RISK MANAGEMENT PRACTICES AND PERFORMANCE OF INSURANCE COMPANIES IN KENYA

BY

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DECLARATION

I, the undersigned, declare that this study project is my original work and has not been presented for a degree in any other College or University for academic purposes.

Signature  Date 11th November, 2021

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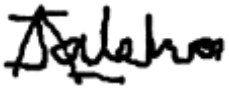
D61/20054/2019

This study project has been submitted with my approval as University supervisor

Signature:  Date: 23rd November 2021

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Finally, and more importantly, special thanks to the ALMIGHTY FATHER for having given me suitable physical besides mental fitness to pursue my education to completion.

DEDICATION

To my forthcoming family, thanks for your patience, be blessed.

And

In loving memory of Jeconia Orure Kaseu (BABU), continue resting in peace.

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LIST OF ABBREVIATIONS AND ACRONYMS

AKI:	Association of Kenya Insurers
COVID-19:	Coronavirus Disease 2019
CRO:	Chief Risk Officer
EPS:	Earnings per Share
ERM:	Enterprise Risk Management
FP:	Firm Performance
GWP:	Gross Written Premium
IRA:	Insurance Regulatory Authority
OP:	Organizational Performance
ROA:	Return on Assets
ROE:	Return on Equity
RMPs:	Risk Management Practices
SBSC:	Sustainable Balance Scorecard
SPSS:	Statistical Package for Social Science
USA:	United States of America

ABSTRACT

Risk management is at the core of all insurance firms, both locally and globally. To a great extent, threats posed by poor risk management have led to massive insurance claims towards insurers leading to a reduced performance by such firms. The study's objective was to establish the influence of risk management practices on the performance of insurance firms in Kenya. The study is anchored on the Contingency theory of enterprise risk management, open systems theory, and institutional theory. A descriptive survey design was embraced. All the fifty-six (56) registered insurers for the period ended 2019 were contacted for the study. The research adopted primary besides secondary data. Preliminary data were obtained through structured questionnaires filled by underwriting managers or the equivalent in each firm. Secondary data was sourced from IRA industry annual reports designed for the last five years, 2015-2019. Data analysis was performed through descriptive and inferential statistics, correlation analysis alongside multiple regression.

The findings established a statistically significant correlation between Risk Monitoring/Control and Performance (r=0.755, p-value=0.000). Risk mitigation was also found to significantly influence the performance of Kenyan registered insurers (r=0.435, p-value=0.001). A significant positive relationship was also established between Risk Identification and the performance of insurance companies in Kenya (r=0.355, p-value=0.010). However, Risk Assessment was established to have an inconsequential influence on Kenyan registered insurers' performance (r=0.207, p-value=0.140). The collective influence of Risk Management techniques on the insurers' performance was established to be positively significant. The study has contributed towards theory by researchers, policy alongside management gaining a vibrant picture of the effect of Peril Supervision techniques on Processes. Therefore, the study recommends underwriting firms implement risk management practices through good data mining techniques and enhanced artificial intelligence systems to help capture real-life information on risk management practices. The research also recommends the implementation of risk management practices since they have been established to influence performance. The study was limited due to its adoption of a cross-sectional survey design and was conducted in the insurance subsector, not the entire financial sector. Hence, the study recommends that future research adopt a longitudinal study design on other financial sectors.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The intense competition resulting from globalization and technological advancement has led to the emergence of many risks. Organizations must embrace risk management practices (RMPs) as an integral part of enhancing their performance. Kokobe and Gemechu (2016) posit that when organizations implement risk management practices, they minimize the impact of unforeseen and extreme risks and implement appropriate risk management techniques, leading to high-performance levels. Stulz (1996) links effective risk management practices to eliminating undesired outcomes when all-inclusive RMPs are undertaken instead of selective risk techniques. Thus, ineffective risk management practices accumulate losses resulting in poor performance (Magezi, 2003). Hence, if effective RMPs are lacking or inadequate, uncertainties resulting from various causes could hinder the performance of most organizations. Omasete (2014) points out that risk management should be at the central platform of a firm's procedures by incorporating RMPs into the entire organization's operations.

The study's theoretical foundation was the Contingency Theory of Enterprise Risk Management (ERM) (Kaplan and Mike 2014), positing that organizations need a strategic fit amongst contingent factors and their RMPs, thus leading to enhanced performance. The theory implies that organizations should be mindful of the catastrophic risks that can hinder the organization's performance to a high degree. Institutional Theory (Williamson 1998) suggests that RMPs should be within the accepted practice in the market or industry to improve organizational performance. The concept implies that RMPs tend to acquire meaning and achieve stability in their own right, rather than their effectiveness and efficiency in achieving organizational performance (Lincoln, 1995). The theory of open systems postulates a significant relation amongst various firms' internal and external environments. Stipulating risk managers to be knowing how the external environment

impacts decisions by adopting RMPs and through what means the practices influence performance (Scott, 2005).

Insurance companies in Kenya are involved in insuring several risks for persons, trades, and firms. Therefore, they must attain their risk coverage and implement a proper investigation towards shunning adverse impacts due to incurred claims payment logged by the protected. A report by AKI (2019) states that insurers in Kenya need to be vigilant for any slight variations arising from the technological, social, and economic environment to tactically develop their business models and RMPs frameworks to fit the varying needs of the would-be insurance consumers. It must be noted that although the insurance industry in Kenya is experiencing growth concerning earned premiums, the sector continues to report underwriting losses owing to premium undercutting by the industry players to preserve their market segment (AKI, 2019). In terms of market penetration in Kenya, Life insurance still lags, in which 42.30% of Gross Written Premium (GWP) accounts for Life insurance business compared to Nonlife Company, which totals up 57.70% of GWP (AKI, 2019). Operational challenges due to the new reality of Covid-19 have led to a slowdown of business growth and increased client contact and inquiries. In addition, the increase in IT security and the cyber threat has forced insurance companies to implement robust security measures to promote the seamless flow of information amongst various departments of the organization, including stakeholders, to help reduce fraud risk and boost performance.

1.1.1 Risk Management Practices

Risk management practices are rational processes that allow risks to be managed well in an organization (Qamruzzaman & Jianguo, 2013). The International Risk Governance Council (2005) defines RMPs as an overall process of identifying, scrutinizing, managing, communicating, and managing risks. According to Rejda (2008), RMPs are defined as the organization's ability to recognize threats facing it and select the most suitable procedures for handling such threats. Kimball (2000) defines RMPs as human activities that integrate an appreciation of risk, valuation of risk, and approaches to mitigate and control such risks using managerial techniques. RMPs are structured approaches that involve actions to reduce extreme impacts and lower the possibility of

adverse situations (Wang & Hsu, 2009). Generally, RMPs are defined as systematic processes of accepting, identifying, avoiding or minimizing the impact of risk.

RMPs can be described as a combination of diverse elements to include risk identification, risk assessment, and risk monitoring (Qamruzzman & Jianguo, 2013). According to Saleem & Abideen (2011), RMPs involve identifying, scrutinizing, evaluating, observing, and controlling risks, resulting in an enhanced decision-making technique. Saleem et al. (2012) describe RMPs as risk understanding, risk valuation and investigation, risk identification, credit risk scrutiny, and monitoring. RMPs, according to Wenk (2005), involves the identification, review, and listing of risks backed by harmonized and economical application of resources to reduce, monitor, and control the possibility of unfortunate events occurring. According to Kiochos (1997), RMPs involve recognizing the would-be loss, assessing potential losses, choosing suitable risk management procedures for handling loss exposures, and employing appropriate risk management programs.

Effective RMPs can greatly value both small and large organizations (Ranong & Phuenngam, 2009). Abideen (2011) asserts that firms that adopt RMPs enjoy better performance and competitive advantage in the market. However, scholars have viewed the nature and description of risk management practices in organizations differently. Qamruzzman et al. (2013) and Saleem et al. (2011) describe RMPs as identifying, analyzing, assessing, monitoring, and controlling risks. On the other hand (Wenk, 2005) describes RMPs as the coordinated and economical application of resources. Empirical studies thus have not reached a consensus on the proper description of RMPs and their influence on firm performance. Despite the different descriptions of RMPs, this study will adopt risk recognition, valuation, mitigation, monitoring, and control as practices that could influence firm performance.

1.1.2 Firm Performance

Various scholars have defined firm performance (FP) differently due to its multifaceted nature. Richard et al. (2009) define FP as an outcome of any establishment as measured alongside its envisioned outputs. According to Kaplan & Norton, (1992), FP is a set of

objectives besides subjective indicators used to determine how the firm's goals are achieved. The concept of FP refers to the achievement of customer satisfaction, internal process, operations effectiveness, learning, and growth (Singh et al. 2016). Richard et al. (2009) defined FP as achieving financial performance and broader operations effectiveness, customer satisfaction, and corporate social responsibility.

Scholars have described FP by adopting different measures of performance. FP measures can either be described in terms of objective (fiscal) or as subjective (non–fiscal) indicators (Richard et al., 2009). According to Singh (2006), FP covers indicators such as financial, customer-related outcomes, innovation, and internal organizational processes. Kaplan and Norton (1992) suggest using the balanced scorecard (BSC) to measure dimensions that are both historical and projected measures. In support, Jaleha and Machuki (2018) assert that the balanced scorecard (BSC) technique focuses on measuring performance objectives and financial indicators such as the objective, consumer, internal processes, learning, and progress. Hubbard (2009) describes FP using a sustainable, balanced scorecard (SBSC), which integrates fiscal and non-fiscal measures alongside the social order and ecological scopes to systematically address internal and external parties' concerns to improve performance.

While scholars have demonstrated the positive influence of RMPs on FP (Amaya & Memba 2015), others assert that such a positive influence is debatable. Lin et al. (2012) established an inconsequential relationship concerning RMPs and FP. Thus, according to Saleem & Abideen (2011), such inconclusive results could be attributed to how RMPs and FP indicators were operationalized and the difficulty in identifying the managerial purposes of FP. Thus, this study adopted the sustainable, balanced scorecard (SBSC) to address the operational difficulty of measuring performance.

1.1.3 Insurance Companies in Kenya

Insurance (Amendment) Act 2006, Cap 487, Laws of Kenya, mandates the Insurance Regulatory Authority (IRA) to supervise and regulate Kenyan underwriting firms. The performance of insurers in Kenya has remained resilient despite several risks. In 2019,

the companies recorded KES 229.50 billion in gross premiums translating to a nominal growth of 6.1% (0.9% in real terms). In 2019, Kenya was ranked third in Africa in gross premium income after South Africa and Morocco. The firms' net profit increased significantly by 108.0%, from Ksh 7.27 billion in 2018 to Ksh 15.12 billion in 2019. The long-term insurance business grew by 11.4% (8.4% in real terms) to KES 97.40 billion, while the general insurance business grew by 2.5% (-4.9% in real terms) to KES 132.10 billion in 2019 (IRA, 2019). The general insurance business still dominates the sector with 57.6% of the total premium collected. Penetration of Insurance, computed as the ratio of gross direct insurance premiums to GDP, declined to 2.34% in 2019 (2018: 2.43%). In addition, the penetration levels are significantly below the global average of 7.2% (IRA, 2019).

Despite the positive outlook, cases of poor risk management practices leading to significant losses still dominate the insurance sector. A report by IRA (2019) showed that the most frequent cases inflicting the sector were theft by insurance agents and fraudulent motor insurance claims at 19 (22.9%) and 11 (13.3%) cases, respectively. In addition to the poor risk management practices, the Novel Coronavirus Disease (Covid–19) has impacted the insurance sector in terms of lower demand for insurance products hence lower insurance penetration rates as well as an increase in insurance claims from death, hospitalization, events cancellation, and business interruption covers, among other eventualities. Therefore, it follows that insurance companies in Kenya have a critical role in effecting risk management practices to guard against adverse selection and improve performance.

1.2. Research Problem

Organizations that have implemented RMPs do enjoy high levels of performance. According to Pagach & Warr (2011), organizations expect better improvement in performance when effective RMPs are employed. Saeidi et al. (2020) study on 84 Iranian commercial institutions established a positive connection between risk management strategies and OP. Thus, adequately designed RMPs deter potential losses and provide avenues for organizations to exploit new business opportunities and enhance their

performance (Sleimi & Emeagwali, 2017). Other studies have revealed the limited influence of RMPs on firm performance. Li et al. (2014) established a minor improvement in performance for firms applying RMPs. Gupta (2011) found out that organizations that implemented RMPs did not improve firm performance as they lacked the adequate infrastructure to implement enterprise-wide risk management. Such inconclusiveness creates ground for further investigation on the influence of RMPs on organizational performance.

While insurers have absorbed the underwriting impacts of significant loss events such as fraud and health pandemics such as COVID-19, the impact on insurance companies' performance has remained. Insurers in Kenya are set to experience poor performance in their investments, which will flow through to their bottom line results (Deloitte, 2020). Despite private motor, commercial motor, and medical insurance being the most extensive business classes, they have been among the least profitable business classes, consistently underperformed as loss leaders in the market (Deloitte, 2020). In a broad perspective, while the general insurance industry has over the years experienced stable, but slow growth in premiums, the existence of poor risk management practices has been noted given the rise in the expense and claims ratios (Deloitte 2020). Since insurance companies in Kenya operate in a changing local, regional and global environment, they must deal with many issues such as theft by agents, fraud, legal and regulatory constraints. Thus, this has limited their ability to develop and implement effective RMPs that will enable them to achieve superior performance.

Prior researches have revealed that the influence of risk management practices on OP is indeterminate. Raz et al. (2002), while investigating over 100 technology-related ventures in the USA, showed RMPs use contributes to high success. Beasley et al. (2005) found no correlation between the cumulative abnormal earnings and the appointment of an organization's chief risk manager through a simple ranging scale from lack of strategies to embrace ERM to comprehensive ERM adoption. Hoyt & Liebenberg (2011) established a progressive correlation between the nomination of chief risk personnel in the organization and firm value over Lexis-Nexis. In the context of Chinese firms, Mu et

al. (2009) establish a positive correlation between threat management approaches and innovative product development individually and interactively. Other studies have established the difficulty of establishing the positive influence of RMPs on firm performance (Khan and Ali 2017). Thus, the inconsequential rise in performance for most firms practicing RMPs has been established by various scholars (McShane et al. 2011; Tahir & Razali 2011; Quon et al., 2012).

Njoroge (2013) study on the extent of adoption of RMPs at AAR Insurance Kenya Ltd established that ineffective customer handling manners, poor quality client service, and lack of valid complaints monitoring and handling processes were the central practices that affect a firm's reputation and thus performance. Waweru and Kisaka (2011), in their study, discovered a positive correlation between the degree of ERM implementation and the value of firms listed at the Nairobi security exchange. Mwangi (2010) investigated the influence of RMPs on the performance of Kenyan banking institutions and discovered that RMPs are fundamental in the operations and financial performance of such institutions. A report by Ernst and Young (2012) in the U.S.A corporate trends indicated that firms with better established RMPs outdid their equals in performance.

A review of the prior literature confirms that most were carried out mainly in developed economies, measured performance using financial indicators, and were conducted in the financial sector. Studies on insurance companies in Kenya have received comparatively limited attention and adopted a case study approach. Prior studies have concentrated on the function of enterprise risk management (ERM) on fiscal performance. To address these knowledge gaps, this study concentrated on the RMPs and their impact on firm performance using a descriptive cross-sectional survey to answer the following research question, what is the impact of risk management practices on the performance of insurance firms in Kenya?

1.3. Research Objective

The study's objective was to establish the influence of risk management practices on the performance of insurance firms in Kenya.

1.4 Value of the Study

The study will contribute towards theory by researchers and academicians gaining a clear picture of the effect of RMPs on OP. The study findings will enrich the Contingency theory of Enterprise Risk Management (ERM) by establishing effective RMPs and aid researchers in integrating arguments from the open systems and institutional theories to get a complete picture of the underlying risk management practices and OP phenomena. The study findings will also enable academicians and researchers to identify the knowledge gaps concerning the role of RMPs on OP.

The study's findings will aid managers in having proper knowledge of the connection between improved RMPs and FP. This study will further aid managers of Insurance companies in Kenya to adopt effective RMPs as a precursor to improved FP. The study findings will also provide a basis to derive recommendations on effective RMPs. Conclusions from this study will be a valuable source of information to top policymakers in the underwriting firms in Kenya and the IRA. Since underwriting firms will continue to perform an essential part in the nation's development process as outlined in Kenya's Vision 2030, the study will help formulate policies that will guide designing effective RMPs as core components of protecting their firms' operations thus improving performance.

The study findings will also enable the Insurance Regulatory Authority (IRA) to implement appropriate risk governance policies to strengthen Kenya's insurance companies against past failure by maintaining insurers' solvency hence making insurance available at reasonable rates besides protecting policyholders' interests in a move to stabilize the insurers and improve their future organizational performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section describes and justifies the theoretical anchorage and undertakes an assessment of the conceptual and empirical literature based on the correlation besides RMPs and performance. The aim was to identify the emerging research gaps that could enable the study to address the research question.

2.2 Theoretical Foundation

The main theory of the study is the Contingency theory of ERM (Kaplan and Mike 2014). The basis of the contingency theory of ERM is to establish a fit amongst contingent features and the firms' RMPs and to create schemes of fit leading to desired organizational performance. It was complemented by the Open Systems and Institutional theories, respectively (Scott, 2005; North, 1991), which postulate that to enhance organization performance, the adoption of effective RMPs must enable organizations to continuously align and gain legitimacy in a rapidly changing business environment. The theories provided a theoretical explanation of how risk management practices influence OP.

2.2.1 Contingency Theory of Enterprise Risk Management

The Contingency Theory of ERM is attributed to (Kaplan & Mike 2014). The theory postulates that specific circumstances lead to the selection of appropriate RMPs for different organizations. Thus, the importance of the contingency theory of ERM is to establish a fit besides contingent features and firms' RMPs and to create propositions of fit leading to enhanced performance. It suggests an explicit linkage between specific firm factors, RMPs design alongside performance hypothesis on improving the fit amidst organization's specific factors and its RMPs, enhancing performance within specific, measurable dimensions. Moving towards contingency theory needs proper consideration of the variables that provide details on some variations, like the nature and controllability of firms' risk and the evolvement speed of critical uncertainties of the firm. Empirical

studies on ERM as an organizational and social practice suggest that RMPs vary considerably within firms and the industry (Tufano, 1996; Mikes, 2009; Mikes, 2011).

The contingency theory of ERM is relevant to this study since it establishes linkages between specific factors of an organization and its RMPs strategy by helping organizations learn more about risks in their approach, external and competitive environments to boost performance and remain relevant to the market. In addition, the theory identifies environmental risks confronting the firm, thus helping managers coordinate RMPs towards improving performance.

2.2.2 Open Systems Theory

The model suggests organizations as open systems with close collaboration with both the internal and external environment. Thus, according to Scott (2005), risk managers can interpret the significance of the environment and its overall influence on performance. Ansoff and Sullivan (1993) advanced a model suggesting the performance of firms is enhanced when they can get ahead and respond to environmental shifts. Therefore, the value of the theory is to establish relevant environmental factors and the organizations' RMPs by enhancing proposals of fit that could result in desired levels of performance.

As Bourgeois (1980) advanced, the external environment generally comprises several factors that can significantly influence organizations by creating diverse opportunities and threats. Open systems theory helps align parts and processes within the system and its environment and improves the inter-relationships. Thus, it helps uphold the performance perspective by focusing on the organization's outcomes, specifically on the external environment. Therefore, risk managers can have a more robust knowledge of ERM systems, products, and facilities, improving how effectively they should be aligned to attain the desired objectives. The Open Systems Theory is thus applicable to this study since both internal and external environments contribute to several risks that influence RMPs and organizational performance. To that end, organizations can get ahead with heightened performance and react to environmental changes.

2.2.3 Institutional Theory

According to Scott (2005), the Institutional theory puts forward that firms receive pressure from the environment, causing various reactions as they strive to remain relevant and competitive to thrive. As advanced by (North, 1991), the model asserts the underlying industry forces and management techniques as essential factors that enhance performance and help reduce environmental uncertainty. The theory implies that risk management practices tend to acquire meaning and achieve stability in their own right, rather than their effectiveness and efficiency in achieving organizational performance (Lincoln, 1995).

Jansen et al. (2009) suggest the need to consider the external environment's impact while studying the influence of RMPs on performance. Dess and Beard (1984) underpin this point of view by stating that Organizations functioning in raging surroundings experience either shortage or plenty of vital resources capable of influencing performance. Thus, the raging conditions' nature can push risk managers to communicate a vibrant vision by executing proper RMPs that will result in desired organizational performance. Underwriting and claims managers as institutional actors need to blend and understand how the internal, external, and global environments impact risk management options to help them articulate, apply, and observe the appropriate strategic responses that will augment performance. Therefore, the institutional model applies to this investigation to recognize complexities and risks within organizations that affect performance.

2.3 Risk Management Practices and Organizational Performance

The segment was to evaluate empirical research given the study objective. The main objective of RMPs is to limit the risks overall cost of damages to the lowermost levels by applying processes which inhibit losses from taking place. As per Bandara and Weerakoon (2012) RMPs are critical for the insurers’ success. Firms alongside individual efforts can to a great degree enhance RMPs through the support of government supervisory body in the industry like IRA. Below are some techniques of RMPs that are appropriate to this research.

Re-insurance which is a market-based strategy useful in managing certain risks with potential losses to the insurers like global pandemics. Thus, enables the insurance firms to spread their risks accordingly in a move to enhance their underwriting capacity leading to improved performance. Prahalad (2005) asserts that in case of massive loss, the risk is shared equally at approved portions. Insurance sector policymakers besides regulators like IRA are assigned the role to ensure the underwriting firms have proper besides suitable Re-insurance programs.

Training the insureds and employees on how to reduce the chances of losses happening through engaging and equipping them with relevant information alongside skills on RMPs. Hence, the insurers are in a position to approximate potential losses at the point of accepting the contract. This according to Holzmann & Jorgensen (2000) is one of the early forms of RMPs appropriate to nearly all aspects of risk.

Proper pricing of policies could help boost risk management techniques by the underwriting firms, as most are involved in price undercutting and lack the technical expertise required to enhance their pricing matrix, thus could charge high or low on various products than the stipulated cost leading to overall poor performance in the industry. Through an error margin, the scenario could be contained while making necessary adjustments (Patel, 2002). It is as well prudent to make good use of actuaries' services while adjusting prices (Churchill, 2006).

2.4 Empirical Review and Knowledge Gaps

Numerous investigations have been executed on RMPs and firms' performance, though not exhaustive. Several conceptual, methodological, and contextual gaps have emerged in the review of the empirical literature. Even though most of the studies focused on the influence of RMPs on OP, they focused on different constructs and contextual settings. Empirical literature on RMPs and performance of Kenyan insurers' particularly is minimal.

Waweru & Kisaka (2011) researched ERM implication and the value on firms registered at Nairobi Security Exchange. The researchers adopted questionnaires with quantitative analysis and found a negative correlation between the extent of ERM implementation, management independence, firm size, and industry procedures. However, Waweru and Kisaka (2011) established a positive connection concerning the corporation's extent of ERM application and firm worth. The study considered firms trading at Nairobi Security Exchange. Other studies (like Cheplel, 2013; Ongoro and Kusa 2013; Laisasikom et al. 2014) assessed risk management practices of respective companies in the context of financial performance but did not relate it to firm performance.

Laisasikom et al. (2014) researched the connection between an effective plan-based business strategy and a complete evaluation of Thai registered firms. The researchers adopted questionnaires with quantitative analysis. The scholars' findings established an insignificant positive correlation between ERMs and financial performance considering Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS), ignoring firm performance.

Empirical research by Mwangi (2010) on the impact of RMPs on commercial banking institutions' fiscal performance in Kenya exposed RMPs as significant to banking institutions' dealings and financial performance. The study concentrated on banking institutions' financial performance and did not link to firm performance. Cheplel (2013) pursued the influence of RMPs on the banking sector's financial performance in Kenya. He adopted a descriptive approach and regression analysis. The five segments of risk hazard administrations used as independent factors were Uncertainty and regulation self-assessments, Key Risk Parameters, Event Management, Adherence to Internal and External Protocols, and Accomplishment Tracing. His findings were that RMPs require substantial resources to implement but are beneficial and critical in ensuring the organization's continued survival. The research however, did not relate to firm performance.

Ongoro & Kusa (2013) research financial performance's contributing factors to commercial banking institutions in Kenya. The scholars employed a multiple regression concept and Comprehensive statistical procedure on longitudinal data to approximate factors. The researcher' established that the commercial banks' financial performance in Kenya was primarily determined through the panel and management resolutions, whereas insignificant influence was on macroeconomic features. The findings established a slight correlation between RMPs and performance. It is, however, unclear under the empirical review the connection between RMPs and financial performance. The study considered only financial performance parameters, ignoring the adoption of objective and subjective parameters to quantify performance.

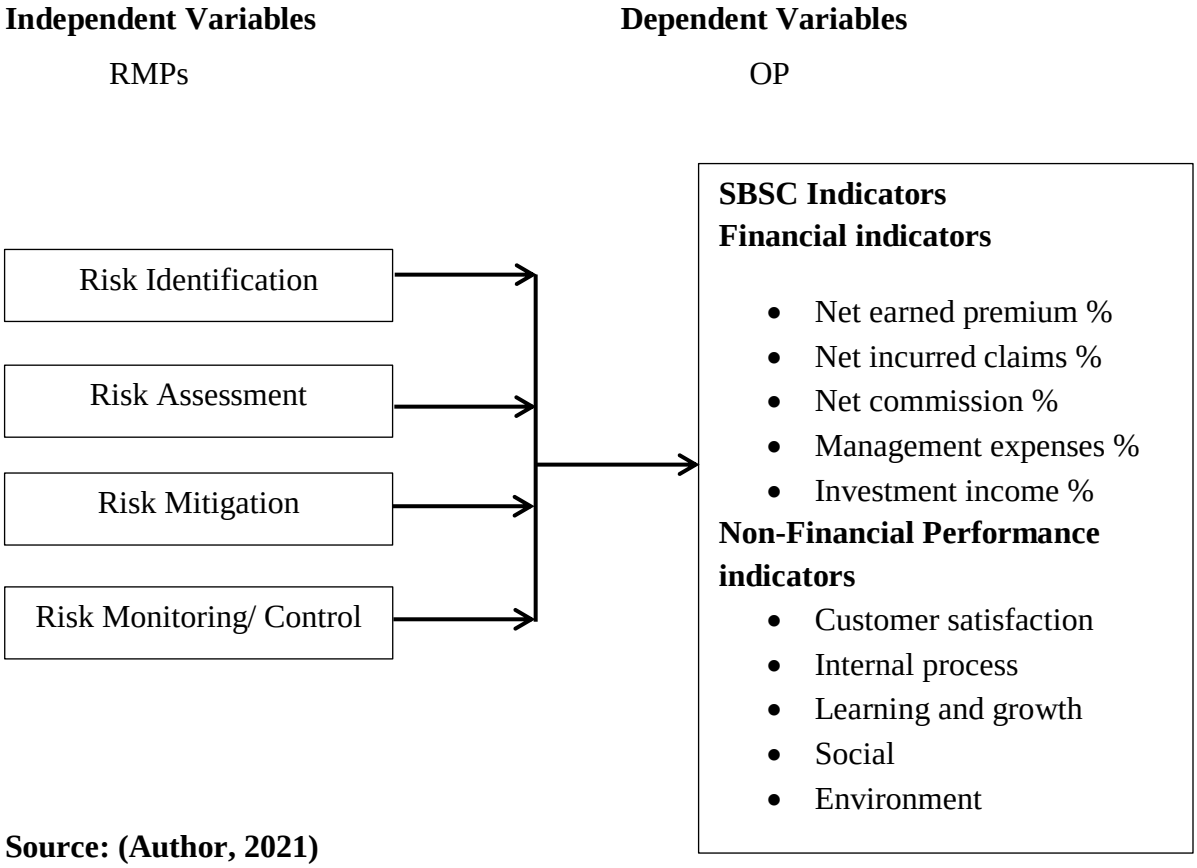
Kithinji (2010) studied the impact of default risk control on the productivity of commercial banks in Kenya and established that it significantly contributed to high profits. The study also found no affiliation between earnings, credit rating, and the level of defaulted loans and or bad debts. The study focused on specific risk within the banking sector, ignoring other risks in measuring performance. Further, the research did not focus on the insurance sector to measure performance.

Njoroge (2013) researched strategic RMPs by AAR Insurance Firm and acknowledged reputational risk as to the firm's most substantial risk. The investigation adopted an in-depth study. The sample group encompassed 40 high-ranking officers and operational managers at the firm from various departments. The research recommended that the management carry on with the ownership by guiding the threat-related programs throughout the corporation. The study further recommends that the firm pay close attention to evolving risks like reputation and operational risks while also keeping close attention to other risks in the market. The insurer should outline an acceptable risk-controlling mechanism to enhance the operational effectiveness and putting of information together. The author adopted a case study approach, ignoring the other insurers in the industry, and in addition, did not carry out performance analysis in the investigation.

2.5 Conceptual Framework

According to Smyth (2004), a theoretical framework is a basis designed from a collection of general concepts and or models to assist investigators in accurately ascertaining the problem, structuring the interrogations, and finding appropriate literature. Centered on the theoretical framework and empirical literature, the study conceptualized a relationship where RMPs as the independent variables would influence OP the dependent variables

Figure 2.1: Conceptual framework



Source: (Author, 2021)

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The section outlines techniques that were involved in obtaining research information. It focuses on the research design, target population, data collection, and data analysis applied.

3.2 Research Design

This research utilized a descriptive survey strategy as it involves establishing relationships and comparative analysis. A descriptive survey design aims to describe a population, situation, or phenomenon at one point in time (Cooper & Schindler, 2008). This design helped the study collect quantitative and qualitative data to give comprehensive information about the phenomenon. Velma (2018) argues that a descriptive research method helps collect information to provide detailed responses leading to efficient and effective scrutiny of the phenomenon under exploration. The choice is suitable when the research aims to identify features, frequencies, trends, and sets. According to (Kothari 2004), it involves planning, organizing, collecting, and analyzing data to seek information.

Descriptive research is pragmatic because some issues that arise can be measured using quantitative and qualitative data research. Descriptive research design offers the scholar suitable procedures to demonstrate the variables under study. Various scholars have successfully used descriptive research design under their studies that established significant findings (Hart et al., 2010; Velma, 2018; Davine, 2020).

3.3 Population of the Study

The research population encompassed all 56 registered insurers in Kenya (See Appendix II). Since all the 56 companies were targeted, this was a census survey. A census

approach enables the entire population to be studied to gather detailed information about every component. Census survey data is also not subject to sampling error.

3.4 Data Collection

This research adopted primary and secondary statistics. Self-administered questionnaires were embraced as the dominant tools for collecting information. The questionnaire to collect data was structured and divided into three parts (See Appendix I). Part I was intended to capture the firm's general information like the number of years in operation and branches across the country. Part II was to capture data on RMPs on a scale of 1-5. Part III captured OP based on objective and subjective performance parameters on a scale of 1-5. The underwriting managers or the equivalent responsible for managing the risks in insurance companies were interviewed to provide relevant information that the study sought. The questionnaires were sent to the respondents' offices through the means that they deemed fit with a call to respond in a week, upon which they were collected.

Secondary data was used as a guideline by the respondents concerning the performance trends of underwriting firms in Kenya. The data was sourced from IRA industry annual reports for the last five years (2015-2019). A data capture form was used to obtain information on OP.

3.5 Data Analysis

This research embraced descriptive besides inferential statistics to examine data. According to Mugenda and Mugenda (2003), descriptive figures allow an investigator to acquire an essential explanation of tallies and research dimensions using mean scores, frequency distribution, percentages, and standard deviation. The questionnaire information obtained was edited, coded, and entries posted to Statistical Package for Social Sciences (SPSS) to facilitate analysis.

Regression concept was used for inferential statistics to determine the impact of RMPs on performance. The composite index was computed for financial and non-financial data. Both types of statistics were collected using a five-point Likert scale. Computation was then done for each composite index and determined by combining the two composite

indices. Pearson's correlation coefficient was applied to ascertain the extent of the association besides RMPs and performance. Multiple regression techniques were employed to find out the association between RMPs and critical performance indicators. Multiple regression concept of analysis was applied to test the hypothesis, which predicts that RMPs significantly influence firm performance. Primary data components of risk management were regressed on dimensions of objective and subjective performance indicators. Financial performance data collection was done through Likert scales in reconciling the answers by the respondents. Industry averages composite index was computed for each and determined for performance by combining the composite indices and provided to the respondents to guide them.

The subsequent regression equation was applied.

$$Y= \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3\ X3+ \beta 4X4+ \varepsilon$$

Where;

Y = Composite index of Organizational Performance (OP) of Insurance companies

B_0 = Constant

β_1, β_2, β_3 = Regression coefficients

X1 = Composite index for Risk identification

X2 = Composite index of Risk assessment (Measured using approximations & projections)

X3 = Composite index of Risk mitigation

X4 = Composite index of Risk control (Risk monitoring measures)

ε = error term

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, findings, and discussion on registered insurers' risk management techniques and performance. It consists of the general info of the companies, descriptive statistics, and inferential statistics.

4.2 Response Rate

The study sought to investigate the RMPs and performance of Kenyan 56 registered insurers. Out of which, 52 responded. This response rate was found to be 93% hence sufficient according to Babbie (1995), who stipulated that a response rate above 80% is appropriate for analysis to answer the research question.

4.3 General information of the company

Table 4.1 shows response by the respondents on the general information of the insurance firms.

Table 4.1 General information of the company

Number of branches	**Frequency**	**Percent**
1 – 5	20	38.5
6 – 10	9	17.3
11 – 15	12	23.1
16 – 20	5	9.6
Above 20	6	11.5
International affiliations		
Yes	30	57.7
No	22	42.3
Age/Years		
6 – 10	4	7.7
11 – 15	3	5.8
16 – 20	7	13.5
Above 20YRS	38	73.0
Total	**52**	**100**

Source: Research Data, 2021

The findings in table 4.1 yielded that majority 20 (38.5%) of the insurance companies had 1 to 5 branches while 12 (23.1%) had 11 to 15 branches. It was also noted that 9 (17.3%) had 6 to 10 branches. Those with over 20 branches were 6 (11.5%), and the minority 5 (9.6%) had 16 to 20 branches. The firms had international affiliations, according to 30 (57.7%). The results further revealed that a large number of companies had existed for over 20years. This implied that the companies had the experience and high levels of professionalism in dealing with the many risks over the years, and this shows the worth and reliability of information on RMPs and performance of Kenyan insurers.

4.4 Descriptive statistics of risk management practices

On the link between risk management practices and insurers' performance, the respondents were requested to indicate how RMPs have impacted their firms' performance. The findings are presented in tables 4.2 to 4.5.

Table 4.2 Risk Identification

Risk Identification indicators	**N**	**Min**	**Max**	**Mean**	**SD**
Managers perform an inspection of Risk	52	4	5	4.73	0.448
Identification roles of risk are well-defined	52	3	5	4.62	0.565
Risk identification is improved by performance analysis	52	3	5	4.58	0.605
Creating standards boosts risk identification	52	3	5	4.79	0.457
Risk identification is enriched by risk rating	52	4	5	4.83	0.382
Composite Mean				**4.71**	**0.491**

Valid N (listwise)	**52**

Source: Research Data, 2021

The descriptive statistics showed that risk identification, enriched through risk rating, was the most important with 4.83 mean score and SD=0.382, followed by creating standards with 4.79 mean score and SD=0.457. Managers performing risk inspection followed with 4.73 mean score and SD=0.448. This was followed by identifying roles of risk well-defined with 4.62 mean score and SD=0.567. Lastly, performance analysis was established to improve risk identification with 4.58 mean score and SD=0.605. To conclude, the composite mean score of 4.71 implies an important role of risk identification through the five channels in influencing performance. Further, the average standard deviation (0.491) was below one, signifying that the respondents' feedback was almost similar from one insurer to the other.

Table 4.3 Risk Assessment

Risk assessment indicators	**N**	**Min**	**Max**	**Mean**	**SD**
Assumptions and uncertainties are well-thought-out while assessing risks	52	3	5	4.56	0.608
Evaluation of risk is subject to quantitative and qualitative value	52	3	5	4.56	0.608
Measurement of the magnitude of occurrence of risk is at the core of the company	52	4	5	4.77	0.425
A shocking risk with a slight chance of happening is usually considered uniquely from one with probable low loss and a great significance of taking place	52	1	5	4.63	0.687
Perils are classified differently for ease of analysis	52	4	5	4.71	0.457
Composite Mean				**4.65**	**0.557**
Valid N (listwise)	**52**				

Source: Research Data, 2021

According to the descriptive statistics, risk assessment revealed measurement of the magnitude of occurrence of risk being at the core of the firms to be the most important with 4.77 mean score and SD=0.425, followed by different classifications of risks for ease of analysis with 4.71 mean score and SD=0.457. In the third position was a shocking risk with a slight chance of happening being considered unique from one with probable low loss and a great significance of taking place with 4.63 mean score and SD=0.687, it was followed by assumptions and uncertainties being well-thought-out with 4.56 mean score and SD=0.608. Lastly, risk evaluation is subject to quantitative and qualitative values with 4.56 mean score and SD=0.608. In conclusion, with an average mean of 4.65, the findings suggest a substantial link between risk assessment and performance of insurers based on the five indicators. However, the extent of association do not vary amongst the insurance firms based on the average standard deviation of 0.557 which is below one.

Table 4.4 Risk Mitigation

Risk Mitigation indicators	N	Min	Max	Mean	SD
The firm insures distinct categories of perils but not all of them	52	4	5	4.69	0.466
The firm has means of approximating potential losses at the point of accepting the contract	52	2	5	4.37	0.864
The company does not insure catastrophic risks	52	2	5	4.77	0.546
The company do transfer certain risks with potential losses to reinsurance companies	52	1	5	4.63	0.687
The company has a way of training the insured on how to reduce the probability of losses happening	52	1	5	4.60	0.693
The company has an adequate liquidity ratio to handle threats	52	2	5	4.73	0.564

Composite Mean		**4.63**	**0.637**
Valid N (listwise)	**52**		

Source: Research Data, 2021

The outcomes in table 4.4 revealed that most companies not insuring catastrophic risks were the most significant with 4.77 mean score and SD=0.546, followed by firms having adequate liquidity ratio to handle threats with 4.73 mean score and SD= 0.564. In the third position were the firms insuring distinct categories of perils but not all of them with 4.69 mean score and SD=0.466, followed by companies not transferring certain risks with potential losses to reinsurance companies with 4.63 mean score and SD=0.687. This was followed by the companies training the insureds on reducing the probabilities of losses happening with 4.60 mean score and SD=0.693. In the final position, the firms approximated potential losses when accepting the contracts with 4.37 mean score and SD=0.864. In summary, the average mean score and standard deviation of the six indicators linked to risk management and performance were 4.63 and 0.637 respectively, implying a substantial influence on performance. The general standard deviation implying the effects equally impacted all insurers.

Table 4.5 Risk Monitoring/Control

Risk Monitoring/Control indicators	**N**	**Min**	**Max**	**Mean**	**SD**
Senior managers support programs for managing risk	52	4	5	4.75	0.437
Programs for monitoring and controlling of risk are appropriately recorded	52	4	5	4.79	0.412
Policies on monitoring and controlling of risk are well articulated to company employees	52	4	5	4.75	0.437
Risks are clustered into various levels for easy monitoring and control	52	4	5	4.77	0.425
Control techniques of estimating the efficiency of risk management platforms	52	4	5	4.75	0.437

are well established					
There is a consistent interpretation of risk management efforts and reporting to senior management for further action	52	4	5	4.79	0.412
Composite Mean				**4.77**	**0.426**
Valid N (listwise)	**52**				

Source: Research Data, 2021

The descriptive statistics showed that programs for monitoring and controlling risk were recorded correctly was the most fundamental with 4.79 mean score and SD=0.412, enriched by consistent interpretation of risk management efforts and reporting to senior management for further action with 4.79 mean score and SD=0.412. This was followed by risks being clustered into various levels for easy monitoring and control with 4.77 mean score and SD=0.425. The respondents concurred that company employees' policies on monitoring and managing risk were well articulated, with 4.75 mean score and SD=0.437. The respondents also concurred that control techniques for estimating risk management platforms' efficiency were well established, with 4.75 mean score and SD=0.437. In close range was senior managers supporting programs for managing risk with 4.75 mean score and SD=0.437. To conclude, the average mean of 4.77 implies an important role of risk monitoring/control through the six channels in impacting performance. The overall standard deviation of 0.426 below one, suggests that the feedback by the respondents did not vary much from one insurer to the other.

4.5 Organizational Performance

The research sought to find out the degree to which the OP indicators were used to manage risks. The findings are presented on tables 4.6 to 4.9

Table 4.6 Customer Satisfaction

Customer satisfaction indicators	N	Min	Max	Mean	SD
The company's customer satisfaction index has increased	52	2	5	4.06	0.826

The company's percent resolution of customer complaints has increased	52	1	5	4.37	0.793
The company has increased its level of automation through a customer relationship management system	52	3	5	4.44	0.608
The company's number of strategic partners and collaborators has increased	52	2	5	4.21	0.8
Composite Mean				**4.27**	**0.757**
Valid N (listwise)	**52**				

Source: Research Data, 2021

As per the descriptive statistics, the company increasing its level of automation through a customer relationship management system, was the most important indicator of performance since it had the highest mean=4.44 and SD=0.608, followed by the companies' percent resolution of customer complaints with a mean=4.37 and SD=0.793. It was broadly agreed that the companies' number of strategic partners and collaborators had increased with a mean=4.21 and SD=0.8 and that the customer satisfaction index increased with a mean=4.06 and SD=0.826. In summary, the average mean (4.27) implies an important role of customer satisfaction through the four indicators in influencing performance, while the average standard deviation (0.757) suggests that the impact is similar across insurers.

Table 4.7 Internal Process

Internal process indicators	**N**	**Min**	**Max**	**Mean**	**SD**
The company claims management process is efficient and transparent	52	2	5	4.27	0.866
The company has increased the accessibility of its merchandise and services	52	3	5	4.21	0.572
The firm provides quality customer services to its clients	52	3	5	4.48	0.610
The company has a system that monitors	52	3	5	4.46	0.699

performance and protects information			
Composite Mean		**4.36**	**0.687**
Valid N (listwise)	**52**		

Source: Research Data, 2021

The insurers providing quality customer services to their clients were considered the most important to their performance with the most outstanding mean=4.48 and SD=0.610, followed by the firm's systems that monitor performance and protect information with a mean=4.46 and SD=0.699. The companies' claim management process is efficient and transparent, was third as agreed mainly by the respondents with a mean=4.27 and SD=0.866. It was also agreed to a large degree that the companies had increased accessibility of their merchandise and services with a mean=4.21 and SD=0.572. Overall, the four indicators of internal processes were shown to impact performance of the insurers as revealed by overall mean (4.36), and that the impact did not differ from one insurer to the other as shown by the average standard deviation (0.687) which is below one.

Table 4.8 Learning and growth

Learning and growth indicators	**N**	**Min**	**Max**	**Mean**	**SD**
The company's employee skills and competencies have improved	52	3	5	4.27	0.630
The company has standardized performance management based on sustainable performance	52	3	5	4.52	0.542
The company has implemented anti-fraud detection programs	52	3	5	4.44	0.608
The company's integrity values have been entrenched	52	3	5	4.46	0.670
The company promotes risk-taking through candidness to new concepts and its ability to manage products and service innovations	52	3	5	4.38	0.631
Composite Mean				**4.41**	**0.616**

Valid N (listwise)	**52**

Source: Research Data, 2021

The findings presented in table 4.8 yielded that the companies having standardized performance management based on sustainable performance were the most important to the insurers' performance, having scored the highest mean of 4.52 and SD of 0.542, followed by respondents approving to a large degree that the companies' integrity values had been entrenched with 4.46 mean score and SD=0.670. It was also revealed that the companies had implemented anti-fraud detection programs to a large degree, with a mean=4.44 and SD=0.608. This was followed by the firms' promoting risk-taking through candidness to new concepts and their ability to manage products and services innovations with a mean=4.38 and SD=0.631. Companies' employee skills and competencies had improved significantly with a mean=4.27 and SD=0.630. In conclusion, the findings in table 4.8 point to the greatest impact that learning and growth indicators have on performance based on the average mean (4.41), and general standard deviation (0.616) suggests similar influence on the insurers.

Table 4.9 Social and Environmental Factors

Social and environmental indicators	N	Min	Max	Mean	SD
The company has aligned environmental sustainability values with organizational strategy	52	3	5	4.23	0.675
The company has implemented a safe working environment	52	3	5	4.62	0.565
The company has continuously offered energy conservation awareness training programs to its employees	52	1	5	4.13	0.841
The company has complied with local and international environmental regulations	52	3	5	4.63	0.595
The company has developed partnerships with local communities through social responsibility	52	3	5	4.35	0.683

initiatives			
Composite Mean		**4.39**	**0.672**
Valid N (listwise)	**52**		

Source: Research Data, 2021

It was agreed to a large degree that the companies that had complied with local and international environmental regulations were considered the most important to the firms' performance with the highest mean score=4.63 and SD=0.595, followed by the companies implementing safe working environments as agreed to a substantial degree by the respondents with a mean score=4.62, and SD=0.565. The firms' partnerships with local communities through social responsibility initiatives came third with 4.35 mean score and SD=0.683. It was followed by the firms' aligning environmental sustainability values with the organizational strategy with 4.23 mean score and SD=0.675. It was further established to a large degree that the companies continuously offered energy conservation awareness training programs to their employees with 4.13 mean score and SD=0.841. Overall, the findings on social and environmental indicators suggests to a large degree the impact they have on insurers' performance based on average mean (4.39). The average standard deviation (0.672) is below one, suggesting similar trend among insurers in scope to which the indicators have impacted performance.

Table 4.10 Secondary Data on Financial Performance *(Industry Averages)*

Ratio	**Average for the last five years (2015-2019)**
Net earned premium ratio	70.9%
Net incurred claims ratio	62.7%
Net Commission ratio	7.3%
Management Expenses ratio	32.2%
Investment income ratio	7.1%

Source: Secondary Data, 2021

4.5.1 Financial Performance

Table 4.11 displays financial performance of insurers from 2015 to 2019

Table 4.11 Financial Performance

Financial performance indicators	N	Min	Max	Mean	SD
The net earned premium ratio is well above the industry average provided below	52	2	4	3.21	0.457
The net incurred claims ratio is well below the industry average provided below	52	2	4	3.31	0.506
The net commission ratio is well above the industry average provided below	52	3	5	3.35	0.520
The management expenses ratio as well below the industry average provided below	52	3	4	3.40	0.495
The investment income ratio is well above the industry average provided below	52	2	5	3.27	0.528
Composite Mean				**3.31**	**0.501**
Valid N (listwise)	**52**				

Source: Research Data, 2021

The management expenses ratio was well below the industry ratio in table 4.10 to a moderate degree with 3.40 mean score and SD=0.495, followed by the net commission ratio well above the industry average in table 4.10 to a reasonable extent with 3.35 mean score and SD=0.520. The net incurred claims ratio was well below the industry average presented in table 4.10 to a moderate degree with 3.3 mean score and SD=0.506. This was followed by the investment income ratio, which was well above the industry average presented in table 4.10 with 3.27 mean score and SD=0.528. The net earned premium ratio was above the industry average provided in table 4.10 to a moderate degree with 3.21 mean score and SD=0.457. In summary, the findings locate a moderate impact the ratios have in influencing financial performance given the average mean (3.31), which was similar across the insurers given the overall standard deviation of 0.501 which is less than one.

4.6 Inferential Statistics

The research executed correlation besides regression analysis to determine the link between RMPs and performance of Kenyan insurers.

4.6.1 Correlation Analysis

Preceding regression concept findings, it is strategic to undertake the nature and extent of relationship between the variables under investigation. Table 4.12 below assists in quantifying the extent of the associations amongst the study variables under deliberation.

Table 4.12 Correlation Analysis

		Performance	**Risk Identification**	**Risk Assessment**	**Risk Mitigation**	**Risk Monitoring/ Control**
Performance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	52				
Risk Identification	Pearson Correlation	0.355	1			
	Sig. (2-tailed)	**0.010**				
	N	52	52			
Risk Assessment	Pearson Correlation	0.207	0.180	1		
	Sig. (2-tailed)	0.140	0.000			
	N	52	52	52		
Risk mitigation	Pearson Correlation	0.435	0.06	0.019	1	

	Sig. (2-tailed)	**0.001**	0.025	0.893		
	N	52	52	52	52	
Risk Monitoring/ Control	Pearson Correlation	0.755	0.245	0.026	0.097	1
	Sig. (2-tailed)	**0.000**	0.080	0.857	0.004	
	N	52	52	52	52	52

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

Source: Research Data, 2021

According to table 4.12, risk monitoring/control showed the most important relationship with the performance of insurers in Kenya due to the lowest p-value of 0.000, followed by a significant positive association between risk mitigation and the performance of insurance companies in Kenya (p-value=0.001). Lastly, there was also an important positive relationship besides risk identification and the performance of Kenyan insurers (p-value=0.010). Notably, the findings revealed a positive and statistically significant relationship between RMPs and performance of insurance firms, suggesting that insurers that practice all-inclusive RMPs tend to have improved performance.

4.6.2 Regression Analysis

In testing the association between RMPs and the performance of Kenyan registered insurers, multiple regression analysis was performed.

Table 4.13 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.894a	0.799	0.782	0.199

a Predictors: (Constant), Risk Monitoring/ Control, Risk Assessment, Risk mitigation, Risk Identification

R square, the coefficient of determination, enlightens the range to which the dependent variable (Performance) has been clarified through the independent variables (Risk identification, Risk assessment, Risk mitigation, Risk monitoring/control). This study achieved R^2=0.799. This implied that 79.9% of the variation in performance of underwriting companies in Kenya had been explained by the independent variables. Other factors not captured in this study had explained 20.1% of the variation in organizational performance of Kenyan registered insurance companies.

4.6.3 ANOVA Results

Table 4.14 ANOVA of the regression

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.375	4	1.844	46.686	.000b
	Residual	1.856	47	0.039		
	Total	9.231	51			

a Dependent Variable: Organizational Performance

b Predictors: (Constant), Risk Monitoring/ Control, Risk Assessment, Risk mitigation, Risk Identification

Table 4.14 presents the ANOVA of the estimated model. The findings revealed that F (4, 51) =46.686 and p-value=0.000. This indicated that the independent variables (RMPs) explained the dependent variable (Organizational Performance).

4.6.4 Interpretation of Results

Table 4.15 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.293	.462		1.233	.129
	Risk Identification	.189	.060	.217	1.941	.050
	Risk Assessment	.218	.053	.271	2.892	.003
	Risk Mitigation	.259	.047	.362	3.603	.001
	Risk Monitoring/ Control	.430	.043	.673	4.975	.000

a Dependent Variable: Organizational Performance

Source: Research Data, 2021

The model outlined a substantial connection between risk identification and organizational performance (β=0.189, t=1.941, ρ-value=0.050). A significant correlation was also noticed between risk assessment (β=0.218, t=2.892, ρ-value=0.003). Table 4.15 revealed an important association concerning risk mitigation and organizational performance of registered underwriters in Kenya (β=0.259, t=3.603, ρ-value=0.001). Risk monitoring/control was also revealed to have a significant connection with performance of Kenyan registered insurance companies (β=0.430, t=4.975, ρ-value=0.000). All these relationships were effective at 5% levels of significance.

The regression equation (**Y= β0 + β1X1 + β2X2 + β3 X3+ β4X4+) becomes:**

(OP= 0.293 + 0.189RI+ 0.218RA + 0.259RM+ 0.430RMC+ Ɛ)

As per the generated regression equation, if all the independent variables (risk identification, risk assessment, risk mitigation, and risk monitoring/ control) were taken to be zero, the organizational performance of insurance companies in Kenya would be 0.293. The regression findings further revealed that any unit increase in risk identification led to an increase in organizational performance of insurance companies in Kenya by 0.189, a unit increase in risk assessment contributed to the rise of organizational performance of insurance companies in Kenya by 0.218, a unit increase in risk mitigation contributed in the increase of organizational performance of insurance companies in Kenya by 0.259, and a unit increase in risk monitoring/control resulted in the rise of organizational performance of insurance companies in Kenya by 0.430.

Signifying risk monitoring/control was considered the most impactful to the performance of the insurers in Kenya, trailed by risk mitigation, risk identification, and finally, risk assessment. All independent variables significantly influenced the performance of registered underwriting firms in Kenya at a 95% confidence level. This implies that RMPs are very critical in the management of insurance firms in Kenya and those that practice them perfectly, remain stable in the industry for long without going under receivership.

However, despite the effectiveness of risk management practices in influencing performance by the underwriting firms, still the insurers are not doing that well. The apparent conflict between the study findings and actual status in the industry can be linked to possible bias by the respondents based on their individual perceptions which might not have reflected the true picture in the respective firms. Moreover, additional strain by the novel corona virus disease besides the result of free-market influences and possible lack of clarity in policy documents could have led to the conflict.

4.7 Discussion of Findings

Findings from the research have shown that several insurers existed for a more extended period with extensive branch networks across the country. As per the study, most of the insurers in Kenya had implemented various RMPs to try and control the adverse effects due to unforeseen and extreme risks that could impact the firms negatively. Being large firms with international affiliations, it was of economic logic that such firms adopt all-inclusive RMPs. Thus, they can eliminate undesired outcomes that could lead to losses, hence improved performance.

Regarding various RMPs embraced by the insurers, the study established that risk monitoring/control impacted the performance of the registered insurance firms the most, followed by risk mitigation, risk assessment and lastly, risk identification in that sequence. At a 5% significance level and 95% confidence level, all independent variables (risk identification, risk assessment, risk mitigation, and risk monitoring/control) significantly influenced the performance of registered insurers in Kenya. This study finding conflicts the previous research outcome by Omasete (2014), whose study results established risk identification to impact the financial performance of registered insurers the most but are consistent in terms of the overall impact of RMPs on the performance of the underwriting firms. This implies that possible restructuring in the industry could have led to the conflicting results.

The research established risk monitoring/control to be highly substantial in influencing the Kenyan registered insurers' performance, followed by threat mitigation, identification, and assessment in that sequence. Ideally, the study finding conforms to the RMPs as monitoring/ control technique assists in highlighting whether strategies being implemented by the firm are real or not. In addition, risk monitoring/control can influence organizational RMPs as it can heighten new risk identification. The statistic that risk valuation and risk identification rated last in impacting organizational performance could signify that firms can fail to evaluate and identify threats but still implement mechanisms to mitigate such risks. If Insurance firms well adopt RMPs, then they can realize paybacks like better performance. The concept is suitable for insurers as

all do not have the technical aptitude for identifying besides assessing the magnitude of threats. Broadly, the findings imply that insurance firms should strive to implement all-inclusive RMPs rather than selective risk management techniques to help eliminate uncertainties from different causes that could hinder performance.

Regarding the various theories anchoring the study, the research established that the approaches converge with the findings as RMPs vary considerably within firms in the industry under the Contingency Theory of ERM. Internal and external environments were shown to contribute several risks that influence RMPs and firms' performance, thus applying the Open Systems Theory. On the other hand, it was established that the insurers receive pressure from the environment, especially from the regulator, causing reactions as they strive to remain relevant and competitive hence the institutional theory.

The research further established that the implementation of RMPs had a substantial influence on the performance of the registered insurers in Kenya. The interpretation could mean that firms with all-inclusive RMPs could remain in operation for long without going under receivership than those with selective risk management plans. The research outcome confirms with preliminary empirical analysis by Ernst and Young (2012). Their findings revealed that firms with better established RMPs outdid their equals, thus generating higher growth in terms of performance. Equally, the study results are consistent with the research outcome by Waweru and Kisaka (2011), whose study results discovered an affirmative correlation between the degree of ERM implementation and company value.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

The chapter summarizes the study findings, conclusion, and recommendation in line with the research objectives and proposes areas for additional research.

5.2 Summary

The research sought to establish the influence of risk management practices on the performance of underwriting companies in Kenya. Organizational performance was measured in terms of objective and subjective performance indicators. The research established that various Kenyan insurers existed for long, with 73% of the firms in operation above 20 years. 62% of the firms had a nationwide branch network above 32 branches.

Most insurers espoused the four RMPs that were the focus of this research. Amongst the RMPs, risk monitoring/control was the most substantial in impacting organizational performance. A unit rise in risk monitoring/control resulted in a robust positive significance increase of performance of Kenyan insurers. It was closely followed by threat mitigation in which a unit increase contributed to significant positive growth in the insurers' performance. A unit increase in risk assessment also contributed to a significant positive increase of organizational performance of insurance companies in Kenya, with risk identification having the lowest impact on the firms' organizational performance with a unit increase leading to the least significant increase in organizational performance of insurance companies in Kenya. Primarily, from the study findings, implementation of RMPs was established to possess a considerable impact on the performance of Kenyan insurers, as enlightened by an R square (R2) of 79.9% under the regression concept results.

The correlation findings revealed an important positive connection concerning risk identification and performance of Kenyan registered insurance companies (r=0.355, p-

value=0.010). There was also a significant positive association between risk mitigation and the performance of insurance companies in Kenya (r=0.435, p-value=0.001). The results also yielded a strong positive significant association between risk monitoring/ control and performance of insurance companies in Kenya (r=0.755, p-value=0.000). However, the study established an insignificant connection concerning risk assessment and performance of Kenyan registered insurers (r=0.207, p-value=0.140).

5.3 Conclusion

The findings derived from the study underscored the prospective impact that RMPs hold on the performance of the insurers in Kenya. The results of the study led to the following deductions;

With regards to RMPs, the research concluded that risk monitoring/control and mitigation of risk substantially impact Kenyan insurers' performance. Therefore, risk monitoring/control can be the center stage of any insurance firm's risk management plan as it helps identify any emerging risk. Likewise, risk mitigation is fundamental to reduce its influence on the company's general performance in the long run.

The study findings also validate that all the four RMPs were of great significance in impacting OP. Thus, the study concludes that the underwriters need to implement an all-inclusive RMPs approach in their comprehensive plans of managing risks, including the practices that were advanced by this study to appreciate the full potential of their threat management techniques.

Managing risk significantly contributes towards organizational performance by Kenyan insurers, with the implementation of RMPs explaining 79.9% of the variation in OP. The study, thus, concludes that there exists a strong relationship besides RMPs and performance of insurers in Kenya. Moreover, the study settles that other factors not captured on the study account for 20.1% of the variation on OP that influence the insurers' performance.

5.4 Recommendations

The following recommendations are proposed under this research. First, the underwriting firms should consider and re-evaluate all-inclusive RMPs to reduce the adverse impact on the insurers' performance. The process ought to incorporate risk management techniques that were established to have insignificant impact on the underwriting firms' performance since they greatly interact with each other.

In addition, the research has linked enhanced performance by the insurers to adequate risk management techniques. Thus, recommends that the insurers' managements should put in place proper frameworks for managing risks that can help detect and respond effectively to emerging risks in the firms. Furthermore, the firms should improve on systems that monitors performance and protects information to minimize the influence of risks that could hinder performance in the industry.

5.5 Implications for Policy and Practice

According to the research findings, risk monitoring/control and threat mitigation were established to influence significantly performance of Kenyan insurers. Hence, the research recommends that senior managers of underwriting firms promote innovative ways to implement RMPs through enhanced management practices such as artificial intelligence systems to capture real-life information on RMPs. Thus, guide insurance firms to adopt effective RMPs as a precursor to enhanced performance hence putting them on a sustainability path.

The measures that insurers need in place should provide a basis to drive recommendations on effective risk management practices to top policymakers in the Kenyan underwriting firms and the IRA. Regarding insurance practice, the research points to the value of insurers need to sort out corporate governance concerns in their programs of risk supervision, like aligning environmental sustainability values with their strategy and improving systems that monitor performance and protect information.

5.6 Limitations of the Study

Despite the study contributing to the philosophy of knowledge by researchers and academicians on the association between RMPs and performance, it possesses certain

limitations. The study embraced a descriptive survey strategy. In a descriptive survey design, research is not repeatable because of its observational nature.

The study banked on primary data collected based on the perceptions of the underwriting managers or equivalent which the researcher assumed was accurate for the study purposes. Thus, did not verify the information's accuracy. The study outcomes are therefore to a degree subject to the primary data validity.

Finally, the study focused on the risk management practices as influencing the insurers' performance at the exclusion of all other relevant variables that affect their performance. Thus, the inferences made may have been inconclusively drawn.

5.7 Suggestions for Further Research

The current study adopted a cross-sectional survey strategy, therefore, recommends that a longitudinal study design be applied in the same study in the coming years. The purpose is to allow for data collection at different time intervals.

This research sought to examine the influence of RMPs on the performance of Kenyan insurers. Hence in-depth research should be performed on the other financial sector players. In addition, the influence of RMPs on the underwriting sector has not been sufficiently explored in literature, and additional empirical evidence can be analyzed to incorporate the impact of emerging specific risks in the insurance industry like the novel corona virus pandemic besides climate change.

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APPENDICES

Appendix I: Data Collection Questionnaire

The questionnaire is for gathering information from all registered insurers in Kenya. Data collected shall be scrutinized to determine how RMPs influence OP. Information acquired is intended only for academic purposes, and utmost discretion is guaranteed.

PART 1: General Information

1) How many branches does the company have? √ **As appropriate**

1-5 { } 6-10 { } 11-15{ } 16-20 { } Above 20 { }

2) Is the firm having any international affiliations? √ **As appropriate**

Yes { } No { }

3) For how long has the Company existed? √ **As appropriate**

1-5yrs { } 6-10yrs { } 11-15yrs { } 16-20yrs { } Above 20yrs { }

PART II: Risk Management Practices

I: RISK IDENTIFICATION

4) Please specify the extent of agreement with the following statements on Identification methods of risk adopted by the firm, use a rating procedure where: 1-Completely dissent, 2- Dissent, 3- Unsure, 4- Concur,5-Completely concur

STATEMENT	**1**	**2**	**3**	**4**	**5**
Managers perform an inspection of risk					
Identification roles of risk are well-defined					
Risk identification is improved by performance analysis					
Creating standards boosts risk identification					
Risk identification is enriched by risk rating					

II: RISK ASSESSMENT

5) Indicate the extent of concurrence with the below statements regarding the valuation of risk and estimation in your firm? Use a rating procedure where: 1-Completely dissent, 2- Dissent, 3- Unsure, 4- Concur,5-Completely concur

STATEMENT	1	**2**	**3**	**4**	**5**
Assumptions and uncertainties are well-thought-out while assessing risks					
Evaluation of risk is subject to quantitative and qualitative value					
Measurement of the magnitude of occurrence of risk is at the core of the company					
A shocking risk with slight chances of happening is usually considered uniquely from one with a probable low loss and a great significance of taking place					
Perils are classified differently for ease of analysis					

III: RISK MITIGATION

6) Indicate the extent to which your firm implements mitigation methods of risk below using a range where: 1-Completely dissent, 2- Dissent, 3- Unsure, 4- Concur 5-Completely concur

STATEMENT	**1**	**2**	**3**	**4**	**5**
The firm insures distinct categories of perils but not all of them					
Your firm has means of approximating potential losses at the point of accepting the contract					
The company does not insure catastrophic risks					
The company do transfer certain risks with potential losses to reinsurance companies					
The company has a way of training the insured on how to reduce the probability of losses happening					
The company has an adequate liquidity ratio to handle threats					

IV: RISK MONITORING / CONTROL.

7) Indicate the level to which the below aspects of controlling, monitoring, and management techniques of risk relevant to the firm, use a rating range where: 1-Completely dissent, 2- Dissent, 3- Unsure, 4- Concur 5-Completely concur.

STATEMENT	1	2	3	4	5
Senior managers support programs for managing risk					
Programs for controlling and monitoring risk are adequately recorded					
Policies on monitoring and controlling of risk are well articulated to the company employees					
Risks are clustered into various levels for easy monitoring and control					
Control techniques of estimating the efficiency of risk management platforms are well established					
There is a consistent interpretation of risk management efforts and reporting to senior management for further action					

Part III: Organizational Performance (OP)

8) To what level do the following statements on non-financial performance indicators apply to your company using a rating range where:1–Not at all; 2-Less degree; 3- Moderate degree; 4 -Large degree; 5- a very large degree

	STATEMENT	1	2	3	4	5
	A. Customer Satisfaction					
1.1	The company's customer satisfaction index has increased					
1.2	The company's percent resolution of customer complaints has increased					
1.3	The company has increased its level of automation through a customer relationship management system.					
1.4	The company's number of strategic partners and collaborators has increased					
	B. Internal Process					
2.1	The company's claims management process is efficient and					

	transparent					
2.2	The company has increased the accessibility of its merchandises and services					
2.3	The firm provides quality customer services to its clients					
2.4	The company has a system that monitors performance and protects information					
C. Learning and Growth						
3.1	The company's employee skills and competencies have improved					
3.2	The company has standardized performance management based on sustainable performance					
3.3	The company has implemented anti-fraud detection programs					
3.4	The company's integrity values have been entrenched					
3.5	The company promotes risk-taking through candidness to new concepts and its ability to manage product and service innovations					
D. Social and Environment						
4.1.	The company has aligned environmental sustainability values with organizational strategy					
4.2	The company has implemented a safe working environment					
4.3	The company has continuously offered energy conservation awareness training programs to its employees					
4.4	The company has complied with local and international environmental regulations					
4.5	The company has developed partnerships with local communities through social responsibility initiatives					

Primary Data on Financial Performance

9) To what level are the following statements describing Financial Performance in your company for the last five years? Use a range of 1-5. Where: 1–Not at all; 2- Less degree; 3- Moderate degree; 4 -Large degree; 5- a very large degree (Relate to industry averages below)

	STATEMENT	**1**	**2**	**3**	**4**	**5**
1.1	The net earned premium ratio is well above the industry average provided below					
1.2	The net incurred claims ratio is well below the industry average provided below					
1.3	The net commission ratio is well above the industry average provided below					
1.4	The management expenses ratio are well below the industry average provided below					
1.5	The investment income ratio is well above the industry average provided below					

Secondary Data on Financial Performance (Industry Averages)

Ratio	**Average for the last five years (2015 -2019)**
Net earned premium ratio	70.9%
Net incurred claims ratio	62.7%
Net Commission ratio	7.3%
Management Expenses ratio	32.2%
Investment income ratio	7.1%

The end

Thank you for your time

Appendix II: All Registered Insurance Companies in Kenya

1. AAR Insurance Company Limited
2. ABSA Life Assurance Kenya Limited
3. Africa Merchant Assurance Company Limited
4. AIG Kenya Insurance Company Limited
5. Allianz Insurance Company of Kenya Limited
6. APA Insurance Limited
7. APA Life Assurance Company Limited
8. Britam General Insurance Company (K) Limited
9. Britam Life Assurance Company (K) Limited
10. Capex Life Assurance Company Limited
11. CIC General Insurance Company Limited
12. CIC Life Assurance Company Limited
13. Corporate Insurance Company Limited
14. Directline Assurance Company Limited
15. Fidelity Shield Insurance Company Limited
16. First Assurance Company Limited
17. GA Insurance Limited
18. GA Life Assurance Limited
19. Geminia Insurance Company Limited
20. ICEA LION General Insurance Company Limited
21. ICEA LION Life Assurance Company Limited
22. Intra Africa Assurance Company Limited
23. Invesco Assurance Company Limited
24. Kenindia Assurance Company Limited
25. Kenya Orient Insurance Limited
26. Kenya Orient Life Assurance Limited
27. KUSCCO Mutual Assurance Limited
28. Liberty Life Assurance Kenya Limited
29. Madison General Insurance Kenya Limited

30. Madison Insurance Company Kenya Limited
31. Mayfair Insurance Company Limited
32. Metropolitan Cannon General Insurance Company Limited
33. Metropolitan Cannon Life Assurance Limited
34. MUA Insurance (Kenya) Limited
35. Occidental Insurance Company Limited
36. Old Mutual Assurance Company Limited
37. Pacis Insurance Company Limited
38. Pioneer Assurance Company Limited
39. Pioneer General Insurance Company Limited
40. Prudential Life Assurance Company Limited
41. Resolution Insurance Company Limited
42. Saham Assurance Company Kenya Limited
43. Sanlam General Insurance Company Limited
44. Sanlam Life Insurance Company Limited
45. Takaful Insurance of Africa Limited
46. Tausi Assurance Company Limited
47. The Heritage Insurance Company Limited
48. The Jubilee General Insurance Limited
49. The Jubilee Health Insurance Limited
50. The Jubilee Insurance Company of Kenya Limited
51. The Kenyan Alliance Insurance Company Limited
52. The Monarch Insurance Company Limited
53. Trident Insurance Company Limited
54. UAP Insurance Company Limited
55. UAP Life Assurance Limited
56. Xplico Insurance Company Limited

Source: IRA (2019)