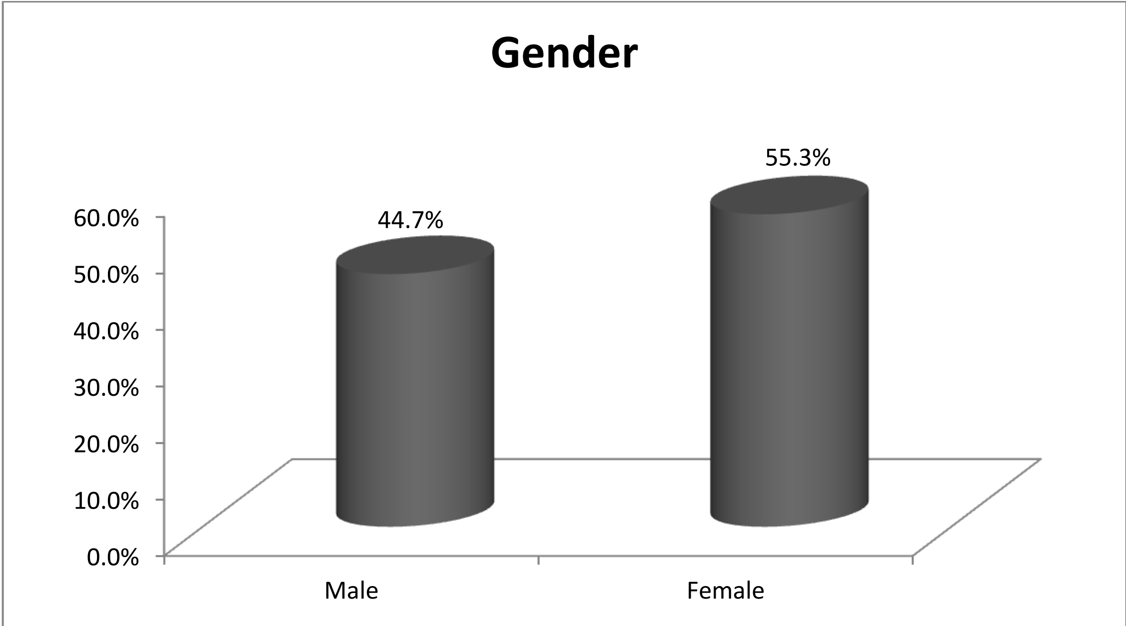


**Figure 4.1: Gender of the respondents**

Figure 4.1, depicts that 55.3% of the respondents were female while 44.7% were male showing a slight inclination towards female gender amongst the respondents in insurance companies in Kenya.

### 4.3.3 Number of branches

The study further needed the respondents to indicate the number of branches their respective insurance company had. An organization with more branches may be assumed to have a larger capital base thus increased appetite for big risks compared to one with fewer branches. Their response is shown in Table 4.2.

**Table 4.2: Number of Branches**

| No. of branches | Frequency | Percent |
|---|---|---|
| 1-10 | 9 | 23.7 |
| 11-20 | 22 | 57.9 |
| 21-30 | 7 | 18.4 |
| **Total** | **38** | **100.0** |

Source: Research Data (2017)

Table 4.2, shows that most insurance companies (57.9%) had 11-20 branches, 23.7% had 1-10 branches while 18.4% have 21-30 branches. This implies that most insurance companies in Kenya, from which data was collected, are reasonably established and have reached a larger market for their insurance products and to guard against excessive risk exposure, the organizations have adopted proper risk management strategies and put in place appropriate corporate governance regulations and frameworks which enable them contain the risks and continue being profitable.

### 4.3.4 Age of the Insurance Company

The study aimed at finding out the length of operation of the insurance firms under study. Findings are shown in the pie chart in Figure 4.2.

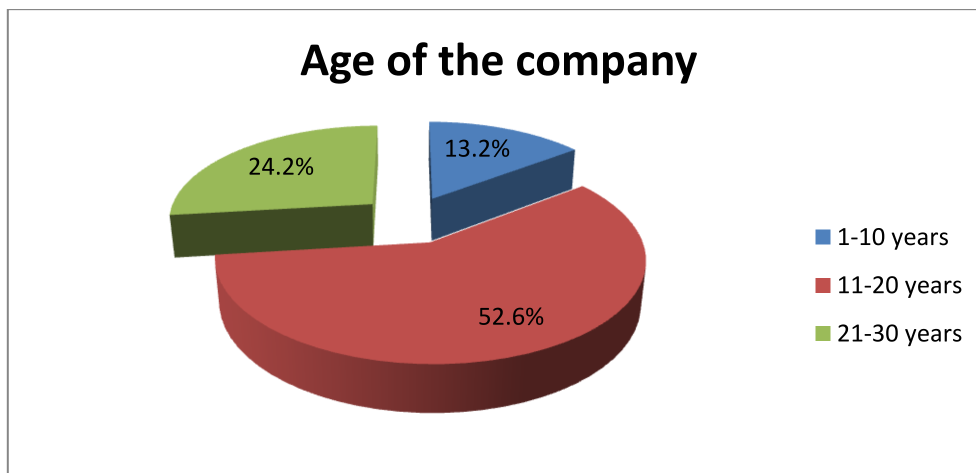


**Figure 4.2: Age of the Company**

As shown in Figure 4.2, 52.6 percent (%) of the insurance companies had been in operation for between 11-20 years. A total of 24.2 percent (%) had been in operation for 21-30 years while the remaining 13.2 percent (%) for between 1-10 years. Therefore the majority of insurance companies in Kenya have been in operation for relatively a long time and to continue sustaining their longevity the companies have been able to come up with some firm risk management strategies in their corporate governance to ensure profitability, expansion and growth.

### 4.4 Risk Management Strategies and Risk Management Process

According to Mulili & Wong (2011), risk is better managed when it is defined, understood and categorized by insurance organization. This requires organizations to strive to identify risk sources, events and their causes, potential areas of impacts, and the consequences they will have and appropriately put in place strategies such as risk avoidance, risk transfer, risk acceptance and risk reduction which will minimize or eliminate risks wholly as well as have a process which will enable it effectively and efficiently handle the various risks. Components of the risk management process involve risk identification, risk evaluation, risk treatment and risk monitoring.

#### 4.4.1 Risk Identification

The study required the respondents to indicate the degree of their agreement with the expressed statements regarding risk identification techniques used by their insurance company. They were to indicate the degree of their agreement or disagreement with the given statements on a scale of 1-5, where 1=strongly disagree, 2=disagree, 3=not sure, 4=agree and 5=strongly agree. The responses are summarized in Table 4.3.

**Table 4.3: Risk Identification**

| Risk Identification | Mean | Std. Dev |
|---|---|---|
| The company does risk inspection | 4.36 | 0.836 |
| The criteria for risk identification are clearly stated | 3.92 | 0.928 |
| Companies management serving on industry board committees enhance risk identification process | 4.32 | 1.043 |
| Establishment of standards and procedures enhance identification of risk | 4.06 | 0.982 |

Source: Research Data (2017)

Table 4.3 above shows that the respondents agreed that the manager does risk inspection (mean=4.36, SD=0.836) and that serving on industry board committees enhance risk identification process (mean=4.32, SD=1.043). The high standard deviation indicates that the views of the respondents were diverse. They agreed that establishment of standards and procedures enhanced identification of risk (mean=4.06, SD=0.982) and that the criteria for risk identification were clearly stated (mean=3.92, SD=0.928).

### 4.4.2 Risk Evaluation

The study required the respondents to indicate the degree with which they agreed with the statements regarding risk evaluation techniques used by their insurance company. The responses are summarized in Table 4.4.

**Table 4.4: Risk Evaluation**

| Risk Evaluation | Mean | Std. Dev |
|---|---|---|
| Assumptions and uncertainties that are clearly defined governs risk evaluation | 4.42 | 0.658 |
| Risk is evaluated using both qualitative value and quantitative | 4.11 | 0.972 |
| Measurement of quantities concerning the assessment of risk that is the potential loss and its probability of occurrence is done by the company | 4.05 | 0.794 |
| A risk having a high potential loss and a low probability of occurrence is evaluated differently from one with a low potential loss and a high likelihood of occurrence | 3.94 | .842 |
| For further analysis, risks are further categorised into individual levels | 3.54 | .047 |

Source: Research Data (2017)

Most of the respondents were in agreement that assumptions and uncertainties that were clearly defined governed risk evaluation (mean=4.42, SD=0.972) and that the company conducted measurement of quantities concerning the assessment of risk, that is, the potential loss and its probability of occurrence (mean=4.05, SD=0.794). They further agreed that a risk having a high potential loss and a low probability of occurrence is evaluated differently from one with a low potential loss and a high likelihood of occurrence (mean=3.94,

SD=0.842). For further analysis, risks were further categorized into individual levels (mean=3.54, SD=0.047). The high standard deviation indicates that the opinions of the respondents were diverse. They were not sure whether risk is evaluated using both qualitative value and quantitative (mean=4.11, SD=0.972).

### 4.4.3 Risk Treatment

The respondents were required to indicate the degree to which they agreed with the statements regarding risk treatment techniques used by their insurance company. Their responses are summarized in Table 4.5.

**Table 4.5: Risk Treatment**

| **Risk Treatment** | **Mean** | **Std. Dev** |
|---|---|---|
| The company insures against different types of risks but not all | 4.36 | 0.523 |
| The company does not insure risks that cause sudden damage (catastrophic) | 2.42 | 0.148 |
| At the time of entering into insurance contracts the organization has a mechanism for estimating potential losses | 4.32 | 0.513 |
| The insured parties are trained by the company on ways to minimize or avoid the chances of occurrence of losses | 4.06 | 0.382 |

Source: Research Data (2017)

Findings in Table 4.5 demonstrate that the majority concurred that the company did not insure against all types of risks (mean=4.36, SD=0.523) while that at the time of entering into insurance contracts the organization had a mechanism for estimating potential losses (mean=4.32, SD=0.513). They further agreed that the insured parties were trained by the company on ways of minimizing or avoiding the chances of occurrence of losses (mean=4.06, SD=0.382). However, they disagreed that the company did not insure risks that cause sudden damage, that is, catastrophic risks (mean=2.42, SD=0.148). The high standard deviation indicates that the views of the respondents were diverse and majority agreed that risk treatment strategies entails risk avoidance gauged through past experiences and historical analysis based on recurrence thereby need for a course of action to be developed.

### 4.4.4 Risk Monitoring

The respondents were required to state the degree to which they agreed with the given statements regarding risk monitoring techniques used by their insurance company. Their responses are summarized in Table 4.6.

**Table 4.6: Risk Monitoring**

| Risk monitoring | Mean | Std. Dev |
|---|---|---|
| Framework for monitoring risk is designed and well documented | 4.49 | 0.542 |
| The senior management supports risk monitoring efforts very well | 4.03 | 0.403 |
| Employees are always trained on policies of the firm regarding risk management | 4.39 | 0.429 |
| The risk policy is continually reviewed and communication made to employees. | 3.95 | 0.285 |
| There are controls in place for proper evaluation of the efficiency of risk management program | 4.04 | 0.407 |
| There are regular reviews and reports to senior management on risk management efforts | 4.21 | 0.722 |
| Sub division of risks into individual levels for further analysis are done | 4.19 | 0.689 |

Source: Research Data (2017)

The Table shows that most of the respondents agreed that framework for monitoring risk was designed and well documented (mean=4.49, SD=0.542) and that employees were always trained on policies of the firm regarding risk management (mean=4.39, SD=0.429). They also agreed that there were regular reviews and reports to senior management on risk management efforts (mean=4.21, SD=0.722) and that sub-division of risks into individual levels for further analysis was done (mean=4.19, SD=0.689). Moreover, they agreed that there were controls in place for proper evaluation of the efficiency of risk management program (mean=4.04, SD=0.407) and that the senior management supported risk

monitoring efforts very well (mean=4.03, SD=0.403). Finally, they agreed that the risk policy was continually reviewed and communication made to employees (mean=3.95, SD=0.285) but further study reveal that most organizations take some time, between two (2) to five (5) years, before reviewing their strategies and this is largely attributed to the fact that organizations test the strategies they have in place over time before altering or modifying the same depending on results and impacts on the firms performance and profitability.

This study found that most of the respondent companies had operationalized risk monitoring frameworks which are reviewed from time to time and this confirms that risk monitoring and control should be done through the setting of standards and establishment of procedures and policies that define authority and responsibility of managers so as to ensure that existing risk management strategies and corporate governance practices are in conformity with the firms ultimate goal of profit maximization.

### 4.5 Corporate Governance

Risk management is considered as a key aspect of good corporate governance and ultimate responsibility of effective implementation of risk management strategies is held by the board of directors. Without direct support and involvement from the board, it is impossible to identify, implement, evaluate and control these strategies (Mallin, 2004). Bhimani (2009), states that strategies can be compromised or risks can be underrated depending on the corporate environment and adherence to governance norms. Corporate governance from a risk management strategy perspective, examines corporate governance practices, risk management strategies that affect corporate governance and the impact of risk management strategies on corporate governance within insurance companies

#### 4.5.1 Corporate Governance Practices

The respondents were required to indicate the degree of agreement with the given statements regarding corporate governance strategies used by their insurance company. Table 4.7 below summarizes the responses.

**Table 4.7: Corporate Governance Practices**

| Corporate Governance Practices | Mean | Std. Dev |
|---|---|---|
| Conflicts of interest and management is common in the organization | 4.56 | 0.760 |
| Efficiencies and effectiveness is essential to the growth of the company | 4.22 | 0.525 |
| Establishment of an appropriate legal, economic and institutional framework is key to this organisation environment | 3.20 | 0.894 |
| Procedures and policies do provide rules that are clear for simple and predictable situations, and also establishes a way on how to deal with more difficult problems | 3.89 | 0.786 |
| Procedures and policies are not necessarily enough to anticipate every situation | 4.02 | 0.836 |
| Boards of directors need to exercise effective control over the senior management | 3.04 | 0.667 |
| Non-executive directors dedicate neither time nor sufficient resources time to fulfil their duties | 4.36 | 0.766 |
| Boards of directors can prove to be unable to recognize the systemic nature of certain risks | 2.32 | 1.127 |
| The costs which institutional investors are bound to face should they want to actively engage in governance issues of the company can dissuade them | 3.33 | 0.684 |

Source: Research Data (2017)

The respondents strongly agreed that conflicts of interest and management was common in the organization (mean=4.56, SD=0.760). They agreed that non-executive directors dedicated neither time nor sufficient resources time to fulfill their duties (mean=4.36, SD=0.766); that efficiencies and effectiveness was essential to the growth of the company (mean=4.22, SD=0.525); and that procedures and policies were not necessarily enough to anticipate every situation (mean=4.02, SD=0.836). Moreover, they also agreed that procedures and policies did provide rules that were clear for simple and predictable situations and also establishes a way on how to deal with more difficult problems (mean=3.89, SD=0.786).

On the other hand, the respondents were not sure whether the costs which institutional investors were bound to face should they want to actively engage in governance issues of the company could dissuade them (mean=3.33, SD=0.684). They were also unsure whether establishment of an appropriate legal, economic and institutional framework was key to their organization environment (mean=3.20, SD=0.894) and whether boards of directors needed to exercise effective control over the senior management (mean=3.04, SD=0.667).

The mean of 3 and below (not sure) indicate that the respondents had different views on which specific corporate governance practices should be employed to obtain specific organizational outcomes. This implied that the organizations had incorporated diverse corporate governance practices which enabled them achieve their strategic goals differently and this largely depended on the directors' approach to handle the different management risks and dynamic challenges they constantly encounter in their daily operations.

The respondents also largely disagreed that boards of directors could prove unable to recognize the systemic nature of certain risks (mean=2.32, SD=1.127). This is because it is argued that the Board of Directors have capacity to supervise the corporations' governance strategy and framework, assess and approve all strategic decisions, including unexpected shift in strategic direction like mergers and acquisitions and also effectively monitor the firm's risk management strategies.

## 4.6 Risk Management Strategies that affect Corporate Governance within the Insurance Companies

The respondents were required to indicate the degree of their agreement with the given statements regarding risk management strategies that affected corporate governance within the insurance industry. Table 4.8 below portrays a summary of their responses.

**Table 4.8: Risk Management Strategies that affect Corporate Governance**

| Risk Management Strategies that affect Corporate Governance | Mean | Std dev. |
|---|---|---|
| Decision made by national regulators on the introduction of their own specific market requirements and global disagreements on the modalities of implementing supervision that is risk-based creates additional challenges | 4.12 | 0.516 |
| The supervision emphasizes the need for improvements in risk oversight | 4.43 | 0.182 |
| Little guidance is available on how boards can go about setting risk targets | 2.17 | 0.496 |
| Corporate governance affects the functioning and development of insurance corporations thus applying a strong influence on identification of risks | 4.18 | 0.203 |
| Boards may not enhance the monitoring of risks through decisions | 3.48 | 0.563 |

Source: Research Data (2017)

The majority of respondents agreed that the supervision emphasized the need for improvements in risk oversight (mean=4.43, SD=0.182) and that corporate governance affects the functioning and development of insurance corporations thus applying a strong influence on identification of risks (mean=4.18, SD=0.203). They also agreed that decision made by national regulators on the introduction of their own specific market requirements and global disagreements on the modalities of implementing supervision that is risk-based created additional challenges (mean=4.12, SD=0.516). However, they were not sure whether boards might not enhance the monitoring of risks through decisions (mean=3.48, SD=0.563) and they disagreed that little guidance was available on how boards could go about setting risk targets (mean=2.17, SD=0.496). This signifies that a large number of respondents consider such guidance to exist although other respondents do not.

The findings imply that persons affiliated with insurance companies are interested, directly or indirectly, in the corporate governance of the corporations and keenly implement the risk governance frameworks so as to absorb the potential losses and remain viable in the long-run.

### 4.7 Impact of Risk Management Strategies on Corporate Governance within Insurance Companies

Enhancing risk management framework is a policy action done through identifying the role of the board and aligning the internal governance structure through gender representation so as to bring in diverse perspectives during decision-making process and widen the approach towards risk management (Bandara & Weerakoon, 2012). This study needed the respondents to indicate their level of concurrence with the given statements regarding the impact of risk management strategies on corporate governance of insurance companies and the response received is summarized in Table 4.9.

**Table 4.9: Impact of Risk Management Strategies on Corporate Governance**

| Impact of Risk Management Strategies | Mean | Std. Dev |
|---|---|---|
| Insurance Corporations gain from good corporate governance | 4.49 | 0.842 |
| Risk identification is highly influenced by good corporate governance | 4.63 | 0.143 |
| Risk assessment is highly dependent on board operations | 3.89 | 0.718 |
| Risk policy statements depict good governance | 3.95 | 0.682 |
| Documentation of risks is influenced by technological resources availed by the board | 3.65 | 0.976 |
| Options for risk treatment is highly influenced by the board | 4.38 | 0.447 |
| Risk management framework is approved by the board before implementation | 4.12 | 0.607 |
| Managers are involved in risk assessment | 4.19 | 0.889 |

Source: Research Data (2017)

The respondents strongly agreed that risk identification was highly influenced by good corporate governance (mean=4.63, SD=0.143). They agreed that insurance corporations gained from good corporate governance (mean=4.493, SD=0.842), options for risk treatment was highly influenced by the board (mean=4.38, SD=0.447) and that managers were involved in risk assessment process (mean=4.19, SD=0.889). They also agreed that risk management framework is approved by the board before implementation (mean=4.12, SD=0.607) and that risk policy statements depict good governance (mean=3.95, SD=0.682). They also agreed that risk assessment was highly dependent on board operations (mean=3.89, SD=0.718) and that documentation of risks was influenced by technological resources (mean=3.65, SD=0.976).

These findings confirm the analogy that risk management frameworks enable oversight to be exercised over all risks undertaken by institutions like insurance companies. Accordingly set corporate governance guidelines suggest that the board of directors assume responsibility for stewardship, risk management, internal control and strategic planning.

## 4.8 Discussion of Results

In this study, the data shows that most insurance companies' survey was established with a reasonable number of branches. In addition, a majority of the companies had been in operation for more than ten (10) years. This data highlights the need for insurance companies in Kenya to adopt effective risk management strategies which would enable them contain risks and continue being profitable.

### 4.8.1 Risk Management Strategies and the Risk Management Process

Firstly, the data show that most respondents held the view that the criteria for risk identification is clearly spelt out in the company and that the establishment of standards and procedures enhance identification of risks. This is consistent with the views of Mulili and Wong, (2011) who state that risk is better managed when it is defined, understood and categorized by insurance organizations. This requires organizations to strive to identify risk sources, events and their causes, potential areas of impacts, and the consequences they will have. Establishment of standards and procedures enhance identification of risk when the criteria for risk identification are clearly stated. The views of respondents were, however, diverse as to whether serving on the board committees enhance the risk identification process.

Secondly, the data show that whereas a majority of respondents were of the view that the insurance companies conducted measurements of quantities concerning the assessment of risk, and that a risk having a higher potential loss and a low probability of occurrence was evaluated differently from one with low potential loss and high likelihood of occurrence, they had diverse views regarding the specific methods for the conduct of the evaluation. The study concurs with Bhimani, (2009) that insurance companies for a long time have involved themselves in evaluation of risks through the process of examining the potential impact of the outcomes of risk and the likelihood of occurrence and put in place strategies to minimize their impact. According to Bhimani, (2009) risks are quantified through stress testing where a certain degree of adversity is measured against the financial impact of that adversity. This may also involve reverse stress tests that identifies scenarios causing insolvency. Similarly, Niskamen, (2013) states that risks are quantified through stress testing where a certain degree of adversity is measured against the financial impact of that adversity and reverse stress test that identifies scenarios causing insolvency adopted.

Thirdly, the data show that majority of the respondents held the views that at the time of entering into insurance contracts the insurance companies had a mechanism for estimating potential loss. In addition, the companies adopt risk treatment strategies involving risk avoidance whereby the insured parties are trained by the company on ways to minimize or avoid the chances of occurrence of loss. The diverse views received on whether the companies insure risks that cause sudden damage also shows that some companies adopt risk avoidance as a risk treatment strategy in that respect. The general trend in risk treatment is therefore consistent with the view that risk treatment strategies entails risk avoidance gauged through past experiences and historical analysis made on recurrences and a well-developed course of action (Amaya & Memba, 2015).

Lastly, as regards risk monitoring, the data show that majority of the respondents held the view that the companies have documented and well designed frameworks for risk monitoring. Within this framework, several measures related to risk monitoring are carried out, including training of employees on policies of the firm regarding risk management, regular reviews and reports to senior management on risk management efforts, and continual review of risk policy and communication to employees. According to Soyemi et al. (2014) risk monitoring and control should also be conducted within the framework of setting standards and establishment of procedures and policies that delineate authority and responsibility of managers. These data is consistent with the views of Boukbari, (2011) that risk management frameworks enable oversight to be exercised over all risks undertaken by institutions like insurance companies leading to better financial outcomes.

### 4.8.2 Corporate Governance

The data show that majority of respondents strongly agreed that conflict of interest within management is common in insurance companies. A majority also held the view that non executive directors dedicated neither time nor sufficient resource time to fulfill their duties. According to Bhimani, (2009) corporate governance guidelines suggest that the board of directors assume responsibility for stewardship, risk management, internal control and strategic planning. While a majority of respondents considered that procedures and policies that are clear for simple and predictable situations, and also establish ways of dealing with more difficult situations are important, nevertheless, they are not necessarily enough to anticipate every situation. It would thus seem that in corporate governance rule based governance is not sufficient for good corporate governance.

With respect to risk management strategy that affect corporate governance within insurance companies, the data show that majority of respondents recommend supervision and its role in improved risk oversight. Since corporate governance has a strong influence on identification of risks, corporate governance also affects the functioning and development of insurance corporations and exerts a strong influence on identification of risks. In this context, McConnell (2010) also argues that the Board of Directors supervises the corporations' management and affairs. It is also apparent from the data that there is disagreement amongst respondents as to whether there is little guidance on how boards could go about setting risk targets. However, a large proportion of respondents consider such guidance to exist, even though some respondents do not.

The data also shows that a majority of respondents strongly agreed that risk identification is highly influenced by good corporate governance. The majority of respondents also agreed that options for risk treatment are highly influenced by the board, risk assessment is highly dependent on board operations, the board also approves the risk management framework, and that managers are involved in the risk assessment process. According to Mallin (2004) the board should adopt a company strategy through the development of a policy clearly defining the direction it intends to take, conducting appointments, supervision and setting remuneration criteria of senior executives, and seeing that the organisation is accountable to its shareholders.

# CHAPTER FIVE

# CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This Chapter sets out a summary of the study, conclusions, recommendations and limitations of the study as well as issues for further research arising from the main findings on the existing relationship between risk management strategies and corporate governance in insurance companies in Kenya.

The objective of this study was to establish the effects of risk management strategies on corporate governance in insurance companies in Kenya. It recommends the effective management of companies to implement the risk management strategies on their corporate governance practices for ease of achieving high performance with minimal supervision.

This chapter highlights findings of risk management strategies on corporate governance and appropriate or recommended standards towards achieving good corporate governance while also explaining it's purpose and objective. This is achieved by various discussions of the principal drivers for an increased demand for good corporate governance. There is increased empirical evidence showing that competitiveness and long term value creation is a result of the implementation of risk management strategies in the organizational framework and good corporate governance practices.

## 5.2 Summary of Findings

The study found that application of risk management strategies and good corporate governance practices apply to insurance companies in Kenya to a large extent. The aspects of risk management techniques and processes and corporate governance practices that applied to the respondents companies included; independent risk and audit committee controls and adequate oversight of the risk management strategies and process, customized internal corporate governance guidelines, integration of corporate governance practice into strategy, qualified secretary as per the requirements of the Certified Public Secretaries of Kenya Act, qualified actuary to analyze and advice on risk exposures, composition of the board in such a manner that it fairly reflects the company's shareholding structure,

companies adopting the IRA Corporate governance guidelines which require that independent directors should constitute one third of the company's board, and non-executive directors and the company secretary is not a board member but attends all board meetings and provides guidance to the board on their duties and responsibilities on matters of governance.

Secondly, the study found that good corporate governance in insurance companies entails the identification and assessment of risks by determining the potential loss and its probability of occurrence and putting in place strategies to avoid or minimize their impact. The study also found that insurance companies' boards and senior management gain core competencies and implement good corporate governance frameworks which enable the companies focus on their operations so as to be more efficient. The respondents also agreed that core competencies result in the companies doing the right things and this enables them increase its customer service thus continue to remain relevant and enjoy competitive advantage. This benefit is as a result of the firm implementing some unique value creating strategy such as risk management strategies which aid the companies' sustainability.

Findings also demonstrate that most insurance companies undertake risk treatment whereby they insure against different types of risks. Accordingly, the companies have mechanisms for estimating potential losses when entering into insurance contracts and adequately strategize on training clients on ways of minimizing or avoiding the chances of loss occurrences.

The study also found that most insurance companies have frameworks for monitoring risks which frameworks are well designed, documented, continually reviewed and effectively communicated to employees. In this respect, employees are always trained on policies of the firm regarding risk management and reports made to senior management on risk management efforts. There is also need to sub-divide risks into individual levels for further analysis. Moreover, there are controls in place for proper evaluation of the efficiency of risk management programmes and the study established that the senior management support risk monitoring efforts and the risk policy.

The data also established that risk identification is highly influenced by good corporate governance. In this context, the data show that risk assessment is highly dependent on board operations and involvement by managers in the risk management process, and further, that documentation of risks is largely influenced by technological resources availed by the board. It was also widely acknowledged by respondents that insurance companies benefit from good corporate governance, and that options for risk treatment are highly influenced by the board.

On the other hand, whereas in most companies, the risk management framework is approved by the board before implementation, and the existence of risk policy statements may be said to depict good governance, the study, nevertheless, found that conflicts of interest and management was common in the organizations. Thus, majority of respondents expressed the view that non-executive directors dedicate neither time nor sufficient resources to fulfill their duties. In addition, it was established that decisions made by national regulators on the introduction of their own specific market requirements and global disagreements on the modalities of implementing supervision that is risk-based created additional challenges.

## 5.3 Conclusions

Most of the insurance companies are faced with great risks in their daily operations, and the sizes of the companies also influence the risk involved, hence, there is great need for risk management. In this regard, most of the companies had measures already put in place to manage risk and this also explains the stability and financial performance over the years. The companies with robust risk management systems were found to have better financial performance.

The study has also established that that there exists a strong connection between risk management strategies and corporate governance of insurance firms in Kenya. In this respect, all the four risk management strategies namely risk avoidance, risk transfer, risk reduction and risk acceptance, and the risk management processes namely, risk identification, risk evaluation, risk treatment and risk monitoring, are important in influencing corporate governance and that most insurance companies have incorporated these elements into the corporate governance.

The study shows that many insurance companies to a very large extent have developed and customized internal corporate governance systems in addition to the IRA guidelines. Core competences to a large extent enable companies focus on their operations, become more efficient and increase customer services. Competitive advantages of insurance firms are largely through proper risk management strategies and processes, trained staff, customer services, efficiency and innovations and enhanced corporate governance practices.

To a lower extent, conflicts of interests by board members and management influenced the performance of firms negatively. However, the firm's capital structure and ability to have proper and adequate procedures and policies directly affects its competitive advantage positively. It was further established that supervision of risk management strategies and corporate governance practices has a positive effect on its competitive advantage.

The study further showed that various aspects of corporate governance have different impact on company competitive advantage. An increase in the diversity of the composition of the board significantly raises the company's image, competitiveness and sustainability levels. The study concludes that corporate governance practices affect an organization's performance and operations to a large extent and that core competencies enhance efficiency and aid firms in implementing their strategy as well as enabling it increase its customer service.

## 5.4 Recommendations

According to the findings as discussed in the above chapters of this study, it is evident that implementation of risk management strategies and practice of good governance immensely improves the competitive advantage of companies and enhances their capacity to accomplish their strategic goals. This in return minimizes losses, improves the corporate image and thereby attracting capital at lower cost, retaining quality employees, clients and suppliers. The results of the study are envisaged to provide the firms with an ability to identify best strategies that if applied can assist in creating a competitive advantage. Therefore, the study recommends that policy makers should design appropriate policies that regulate the overall Kenyan economy.

The recommendation of this study is that the management of insurance companies must devote their resources in incorporating and implementing risk management strategies and also promote corporate governance practices as the study revealed that corporate governance practices affect a firm's competitive advantage to a large extent.  It is also recommended that the management of companies in Kenya invest more on their core competencies, equip their staff with relevant knowledge on how to handle risks, support risk monitoring efforts, continually review the risk policy and effectively communicate to employees as the study established that these practices to a large extent influence a firm's sustainability.

The study further recommends a continuous monitoring and evaluation of the risk management strategies and processes and performance of the boards governing insurance companies in Kenya. This study reveals some of the challenges to risk management in corporate governance in insurance companies to include *inter-alia* non-executive directors dedicating neither time nor sufficient resources to fulfill their duties, decisions made by national regulators on the introduction of their own specific market requirements, global disagreements on the modalities of implementing supervision that is risk-based, thus, necessitating an evaluation procedure aimed at monitoring the contributions of the board and its results. Further, the contribution of individual directors, and the existence of specific procedures and policies are needed to redefine the roles and responsibilities of the non-executive directors in so far as risk management in corporate governance is concerned. This monitoring should also focus on their collaboration with the executive board and company staff so as to annually evaluate progress against the objectives of the company and the key performance indicators which is used to reward the company and the individual fairly.

## 5.5 Limitations of the Study

The main limitation of the study was accessibility to data. The respondents in the study were senior managers and chief executive officers and getting to them to answer the questionnaires proved difficult since they are busy individuals in the organizations. To counter this, the researcher conducted pre-visits and informed the respondents on her

intention to conduct the study. Further, matters concerning company's corporate governance are considered confidential thus the respondents were reluctant to give the required information due to unexplained fear but to give confidence to the respondents, the researcher assured them the study is for academic purposes only.

Limited resources could not allow the study to be conducted as deeply as possible in terms of other predictor variables that have effects on risk management strategies other than corporate governance indicators. The study was limited to four risk management strategies and four risk management processes and corporate governance strategies and practices as having effects on competitive advantage in insurance firms. The interpretations of the results as concerns the existing relationship leading to competitive advantage were thus restricted to the four strategies.

Finally, the presence of conflicts of interest within management, inadequate procedures and policies, insufficient time and resources by board members in some of the insurance companies shows disconnect between having corporate guidelines in a company and a commitment to implementing and following of the guidelines. In this regard, many respondents were reluctant to offer information for fear of negative consequences, as well as apparent lack of time as a result of work demands. In addition, most companies have internal policies that forbid revealing information to third parties. It was, accordingly not possible to get information from all the targeted respondents. Nevertheless, the data collected met the critical mass necessary to derive credible conclusions, and the results arising from the analysis showed consistent trends thereby lending credence to the authenticity of the data.

### 5.6 Suggestions for Further Studies

The study focused only on the insurance companies in Kenya. Further studies should be carried out to examine the effects of risk management strategies on corporate governance on companies other than insurance companies which offer financial services such as banks to see if they produce similar results.

The study has not been able to comprehensively explore all the variables that influence use of risk management strategies and processes in enhancing corporate governance thus competitive advantage. The study looked at only risk management strategies including risk avoidance, risk transfer, risk acceptance and risk reduction and aligned it to the risk management process of identification, evaluation, treatment and monitoring to determine their effect on corporate governance. Therefore, further research should be carried out on other variables to come up with comprehensive conclusion and reasoning in regard to risk management and corporate governance, competitive strategies and overall firm performance.

There needs to be a study to evaluate the commitment of companies to adoption and implementation of risk management strategies and corporate governance in Kenya. This is largely to understand why they several fail or have problems and yet all ascribe to the same corporate governance guidelines. This will address the authenticity of the respondents views and explain why some insurance companies, end up in corporate scandals, are placed under statutory management and why some end up being wound up.

The study also provides the prerequisite information to other researchers and scholars who may want to conduct further research in this area. With this primary data, secondary data can be researched and more conclusive analysis done. Researchers outside Kenya can use these findings and compare with their studies on their local insurance companies to get broader knowledge of and for the regional outlook.

## 5.7 Implication of the Study on Policy, Theory and Practice

The study shows the importance of focusing on risk management strategies and the way sound principles of corporate governance are applied in assessing and managing risks to enhance performance and gain competitive advantage in the long run. Insurance companies have valuable insights on the use of effective risk management strategies and good corporate practices which enable them appropriately handle risks and therefore remain viable. Implementation of risk management strategies ensures that activities viewed as risk taking are in proper alignment with the organization's strategic goals and capacity to absorb imminent losses, thereby enabling companies to realize the opportunity cost

incurred in accepting or rejecting a risk and the level of tolerance apportioned to a particular risk. Therefore results of the study indicate a correlation and impact of implementation of risk management strategies and effective principles of corporate governance on competitive advantage of insurance companies and their overall effects to their performance.

Insurance companies with advanced level of operation of corporate governance principles and enhanced practice of risk management strategies and processes are more profitable and have improved performance. Therefore, companies wanting to survive in local and global market need to maintain their core competences, which will in turn lead to better performance and profitability, making them attractive to investors, and customers. To achieve this, the company may need to adopt appropriate risk management strategies and processes and apply corporate governance practices such as diversity in board composition, establishment of appropriate institutional frameworks, proper standards, procedures and policies to deal with risks.

Seeing corporate governance as a mere good and of no importance to the firm, and costly, is a major barrier for the carrying out of principles of corporate governance. From this study, management of organizations can see how the overall performance of companies can be influenced by various practices of corporate governance and application of risk management strategies and processes in their operations. This study exposes the effect of risk management strategies and adoption of good corporate governance mechanisms on competitive positioning on performance and as a result, the companies are more endowed with knowledge on how to handle risks and remain relevant in a competitive business environment. The results provide the firms with a clear insight of the ability to identify priorities in risk management strategies and corporate governance that create or shape competitive advantages.

The policy makers are expected to obtain knowledge of the various insurance companies and, generally, the insurance industry dynamics and the influence of risk management strategies and corporate governance practices on competitiveness and therefore they can obtain insight from this study in designing appropriate policies for the regulation of the

overall economy. Since conflict of interest amongst board members and failure by directors to dedicate neither time nor sufficient resources to fulfill their duties and obligations negatively influence competitive advantage of firms, policy makers should design optimal standards and alternatives to handle this challenge. Similarly, policy makers should examine what level of board diversity is productive to the firms to avoid it being counterproductive.

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# APPENDICES

## Appendix I: List of Insurance Companies in Kenya

| | |
|---|---|
| 1 | AAR Insurance Kenya Ltd |
| 2 | African Merchant Assurance Company Ltd |
| 3 | AIG Kenya Insurance Company Ltd |
| 4 | Allianz Insurance Company Limited |
| 5 | APA Insurance Ltd |
| 6 | APA Life Assurance Limited |
| 7 | Barclays Life Assurance Company Limited |
| 8 | Britam General Insurance Company Limited |
| 9 | Britam Life Assurance Company Limited |
| 10 | Cannon Assurance Company Ltd |
| 11 | Capex Life Assurance Company Limited |
| 12 | CIC General Insurance Company Ltd |
| 13 | CIC Life Assurance Company Ltd |
| 14 | Corporate Insurance Company Ltd |
| 15 | Directline Assurance Company Ltd |
| 16 | Fidelity Shield Insurance Company |
| 17 | First Assurance Company Limited |
| 18 | GA Life Assurance Limited |
| 19 | GA Insurance Limited |
| 20 | Geminia Insurance Company |
| 21 | Heritage Insurance Company Limited |
| 22 | ICEA LION General Insurance Company Limited |
| 23 | ICEA LION Life Insurance Company Limited |
| 24 | Intra Africa Insurance Company Limited |
| 25 | Invesco Assurance Company Limited |
| 26 | Jubilee Insurance Company Limited |
| 27 | Kenindia Assurance Company Limited |
| 28 | Kenya Orient Insurance |

| 29 | Kenya Orient Life Assurance Limited |
|---|---|
| 30 | Liberty Life Assurance Kenya Limited |
| 31 | Madison Insurance Company Limited |
| 32 | Mayfair Insurance Company Limited |
| 33 | Metropolitan Cannon Insurance Company Limited |
| 34 | Occidental Insurance Company Limited |
| 35 | Old Mutual Life Assurance Company Limited |
| 36 | Pacis Insurance Company Limited |
| 37 | Phoenix of East Africa Assurance Company Limited |
| 38 | Pioneer Assurance Company Limited |
| 39 | Pioneer General Insurance Company Limited |
| 40 | Prudential Life Assurance Company Limited |
| 41 | ResolutionInsurance Company Limited |
| 42 | Saham Assurance Company Kenya Limited |
| 43 | Saham Insurance Company Limited |
| 44 | Sanlam General Insurance Company Limited |
| 45 | Sanlam Life Assurance Company Limited |
| 46 | Takaful Insurance of Africa Limited |
| 47 | Tausi Assurance Company Limited |
| 48 | The Kenyan Alliance Insurance Company Limited |
| 49 | The Monarch Insurance Company Limited |
| 50 | Trident Insurance Company Limited |
| 51 | UAP Life Assurance Company Limited |
| 52 | UAP Insurance Company Limited |
| 53 | Xplico Insurance Company Limited |

Source: IRA Annual Audited Report (2017)

**Appendix II: Data Collection Questionnaire**

The purpose of this study is to collect data that will assist in determining the risk management strategies and these strategies affect the corporate governance of insurance companies in Kenya. The information provided will be confidential and used for the purpose of the study only.

**Part 1: Demographic Data**

1. Name of the insurance company **-------------------------------------------------------**

   Employee cadre

   Senior Management [ ] Middle level Management [ ] General Staff [ ]

   Gender Male[ ] Female [ ]

2. How many branches does the insurance company have?

   1-10 [ ]

   11-20 [ ]

   21-30 [ ]

3. How long has the Company been in operation (In Years)?

   1-10 years [ ]

   11-20 years [ ]

   21-30 years [ ]

4. How long have you worked for the company____________________________________

**Part II: Business information**

**SECTION I: RISK IDENTIFICATION**

5. Kindly your level of agreement with the following statements regarding risk Identification techniques used by your company.

Use a scale of 1-5, where

| Strongly disagree | Disagree | Not sure | Agree | Strongly agree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| | | | | |

| STATEMENTS | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The manager does risk inspection | | | | | |
| The criteria for risk identification are clearly stated | | | | | |
| Serving on industry board committees enhance risk identification process | | | | | |
| Establishment of standards and procedures enhance identification of risk | | | | | |
| Rating of risk enhances the identification of risk | | | | | |

**SECTION II: RISK EVALUATION**

6. Indicate your level of agreement with the following statements as regards risk evaluation and measurement in the company. Use a scale of 1-5.

Use a scale of 1-5, where

| Strongly disagree | Disagree | Not sure | Agree | Strongly agree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| | | | | |

| STATEMENT | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Assumptions and uncertainties that are clearly defined governs risk evaluation | | | | | |
| Risk is evaluated using both qualitative value and quantitative | | | | | |
| Measurement of quantities concerning the assessment of risk that is the potential loss and its probability of occurrence is done by the company | | | | | |
| A risk having a high potential loss and a low probability of occurrence is often given different treatment from one having a low potential loss and a high likelihood of occurrence | | | | | |
| For further analysis risks are further categorised into individual levels | | | | | |

**SECTION III: RISK TREATMENT**

7. To what extent does your company adopt the following risk Treatment processes
Use a scale of 1-5, where

| Strongly disagree | Disagree | Not sure | Agree | Strongly agree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| | | | | |

| STATEMENT | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The company insures against different types of risks but not all | | | | | |
| The company does not insure risks that cause sudden damage(catastrophic) | | | | | |
| At the time of entering into insurance contracts the organization has a mechanism for estimating potential losses | | | | | |
| The insured parties are trained by the company on ways to minimize or avoid the chances of occurrence of losses | | | | | |

**SECTION IV: RISK MONITORING.**

8. To what extent are the following facets of risk monitoring applicable to your company?

Use a scale of 1 – 5 where

| Strongly disagree | Disagree | Not sure | Agree | Strongly agree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| | | | | |

| STATEMENT | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Framework formonitoring risk is designedand well documented | | | | | |
| The senior management supportsrisk monitoring efforts very well | | | | | |
| Employees are always trained on policies of the firm regarding risk management | | | | | |
| The riskpolicy is continually reviewed and communication made to employees. | | | | | |
| There are controls in place to for proper evaluation of the efficiency of risk management program | | | | | |
| There are regular reviews and reports to senior management on risk management efforts | | | | | |
| Sub division of risks into individual levels for further analysis are done | | | | | |

### SECTION C; CORPORATE GOVERNANCE STRATEGIES

Use a scale of 1 – 5 where

| Strongly disagree | Disagree | Not sure | Agree | Strongly agree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| | | | | |

| STATEMENT | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Conflicts of interest and management is common in the organization | | | | | |
| Efficiencies and effectiveness is essential to the growth of the company | | | | | |
| Establishmentof an appropriate legal, economic and institutional framework is key to this organisationenvironment | | | | | |
| Procedures and policies do provide rules that are clear for simple and predictable situations, and also establishes a way on how to deal with more difficult problems | | | | | |
| Procedures and policies and are not necessarily enough to anticipate every situation | | | | | |
| Boards of directors need to exercise effective control over the senior management | | | | | |
| Non-executive directors, dedicate neither time nor sufficient resources time to fulfil their duties | | | | | |
| Boards of directors can proveunable to recognize the systemic nature of certain risks | | | | | |
| The costs which institutional investors are bound to face should they want to actively engage in governance issues of the company can dissuade them | | | | | |

### PART III: RISK MANAGEMENT STRATEGIES THAT AFFECT CORPORATE GOVERNANCE WITHIN THE INSURANCE INDUSTRY

Use a scale of 1 – 5 where

| Strongly disagree | Disagree | Not sure | Agree | Strongly agree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| | | | | |

| STATEMENT | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Decisionmade by national regulators on the introduction of their own specific market requirements and globaldisagreements on the modalities of implementing supervision that is risk-based creates additional challenges | | | | | |
| The supervision emphasizes the need for improvements in risk oversight | | | | | |
| Little guidance is available on how boards can go about setting risk targets | | | | | |
| Corporate governance affects the functioning and development of insurance corporations thus applying a strong influence on identification of risks | | | | | |
| Boards may not enhance the monitoring of risks through decisions | | | | | |

**PART IV: IMPACT OF RISK MANAGEMENT STRATEGIES ON CORPORATE GOVERNANCE INSURANCE COMPANIES**

Use a scale of 1 – 5 where

| Strongly disagree | Disagree | Not sure | Agree | Strongly agree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| | | | | |

Please tick the numeric value corresponding to your personal opinion for each statement

| STATEMENT | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Insurance Corporations gain from good corporate governance | | | | | |
| Risk identification is highly influenced by good corporate governance | | | | | |
| Risk assessment in highly dependent on board operations | | | | | |
| Risk policy statements depict good governance | | | | | |
| Documentation of risks is influenced by technological resources availed by the board | | | | | |
| Options for risk treatment is highly influenced by the board | | | | | |
| Risk management framework is approved by the board before implementation | | | | | |
| Managers are involved in risk assessment | | | | | |
| The board is highly involved in risk monitoring | | | | | |