EFFECT OF FINANCIAL RISK MANAGEMENT PRACTICES ON PROFITABILITY OF LIFE ASSURANCE COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

This research proposal is my original work and has not been presented for a degree in any other university.

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This research proposal has been submitted for examinations with my approval as the university supervisor.

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DEDICATION

I dedicate this work to my family and all those who supported me in the completion of this project.

TABLE OF CONTENTS

LIST OF ABBREVIATIONS AND ACRONYMS

AKI Association of Kenya Insurers

ERM Enterprise Risk Management

HSE Health Safety and Environmental

IIC Insurance Intelligence Center

IRA Insurance Regulatory Authority

ROA Return on Assets

ROI Return on Investment

ABSTRACT

The goal of this research was to determine the effect of the practices on management on financial risk on profitability of life insurance companies in Kenya. The research adopted a survey research design that adopted a descriptive research design. Data was collected using primary data using questionnaires administered to 30 employees of the said life insurance companies and secondary on the financial performance of the Insurance Companies was correlated with respondent opinion on the impact of implementation of practices on management on financial risk on profitability. The data obtained was evaluated through the use of inferential and descriptive statistics. The findings indicate that the respondents strongly agreed that the gains in profits witnessed in the past four years as represented your company's profit growth rate is as a result of implementation of financial risk management practices of risk identification, assessment, mitigation, management, implementation and evaluation. In the results, it was indicated that insuring different types of risks has reduced the risk of loss ,the training of insured parties on ways to avoid or minimize the chances of losses occurring has enhanced profitability, the processes of reinsurance/hedging has reduced costs associated with claims hence higher profits, the training of employees on risk management policies reduces costs associated with losses hence enhancing profits, the evaluation of the efficiency of the risk management program leads to removal of inefficient process hence profitability. The findings indicate the life insurance companies have on average experienced annual growth in profits at the rate of 9% annually. The study's limitations included limited time set aside for the research and the limited scope of study.

CHAPTER ONE: INTRODUCTION

1.1 Background

Engaging in business is considered a risky venture and therefore management should ensure that these risks are mitigated before they cause loss to the firm. Life assurance companies are not exempted from risks caused by changes in the internal and external environment. Financial risk is one of the main risk facing insurance companies, financial risk include; liquidity risk, interest rate risk, credit risk foreign exchange risk, and capital management risk. Financial risk management benefits to companies include the possibility to reduce costs, increase profits, widen their client base and finally, to make the cost structure produce maximum results (Hutson & Stevenson, 2010).

This study will base its arguments on the following theories; Enterprise Risk Management Theory, stakeholder's theory and Enterprise Risk Management Theory. According to these theories**,** an organization can choose to manage risk, and this can basically be done in two important ways; the risk can either be handled one every time, or all of them together. The handling of the risks all of them together is referred to as Enterprise Risk Management (ERM). It refers to a structure designed for incorporating a methodical and coherent method for handling all the risks facing the company (Tseng, 2007). On the other pint of view, Gordon et al. (2009) explains ERM as being an overall procedure for handling a company's imminent risk, emphasizing on recognizing and preventing the events which possibly could deter the company from attaining its set goals. ERM is a company's concept, which could be utilized by all the sectors of the company.

Life assurance companies' manage risks for individual and corporate policy holders. On the other hand, they also employ financial risk management practices to reduce risk exposure. In spite of the rising levels of a number of organizations being exposed to uncertainty, they still see management of risk mainly as a problem for finance, health, environmental and safety. As a consequence, many firms are inclined to under invest in blended practices of risk management. In essence evaluating total risk can be a challenging process. Equalizing of resources that will be utilized for mitigation of uncertainties, between risks that have a high chance of happening but low damages, vs risks having high damages but with low chances of happening can most times be handled incorrectly. The need for life assurance companies to mitigate financial risk is what has prompted this study that seeks identify the impact that financial risk management has on the profitability of Life Assurance Companies.

1.1.1 Financial Risk Management

Financial risk management was defined by Tapiero (2004), as the creation of economic worth in a company through the utilization of financial tools to handle especially, the occurrence of credit market risk. The management of financial risk is comparable to the management of general risk. It demands the identification, measurement, and arrangements to handle them. Employees in charge of managing financial risk don't participate in the decision making process of investments of the firm. In place, they come up with procedures and guidelines to be followed when analyzing investments for the company.

Financial risk management department should come up with a written policy used to select financial risks the company is willing to take. The same department should also monitor the risks taken and come up with reports on the results of the risks. The nature of policies formulated by the risk management department is dependent on the risk attitudes of managers in that department. Investment decisions are influenced by various motives, but most investors, however, are driven by the prospects of acquiring profit from their investments. Investment decisions invariably involve a trade-off between risk and return. Risk is present in virtually in every decision.

Assessing risk and incorporating the same in the final decision is an integral part of financial analysis. The first step involves risk identification: it is the process of determining potential risks that may cause losses to an organization. Through the utilization of risk mapping, companies can be able to make the identification, the regularity, and the seriousness of risks, and therefore they can avoid the risks with a high regularity and low seriousness, in place concentrate on the risks with low regularity and high rate of seriousness. According to (Barton et al. 2002), the process of identifying risks comprises of elements of risk ranking that ranks the risks on the basis of effect, seriousness or dollar impact. The evaluation assists in the classification of the risks based on their significance, and also helps the company's administrators to create strategies of managing risks, so as to effectively distribute resources.

1.1.2 Profitability

One of the main objectives of businesses is to make profit for survival and growth. A firm can ensure profitability by ensuring periodic expenses are less than the periodic revenue. The general formula for profit= Revenue –Expenses. Therefore, profit means the excess of revenue over cost. Firms that seek profitability should ensure that they increase sales and reduce expenses. Some of the expenses under life assurance include: legal fees, incurred insurance claims, incurred annuity claims and actuarial liabilities normal increase. Life assurance companies should use financial risk management to reduce these expenses. Profitability in this case is the ability of a firm/company to make profit over a period of time.

Assurance companies measure their profitability using various financial techniques; one of the most common methods is through the use of profitability ratios. Profitability ratios refers to the quantification of the business' capability to produce profits relative to the expenditure incurred (Study.com, 2016). The ratios of profit are; margins of net profit, margins of gross profit, income return, and asset return. According to (Pandey, 2006), ratios of profitability quantify the effectiveness of company's operations. Return on assets (ROA) is a pointer to the company's measure of profits compared to its entire assets. It indicates the efficiency of the administrators when making use of the firm's assets to acquire profit. We can compute ROA as the rate of the firm yearly profits to its entire assets.

Return on Investments (ROI) is a ratio of profitability that computes the returns made from an investment, as a rate of the purchase or initial cost. It indicates to the investors how effective the money invested in a program is returning profit. This ratio measures not just the excellent performance of an investment, but also makes a comparison of various investments not minding the size or type.

The returns on investments are affected by economic conditions and prudent investment decisions. Risk diversification and increase in fund value further affect financial performance of a retirement benefits scheme while reduced administrative costs leads to increased fund value (Kusewa, 2007).

1.1.3 Life Assurance Companies in Kenya

Life assurance refers to a contractual agreement between two parties, that is, the insurance company (assurer) and the insurance policy holder, the assurer consents to paying the insured and predetermined amount of money in the transpiration of an event (e.g death) or an expiry of a certain period. The policy holder in turn makes periodic payments (premium) to the assurance company until its maturity. The premium sometimes is comprised of other expenses, an example being funeral expenses (IRA, 2011). There are several of life assurance policies, for example, we have: term life, universal, whole life and endowment life assurance. These examples are categorized into term assurances and permanent assurance. Term assurance policy covers an indicated amount of time e.g. 5 or 10 years.

In Kenya, insurance is very low, only 3% of the citizens have acquired at least one form of insurance. The insurance industry is regulated by Insurance Regulatory Authority and Association of Kenya Insurers. Very few self-employed or informal sector workers hold any form of insurance and there exists a need to target these persons who form the bulk of our population in order to increase the level of spread for life insurance, (Donaldson, 1999). The task of the Insurance Regulatory Authority is to govern the activities of the insurance companies in an efficient and professional manner, and to manage and build the insurance industry in general. Life insurance companies in Kenya include; Jubilee Holdings Ltd, Pan Africa Insurance Holdings, Kenya Re-Insurance Corporate Ltd, Liberty Kenya Holdings Ltd and CIC Insurance group.

1.1.4 Nairobi Securities Exchange

The Nairobi Stock Exchange, popularly known as the NSE was officially recorded under the (1954) Societies Act as a shareholders union responsible for creating the securities market and supervising the exchange activities. In the past, business transaction and price negotiations were done via the telephone. The NSE, over the past, has coherently provided a high quality platform for exchanging bonds and shares, which is strong and well governed. In January of 1990, the CMA was established under the Act (Cap 495A) for the Capital Markets Authority, and in March of 1990, it was launched.

The CMA was specifically established so that there would be an association whose main job was to boost and foster the advancement of an effective securities market in Kenya (NSE, 2016). Nairobi Securities Exchange consists of Sixty Seven Companies of different categories. Under insurance category, life insurance companies include; Jubilee Holdings Ltd, Pan Africa Insurance Holdings, Kenya Re-Insurance Corporate Ltd, Liberty Kenya Holdings Ltd and CIC Insurance group.

1.2 Research Problem

Strong financial risk management practices help assurance companies to reduce the overall exposure to risk. Proper management of financial risk improves a company's ability to be profitable. The inability to properly mitigate risks leads to poor firm performance since measures are not put in place to mitigate such unavoidable risks. Nocco and Stulz (2006) further add that an efficient enterprise risk management (ERM) has a lasting competitive vantage point to companies. Financial risk entails an exposure to uncertainty that could lead to possible financial losses Examples of financial risk include; Liquidity risk, credit risk, market risk and sector risk. A firm can either transfer risk through insurance or choose to absorb risk through risk management measures such as diversification.

According to Ameer (2010) early studies on the management of financial risk mostly focused on the risk of foreign currency, in spite of the management of risk garnering concentration before the middle of the 1970's. It is only in recent times that the uncertainties of commodity have garnered consideration. Assurance companies mitigate risk through hedging, re-insurance and diversification. According to Smith and Stulz (1985) the company's value can be highly influenced by hedging, due to the fact that it can have an effect on the liabilities of the tax, the price incurred by the shareholder when contracting, and finally the connection between the decisions on upcoming investments, and the financial policy. Proper financial risk management by insurance companies is an essential practice which minimizes losses through implementation of controls procedures and compliance.

Research into the connection between the management of financial risk and the capability of life assurance firms to attain profit has continued to become inadequate, in spite of the numerous well founded writings on formal financial organizations. The insurance industry is considered to experience growth for the next five years and this has as well increased the curiosity in this topic. Studies have been done on financial risk management and profitability both locally and internationally. Internationally, Olufemi Falope and Olubanio (2009) clarified the empirical proof on the influence that profitability has on the management of operational capital, and according to the research, an important connection exists between working net profitability, and mean period of collection. Wyk, Dahmer and Custy (2004) analyzed South Africa's management of risk and the general business sphere. The structure of risk management displayed comprised of three factors; the kind of risk, the effects of risk, and the administrators action to oppose further effects. This research may be restructured and increased for possible use in emergent markets. A cross-sectional research done by Lazaridis and Tryfonidis (2006) analyzed 131 sample companies which are on the Athens Stock Exchange listing between the years 2001 to

2004, and discovered an important connection between the capability to acquire profit calculated by working gross profit and the cycle of converting cash. Studies on the revelation of the practices on risk management in the major mining firms of South Africa were conducted by Moloi (2014) through evaluating an annual or integrated report. It was revealed that a good number of the firms did not reveal their practices on risk management going against the King III regulation.

A study on the effects of management of risks on profitability was conducted on the Power and Lighting Company Staff Retirement Benefits Scheme. This study however only concentrated on only one pension scheme fund in Kenya, and not focusing on others. .Lagat, Mugo and Otuya (2013) studied the impact of practices on management of credit risk on lending portfolios between SACCOS. The results of the research point to an important impact on all practices of risk management on lending portfolios apart from risk appraisal, which didn't record an important impact on the Sacco's lending portfolio.
The results indicated that a larger number Sacco's accepted the use of the practices on risk management to manage their portfolios. Gongera, Ouma, and Were (2013) analyzed the impact of financial risk on the profitability of Kenyan sugar companies. In the research, it was established that, a significant, negative correlation existed between firms level of liquidity risk and firms profitability. The study concluded that practices on the management of financial risk were therefore useful to sugar industry that operates in dynamic and competitive environments like Kenya. Amaya and Memba (2015) examined the influence of practices of management of risk on financial performance of life assurance companies in Kenya using a survey study of Kisii County. The study's specific

objectives were: to find out the extent to which underwriting practices, claims adjustment provisions and premium valuation methods influenced financial performance of life assurance firms in Kenya. The study established that adjusting claims and benefits paid to policy holders of insurance firms' increase value of investment. Premium valuation methods had positive influence on financial performance of life assurance firms in Kenya.

Despite the insurance companies financial environment operate in, no study that has been carried out to find out the impact of the management of financial risk on profitability of Life Assurance firms in Kenya. This research thus looks to find out the effect of financial risk management on profitability of Life Assurance firms in Kenya. This will give us an answer to the query, what is the effect of financial risk management practices on profitability of Life Assurance companies listed on the NSE?

1.3 Research Objectives

The goal of this research is to establish the effect of the practices on the management of financial risk on profitability of Life assurance companies at the NSE.

1.4 Value of Study

The research will be of value to: The research will be of value to the management and employees of various Life assurance companies in Kenya. It will help them understand the effect of financial risk management practices on profitability. A positive effect will encourage management to adopt the financial risk management practices.

The results of the research will also be of value to the government and policy makers, especially the ministry of finance, Kenya Revenue Authority, and the commissioner of insurance who will use it to formulate policies that will improve the uptake of insurance in Kenya. Therefore, the findings of the study will help the government through its agencies to make appropriate policies towards promoting and regulating life insurance policies.

This study will form a basis for further research in the area of risk management among academics. The study will also provide scholars with more literature on the topic of risk management.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews theories that relate to risk management and profitability and how the two variables relate to each other. This chapter will also review the determinants of profitability among life assurance firms. Lastly, the empirical studies and the gap that this proposal seeks to fill and summary of literature.

2.2 Theoretical Foundation

This section explains the following theories to explain risk management and profitability; Enterprise Risk Management Theory, Stakeholders Theory and Resource Based Theory.

2.2.1 Enterprise Risk Management Theory

The concept of risk management emerged in the mid 1900's as a formal part of the decision-making processes within companies. On the other hand, enterprise risk management was as a result of integrating financial risks and insurance risks. Enterprise Risk Management (ERM) entails the process of coming up with strategies for identifying and managing potential and imminent risks that may affect the organization. According to Tseng (2007), Enterprise Risk Management (ERM) is a concept that aims at the adoption of an approach tha is systematic and consistent to manage all a firms risks encountered. It is a firms concept involving an entity's components such as the people, brand expertise, skills , business values, the regulatory environment.

An effective enterprise risk management enables management to constantly be informed about risks that could occur which is possible through constant monitoring of its exposure and being positioned to strategy of change or direction that makes sure that risks level is acceptable. As humans, mistakes are bound to happen due to bad judgement especially in making decisions, errors, collution between two or more individuals in control, relative costs and benefits involved in risk response and control establishment and the overriding of a firm's risks management decisions by the management.

2.2.2 Stakeholders Theory

The stakeholder theory was originally detailed by Edward Freeman in the book Strategic Management: A Stakeholder Approach. He identified stakeholders of a corporation to include: Organization, management, shareholders, suppliers, employees, local community and clients. Each of this stakeholder makes positive contribution to the organization therefore, this theory presents techniques for management's giving due regard to groups of interest. Simply put, it tries to explain the "principle of who or what really counts". According to Freeman (2012), each of these stakeholders affect or benefit from the other, for example shareholders seek to maximize their wealth in the organization and employees are concerned with the ability of the organization to secure their employment and pay their salary on a timely basis. On the other hand the organization depends on suppliers for inputs to produce quality goods as suppliers depend on them for payment because organizations are their customers.

Reynolds et al. (2006) assert that stakeholder theory helps managers in making decisions on how they can balance interests of all stakeholders surrounding organizations to ensure that they maintain the support they receive from the stakeholders. According to Reynolds et al. (2006), balancing interests of stakeholders is done where managers distribute scarce resources to those who claim against the organization. Charles Blattberg a political philosopher was critical of the stakeholder model for making the assumption that various stakeholder desires can be interchanged amongst themselves. Blattber (2004) insists that the chief mode of dialogue is the item's negotiation emphasis aimed at dealing with disagreements between the interests of stakeholders. He prefers a conversation and hence proposed the "patriotic" corporation concept as a counter to the stakeholder model *(*Blattberg, 2004).

2.2.3 Contingency Planning Theory

In most of the 1970s, Contingency Planning concept was a firm's prevailing model of structural theories. Johannes M Pennings established a major empirical test which examines how environmental uncertainty, company structures and diverse performance aspects interacted. Contingency planning is an element of risk management that develops responses for various uncertainties. A good contingency plan should cover both positive and negative events that may disrupt the activities of the organization. Basically, the theory states that the inevitability to fully mitigate risks practically, residual risks always remain.

Although a company's aim is to avoid risks as much as possible, they will always occur. Sometimes specific issues, harsh event combination or ambushed threats and even the best information security control formed to make sure confidence, integrity and information assets are available, can be collogued by vulnerabilities (Hisnson & Kowalski, 2008). A good contingency plan enables an organization to consider alternative courses of action in the event of disruption and achieve a key business objective. However, contingency planning theory faces various limitations such as high costs and time involved in planning, training and practising.

2.3 Determinants of Profitability

2.3.1 Financial Risk Management

Financial risk management refers to an entity's practices and procedures aimed at exposure risk reduction. According to Berheci (2009) financial management's high volatility rate in its interest, is an environmental feature, that translates in risk, harms that are indiscriminate, profitability and value form, in any firm. Changes in assets' market value is a reflection of interest rate risk, while discontinued cash flow determines assets value by use of interest rate or capital weighted average cost. According to Bakaeva and sun (2009) Sweden's credit risk management and commercial banks profitability related positively. Kolapo, Ayeni and Oke (2012) found a positive relationship of the same in Nigeria.

2.3.2 Age of the Firm

Age entails a firm's operational years, as firms age, the have the probability to become more efficient as they continue to learn what suites them best and how to efficiently work on the (Ericson & Pakes, 1995), as a firm age, the aim is to improve the quality of a product and cost reduction which they determine to work on through specific standardization, coordination and increasing the speed of the process of production. The relevant literature can be traced to Smith and Ricardo. Agarwal & Gort (1996 &2002) considered a an old firm as that rich in information, capabilities, techniques obsolete and induced decay of a company. Malik (2011) made a test of how 35 life and non-life insurance entities in Pakistan would be profitable where he established that no relationship existed between a company's age and profitability. Therefore, there lacks clarity of the role age plays in the prosperity or doom of a company.

2.3.3 Size of the Firm

The main assumption in industrial economics that over a long period of time it is impossible for a firm to earn above-average especially in a competitive environment (Jonsson, 2007). In any competitive industry firms are considered superior to smaller firms. This assumption is based on the fact that firm has a r market share, r entities possess the chance for more profit. Additionally, companies can take the advantage of the work opportunity in the field requiring capital rates that are high as the contain r resources. Such situations give the chance for earning more with less competition.

An investigation be Charumathi (2012) to determine how Indian life insurance companies profited found out that the size, liquidity and profitability were significantly related positively. Based on such outcome, it is unclear how profitability size and an increment in subject's interest impact on firms.

2.3.4 Leverage

Leverage refers to borrowed funds firms use to finance its assets. A firm is considered highly leveraged if its debt is higher than its equity. High debt level is considered risky as it increases borrowing costs hence reducing the income level. Firms usually measure financial leverage by the ratio of total debts to total assets which a company own. Financial leverage ratio tells a how much capital is financed by debt and it assesses the ability of a company to pay its interest expense as it falls due. A firm's use of capital that is borrowed can be advantageous and disadvantageous in that during times of economic explosion, a company will benefit from high financial leverage and on the other hand a firm's profitability is adversely affected by economic recession. Ahned et al (2022) studied performance determinants that revealed in Pakistan's life insurance companies, size, leverage and risks were essentials of performance.

Eunju & Soocheong (2005) studied how a company's profitability, financial leverage and size in a restaurant industry related. This study was undertaken between 1998 to 2003 by use of least square method. The objective of the study was to establish how financial leverage and restaurants profitability and risk related. It was revealed that while large restaurants were more profitable compared to the small ones, high debt rates resulted less profits where there was a negative financial leverage variable.

2.4 Empirical Review

In Kenya, there was a study by Kithinji (2010) to determine the relationship between credit risk management and profitability of commercial banks. There was data that had been collected in 2004 and 2008 on credit amount, non-performing loan level and profits. Based on results, there existed no association between profit, credit amount and non-performing loans level.

Iraya (2014) who carried out a study on determinants of financial performance of general insurance underwriters in Kenya had a conflicting result on size of the companies since they found out that size has no significant impact on financial performance.

Ogilo (2012) carried out a study that sought to find out how management of credit risk impacted on Kenya commercial bank financial performance and established a relationship between determinants of credit risk management. To gather secondary date, CBK publication was used and for analysis of data, multiple regression analysis was preferred. The results showed that banks' financial performance was strongly affected by CAMEL elements. In addition, there was a weak relationship between availability of capital, assets quality, efficiency in management and liquidly, with financial performance. On the other hand, financial performance strongly related with earnings. In conclusion, CAMEL theory is usable as proxy.

Mudaki et al. (2012) assert that the profitability of insurance business in Kenya is low due to the increasing mortality rates caused by ailments, poverty, lack of food and low living standards which result to inability to raise premium for buying insurance. The performance of insurance industry in Kenya may have been poor about three decades ago due to lack of a regulatory body which made several firms to operate without enough capital and hence leading to their statutory management or collapse (Mudaki et al., 2012). According to Gitau (2013), penetration of insurance industry in Kenya has been very low which has been caused by collapsing of the firms like Lake Star and Stallion insurance companies in year 2002.

A study made in Brazil over a period of 10 years by Pignanelli and Csillag (2008) about the impact of risk management on profitability of institutions, sampled 31 firms and collected data from 5354 respondents where relationships were found to exist between profitability and risk. The conclusion of the study therefore was that there was no evidence of profitability in organizations that embraced quality management in Brazil. This was so because the researchers analyzed firms that were only recognized by National Quality Award of Brazil hence ignoring other firms in their sample that were important to confirm the assertions empirically and hence recommended further studies on the same topic by use of a r sample of firms and include sectors which embrace risk management practices like the current study which investigated effects of risk management practices on financial performance of non-life insurance firms in Kenya.

Boadi, et al. (2013) conducted a study on determinants of profitability of insurance firms in Ghana using both descriptive and inferential statistics to examine a sample of sixteen insurance companies in Ghana. The study findings showed a positive relationship between liquidity, leverage and Return on Assets while there is a big negative relationship between tangibility and ROA. This is because liquidity helps firms to deal with unexpected contingencies and cope with obligations during low earning periods while leverage influences shareholders' return and risk plus firm's market value.

Studies at Islamic banks concerning the relationship between profitability and risk management was conducted. One study by Ariffin & Kasssin (2012) established a positive link between risk management behavior and profitability of the bank in five Malysia banks that were Islamic. The adequacy of practice in risk management was the conclusion of a study that performed risk management differential analysis in Pakistan's Islamic banks and compared their ROEs with banks that were conventional. A UK study of general insurance companies by Shiu (2004) concluded that; liquidity, inflation that was unexpected, level of interest rate and profits that are underwriting significantly determined performance of the insurer, statistically.

Risk management practices such as identifying, analyzing, assessing, monitoring and controlling risks reduce the expenses incurred associated with financial risk. These costs associated with the risks reduce the profit margin. Therefore, management should aim at reducing costs associated with these risks to increase profit. Risk mitigation practices on the other hand, reduce business exposure to risk through financing and controlling the risks. Risk monitoring practices involve tracking identified risks, ensure proper execution of formulated risk responses and evaluate effectiveness of the Risk Management Plan.

Study findings show a positive relationship between financial risk management and profitability. A study (Ariffin & Kassim, 2012), Boadi, *et al*. (2013) concluded that risk management practices were positively associated with profitability. Pignanelli and Csillag (2008) concluded that there was no evidence of profitability in organizations that embraced quality management in Brazil. Study findings by Kithinji (2010) revealed that there was no significance relationship between the banks profit and credit risk management. It is because of these reasons that the present research is going to study impact of financial risk management on profitability of life assurance companies in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to systematically solve the research problem. This chapter covers the research design and methodology that the researcher will use to collect, analyzes, present and discuss the findings of the study, data collection instruments to be used and data collection procedures.

3.2 Research Design

This study will use a survey research design of life assurance firms in Kenya. A survey research design is preferred because it improves the understanding of how financial risk management practices influence the profitability of life assurance companies in Kenya as it involves relatively less cost, less time and minimal errors and seek to find out 'what is' so observational and survey methods are frequently used to collect descriptive data.

3.3 Population

Cooper and Schindler (2008) defines a target population as the overall individuals, groups or items to be used in a study for the purpose of findings generalization. The study's target population will comprise of six (6) life assurance companies listed on the Nairobi Securities Exchange They include: Jubilee Holdings Ltd, Kenya Re-Insurance Corporation Ltd, Pan Africa Insurance Holdings Ltd, Liberty Kenya Holdings Ltd, Britam Holdings Ltd and CIC Insurance Group Ltd (NSE, 2016) Appendix 1. The researchers will therefore, do a census study due to the small number of respondents in the target population whose responses are important in this study.

3.4 Data Collection

According to Cooper & Emory (1995), when there is a small and variable population, a survey is feasible and thus all population components will be covered by the researcher. Such as survey, is viewed as economical and more efficient. Data will be collected mainly through primary sources and secondary sources. Primary data will be obtained through structured questionnaires by interviewing sampled branch managers of the selected institutions while secondary data was collected from published reports from AKI and audited financial statements as presented to IRA for the period 2012 to 2015.

3.5 Reliability and Validity

The study questionnaires will be developed by the researcher based on the study objectives. Content validity was used on the data that was qualitative to establish data validity. Content validity comes up with deductions from test score to a similar test's domain items, to determine how representative the sample population is.

3.6 Data Analysis

Data collected will be put in purposeful and usable categories, edited and coded. The coded data will be analyzed using Microsoft excel. After tabulation the below analytical model together with percentages and coefficients was calculated to support or conflict the study test.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

Based on the analysed data, this chapter aims at interpreting and presenting findings from the research based on the research methodology. Through questionnaires that coincided with objectives of the research, data was collected.

4.2 Respondents' Demographic Characteristics

This section looks to analyze individual and firm respondent's information of the set demographic. This aimed at understanding respondents' background and their work capability to provide information, relevant for the study.

4.2.1 Response Rate

The study targeted 30 respondents from the 6-life insurance in Kenya five from each organization. 24 out of 30 target respondents filled in and returned the questionnaire, a response rate that is 80% and hence reliable for the study. This is because it suites Mugenda and Mugenda (1999) statement that considered a response rate that was over 70% to be excellent hence useful for analysis and reporting purpose.

Table 4.1 Response Rate

Target Population	30
Reponses	24
Response Rate	80%

4.2.2 Length of Time the Organization been in Existence

The researcher sought to find out the length of time the target organizations have been operational. The findings are shown in the table below

Table 4.2 Length of Time the Organization been in Existence

Length of time the organization been in existence	Frequency	Percentage	Cumulative percentage
Below 5 Year	1	4%	4%
6 - 10 Year	9	38%	42%
11 - 15 Years	11	46%	88%
Over 15 Years	3	13%	100%

The findings in table 4.3 indicate that 4 % of the respondents indicated that the organization has been operational for less than 5 years, 38 % of the respondents indicated that the organization has been operational for 6 to 10 years while 46 % of the respondents indicated that the organization has been operational for 11-15 years while 13% stated that the organization has been operational for more than 15 years. The Study concludes that the length operation is significant towards drawing conclusive findings from the study.

4.2.3 Number of Employees in the Organization

The researcher sought to find out the number of employees in the organization. This is because it's also a strong indicator of organizational performance. Findings are shown in table below.

Table 4.3 Number of Employees in the Organization

Number of employees in the organization?	Frequency	Percentage	Cumulative percentage
1-50 Employees	0	0	0%
51 -100 Employees	3	13%	13%
101 - 250 Employees.	11	46%	58%
251 - 500 Employees	8	33%	92%
501 - 1000 Employee	2	8%	100%
More than 1000 Employees.	0	0%	100%

The findings in table above indicate that 13 % of the respondents indicated that the organization has between 51 -100 Employees, 46 % of the respondents indicated that the organization has between 101 - 250 Employees while 33 % of the respondents indicated that the organization has between 251 - 500 Employees , 8% of the respondents indicated that the organization has between 501 - 1000 Employee .Study concludes that the number of employees in the respondent organizations is significant enough to make the organization relevant to the study.

4.2.2 Annual Turnover

The researcher sought to find out the respondent organization annual turnover in revenues. This is a strong indicator of how relevant an organization is to the study as it is a strong indicator of organizational performance. Findings are shown in table below.

Table 4.4 Annual Turnovers

Annual turnover in Kenya Shillings?	Frequency	Percentage	Cumulative percentage
Below 150 Million	3	13%	13%
150 – 300 Million	11	46%	58%
300 – 500 Million	8	33%	92%
Over 500Million	2	8%	100%

The findings in table above indicate that 13 % of the respondents indicated that the organizational annual revenues range Below 150 Million .46 % of the respondents indicated that the organizational annual revenues range 150 – 300 Million 33 % of the respondents indicated that the organization organizational annual revenues range 300 – 500 Million while 8 % of the respondents indicated that the organizational annual revenues range above Over 500 Million. The Study concludes that the revenue turnover in the respondent organizations is significant enough to make the organization relevant to the study.

4 .3 Financial Risk Management Practices

The table below is the representation of financial risk management practices adopted by life insurance in Kenya .The mean is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Strongly disagree,2= Disagree ,3= Not sure,4= Agree,5= Strongly agree

4.3.1 Financial risk identification

The researcher sought to find out the extent of implementation of financial risk identification process. The mean is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Strongly disagree,2= Disagree ,3= Not sure,4= Agree,5= Strongly agree. The findings are presented in the table below.

Risk evaluation	Mean	Std. Deviation
Risks are evaluated with assumptions and uncertainties	4.25	0.75378
Risks are being clearly considered and presented.	3.9167	0.9962
Risk is evaluated in terms of both quantitative and qualitative value.	4.0833	0.9962
Measurement of both of the quantities in which risk assessment is concerned - potential loss and probability of occurrence – is carried out by the company	4.1667	0.83485
A risk with a potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood	3.75	1.28806

The findings indicate that the respondents strongly agreed that Risk inspection is done by managers as indicated by the mean of 4.6667, that Roles and responsibilities for risk identification are clearly defined as indicated by the mean 4.75,that Financial statement analysis enhances risk identification as indicated by the mean 4.25 ,that Establishing standards enhances risk identification as indicated by the mean 4.4167 and Risk rating and collateral enhances risk identification as indicated by the mean 3.75.

4.3.2 Risk Evaluation

The researcher sought to find out the extent of implementation financial risk evaluation process. The mean is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Strongly disagree, 2= Disagree , 3= Not sure,4= Agree,5= Strongly agree. The findings are presented in the table below.

Risk evaluation	**Mean**	**Std. Deviation**
Risks are evaluated with assumptions and uncertainties	4.25	0.75378
Risks are being clearly considered and presented.	3.9167	0.9962
Risk is evaluated in terms of both quantitative and qualitative value.	4.0833	0.9962
Measurement of both of the quantities in which risk assessment is concerned - potential loss and probability of occurrence – is carried out by the company	4.1667	0.83485
A risk with a potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of	3.75	1.28806

The respondents agreed that risks are evaluated with assumptions and uncertainties as indicated by the mean of 4.25,and risks are being clearly considered and presented as indicated by the mean of 3.9167,risk is evaluated in terms of both quantitative and qualitative value as indicated by the mean of 4.0833,measurement of both of the quantities in which risk assessment is concerned - potential loss and probability of occurrence – is carried out by the company as indicated by the mean of 4.1667,a risk with a potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of as indicated by the mean of 3.75.

4.3.3 Risk Mitigation

The researcher sought to find out the extent of implementation financial risk mitigation. The mean is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Strongly disagree,2= Disagree ,3= Not sure,4= Agree,5= Strongly agree. The findings are presented in the table below.

Risk Mitigation	Mean	Std. Deviation
The company insures different types of risks but not all risks.	4.5833	0.66856
The company does not insure catastrophic risks	4.75	0.86603
The organization has a mechanism for estimating potential losses at the time of entering into insurance contracts	4.25	0.75378
The company trains insured parties on ways to avoid or minimize the chances of losses occurring	4.6667	0.49237
The company has a mechanism for transferring certain risks to third parties e.g. through reinsurance/hedging.	4.75	0.62158
The company sets aside sufficient technical reserves to pay for claims.	4.25	0.75378

The respondents strongly agreed that the company insures different types of risks but not all risks as indicated by the mean of 4.5833,the company does not insure catastrophic risks as indicated by the mean of 4.75, the company trains insured parties on ways to avoid or minimize the chances of losses occurring as indicated by the mean of 4.6667,the company has a mechanism for transferring certain risks to third parties e.g. Through reinsurance/hedging as indicated by the mean of 4.75.The respondents agreed that the company sets aside sufficient technical reserves to pay for claims as indicated by the mean of 4.25 the organization has a mechanism for estimating potential losses at the time of entering into insurance contracts as indicated by the mean of 4.25.

4.3.3 Risk Management, Implementation and Monitoring.

The researcher sought to find out the extent of risk management, implementation and monitoring. The mean is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Strongly disagree,2= Disagree ,3= Not sure,4= Agree,5= Strongly agree. The findings are presented in the table below

Risk management, Implementation and Monitoring.	**Mean**	**Std. Deviation**
Risk management program is well documented	4.42	0.9
Risk management efforts are supported by senior management.	4	1.13
Employees are properly trained on risk management policies	3.83	1.03
The roles and responsibilities of each employee in the risk management efforts of the firm are well communicated to them.	3.83	1.03
Controls are in place to evaluate the efficiency of the risk management program.	3.5	1.24
Regular reviews of risk management efforts and reporting to senior management.	3.92	1
Risks are subdivided into individual levels for further analysis	4.08	1

The findings indicate that to a great extent risk management program is well documented as indicated by the mean of 4.42,risk management efforts are supported by senior management as indicated by the mean of 4.00,employees are properly trained on risk management policies as indicated by the mean of 3.83,the roles and responsibilities of each employee in the risk management efforts of the firm are well communicated to them as indicated by the mean of 3.83,controls are in place to evaluate the efficiency of the risk management program as indicated by the mean of 3.50,regular reviews of risk management efforts and reporting to senior management as indicated by the mean of 3.92,risks are subdivided into individual levels for further analysis as indicated by the mean of 4.08.

4.4 Financial risk management practices and Profitability

The objective study was to find out effect of financial risk management practices on profitability in life insurance in Kenya. The table below is the mean and the standard deviations of the responses .The mean is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Not at all,2= little extent ,3= Moderate extent,4= Great extent,5= very great extent.

STATEMENT	Mean	Std. Deviation
The company insuring different types of risks has reduced the risk of loss and hence enhancing company profits	4.6429	0.48497
The training of insured parties on ways to avoid or minimize the chances of losses occurring has enhanced profitability	4.1667	0.53723

The processes of reinsurance/hedging. Has reduced costs associated with claims hence higher profits	4.0952	0.65554
The training of employees on risk management policies reduces costs associated with losses hence enhancing profits	3.9762	0.7486
The evaluation of the efficiency of the risk management program leads to removal of inefficient process hence profitability	4	0.82639
The gains in profits witnessed in the past four years as represented in your company's profit growth rate is as a result of implementation of financial risk management practice s	5	0.05554

The respondents strongly agreed that the gains in profits witnessed in the past four years as represented in your company's profit growth rate is as a result of implementation of financial risk management practice as indicated by the mean of 5, the company insuring different types of risks has reduced the risk of loss and hence enhancing company profits as indicated by the mean of 4.642. The respondents agreed the training of insured parties on ways to avoid or minimize the chances of losses occurring has enhanced profitability as indicated by the mean of 4.1667, the processes of reinsurance/hedging has reduced costs associated with claims hence higher profits as indicated by the mean of 4.0952, the training of employees on risk management policies reduces costs associated with losses hence enhancing profits as indicated by the mean of 3.9762, the evaluation of the efficiency of the risk management program leads to removal of inefficient process hence profitability as indicated by the mean of 4.

4.4.1 Profit Growth in Respondent Organization

The researcher used secondary data- specifically the financial statements of the respondent organizations to establish the growth rate in profits for the past four years . the objective was to collate profits growth with respondent perception on the influence of financial risk management practices on profitability in Life insurance companies in Kenya.

Profit growth rates in respondent organizations	2012	2013	2014	2015	average growth
company 1	11%	12%	13%	15%	13%
company 2	7%	8%	8%	9%	8%
company 3	11%	12%	13%	15%	13%
company 3	6%	7%	7%	8%	7%
company 5	5%	6%	6%	7%	6%
company 6	8%	9%	10%	11%	9%

The findings indicate the life insurance companies have on average experienced annual growth in profits at the rate of 9% annually. Subsequently the respondents indicated that they strongly agree that the gains in profits are as a result of implementation of financial risk management practices.

4.5 Discussion of the Findings

The respondents strongly agreed that risk inspection is done by managers and that roles and responsibilities for risk identification are clearly defined , to a great extent risk management program is well documented ,risk management efforts are supported by senior management, employees are properly trained on risk management policies ,the roles and responsibilities of each employee in the risk management efforts of the firm are well communicated to them, controls are in place to evaluate the efficiency of the risk management program ,regular reviews of risk management efforts and reporting to senior management risks are subdivided into individual levels for further analysis enhances risk identification ,that establishing standards enhances risk identification and risk rating and collateral enhances risk identification.

The respondents strongly agreed that the organizations insures different types of risks but not all risks, the organizations do not insure catastrophic risks , the organizations train insured parties on ways to avoid or minimize the chances of losses occurring ,the organizations have a mechanism for transferring certain risks to third parties e.g. Through reinsurance/hedging that the organizations set aside sufficient technical reserves to pay for claims the organizations and have a mechanism for estimating potential losses at the time of entering into insurance contracts.

The respondents strongly agreed that the gains in profits witnessed in the past four years as represented in your company's profit growth rate is as a result of implementation of financial risk management practice, the company insuring different types of risks has reduced the risk of loss and hence enhancing company profits . The respondents agreed the training of insured parties on ways to avoid or minimize the chances of losses occurring has enhanced profitability, the processes of reinsurance/hedging has reduced costs associated with claims hence higher profits, the training of employees on risk management policies reduces costs associated with losses hence enhancing profits the evaluation of the efficiency of the risk management program leads to removal of inefficient process hence profitability.

The findings indicate the life insurance companies have on average experienced annual growth in profits at the rate of 9% annually. Subsequently the respondents indicated that they strongly agree that the gains in profits are as a result of implementation of financial risk management practices. From the findings, majority of the respondents indicated that risk management practices positively influence profitability to a very great extent. The findings concurred with Pearce Ii and Zahra (1991) in a study involving 139 companies from fortune 500 firms and found that there was a positive relationship between financial risk management practices and earnings per share of firms, increase in firm customer base, asset quality, quality of service, increased production and increased market share. They argued that in taking appropriate measure at the rightful time where strategies seems to fail in achieving set goals, abilities and energies channeled to explicitly enhance strategies that propel firm's performance positively.

This implied that there existed a strong and positive correlation between financial risk management practices and profitability because. The study concurred with Hill and Jones (2000) who found that financial risk management practices led to increase in organizational market share, increase in customer base, enhanced production of quality services and gaining competitive advantage over rivals in the market.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of findings, conclusions and recommendations. The findings are summarized as of the study's objectives which aimed at establishing how management of financial risks affected profitability in Life Insurance in Kenya. The findings have been discussed relative to the questionnaire aspects which were on; demographic data on the respondent, financial risk management practices adopted and financial risk management practices and profitability in life insurance in Kenya.

5.2 Summary of Findings

The study revealed an association that is positive between financial risk management and profitability in Kenya's insurance companies. The findings on the demographic information of the respondent's greatly enhanced the reliability of the research findings. The study targeted 30 respondents from the 6 life insurance in Kenya five from each organization. There was an 80% response of the questionnaire handed over to the respondents. 4 % of the organizations have been operational for less than 5 years, 38 % of the organizations have been operational for 6 to 10 years, 46 % of the organizations have been operational for 11-15 years while 13% stated that the organizations have been operational for more than 15 years. The study concludes that the length operation is significant towards drawing conclusive findings from the study.

The researcher sought to find out the number of employees in the organization. This is because it's also a strong indicator of organizational performance. 13 % of the organizations have between 51 -100 employees, 46 % of the organizations have between 101 - 250 employees, 33 % of the organizations have between 251 - 500 employees , while 8% of the organizations have between 501 - 1000 employee . Study concludes that the number of employees in the respondent organizations is significant enough to make the organization relevant to the study.

The researcher sought to find out the respondent organization annual turnover in revenues. This is a strong indicator of how relevant an organization is to the study as it is a strong indicator of organizational performance.13 % of that the organizational annual revenues range below 150 Million .46 % of that the organizational annual revenues range 150 – 300 million, 33 % of that the organizational annual revenues range 300 – 500 million while 8 % of that the organizational annual revenues range above over 500 Million. The study concludes that the revenue turnover in the respondent organizations is significant enough to make the organization relevant to the study.

The respondents strongly agreed that risk inspection is done by managers and that roles and responsibilities for risk identification are clearly defined , to a great extent risk management program is well documented ,risk management efforts are supported by senior management ,employees are properly trained on risk management policies ,the roles and responsibilities of each employee in the risk management efforts of the firm are well communicated to them, controls are in place to evaluate the efficiency of the risk management program ,regular reviews of risk management efforts and reporting to senior management risks are subdivided into individual levels for further analysis ,that establishing standards enhances risk identification and risk rating and collateral enhances risk identification.

The respondents strongly agreed that the organizations insures different types of risks but not all risks, the organizations do not insure catastrophic risks , the organizations train insured parties on ways to avoid or minimize the chances of losses occurring ,the organizations have a mechanism for transferring certain risks to third parties e.g. Through reinsurance/hedging that the organizations set aside sufficient technical reserves to pay for claims the organizations and have a mechanism for estimating potential losses at the time of entering into insurance contracts.

The respondents strongly agreed that The gains in profits witnessed in the past four years as represented in your company's profit growth rate is as a result of implementation of financial risk management practice, the company insuring different types of risks has reduced the risk of loss and hence enhancing company profits . The respondents agreed the training of insured parties on ways to avoid or minimize the chances of losses occurring has enhanced profitability, the processes of reinsurance/hedging has reduced costs associated with claims hence higher profits, the training of employees on risk management policies reduces costs associated with losses hence enhancing profits, the evaluation of the efficiency of the risk management program leads to removal of inefficient process hence profitability .The findings indicate the life insurance companies have on average experienced annual growth in profits at the rate of 9% annually. Subsequently the respondents indicated that they strongly agree that the gains in profits are as a result of implementation of financial risk management practices.

5.3 Conclusion

The study sought to find out the relationship between risk management practices and profitability in life insurance in Kenya. Based on the findings in relation to specific objective, the study concluded that financial risk management practices positively influences profitability. The study concluded that risk management practices implementation influence organization performance positively to a great extent resulting to increased organization profitability.

5.4 Recommendations

The study recommends that organizations should focus on adopting financial risk management practices so as to improve organizational performance through increasing profits customer base, asset quality, quality of service and increased market share. Another recommendation concerned the clarity of strategies put in place to ensure effective performance of credit risk. This is possible through formulation and guidelines that the staff use that assist in compromise eradication. In order for organizations to achieve their goals, i.e. Profitability, market share and customer retention, there should be effective financial risk management strategies that cater for the customer needs, organization goals and environmental changes.

5.5 Limitations of the Study

Since it was a survey study involving a large sample size and collection data was extremely tedious and time consuming. There was limited time to ensure exhaustiveness and extreme comprehensiveness of data collected. The study, however, minimized these by conducting in-depth analysis that significantly covers the shortcomings of the study. Further, the data was tedious to collect and compute as it was in very raw form. Further the presentation of the data in the different companies was varied which made the data computation even harder. The limitation of this study was time constraints, limited financial resources and geographic distance between Insurance Companies in Kenya.

In addition, the researcher did not overlook the major limitation of descriptive research design which is that the design can hardly make explanation of a phenomena that is lengthy, hence the study’s findings are only applicable to the study’s time frame. This makes it difficult to explain phenomena that occur over time, hence the study’s findings are only applicable to the study’s time frame. It was difficult to access secondary data due to strict confidentiality exhibited by most Insurance Companies. The annual financial statements are also prepared under the fundamental assumptions and concepts which are subjective and therefore not be uniformly applied especially in terms of provisions and estimates.

The study focused on life Insurance companies and since the country is dynamic, the findings may not be representative of the whole population of companies in Kenya. The sampling method opted for in the research made sure that any respondent selected lacked a non-zero probability of being selected. The time provided for collection of data was limited due to the set rules for study completion.

5.6 Suggestions for further Research

The study suggests further survey study on financial risk management practices and performance in other industries. This research should be replicated in other industries in order to establish whether there is consistency among them on financial risk management practices management and business performance. The study will supplement the findings of this study by providing information on the strength and weaknesses experienced in the implementation of risk management practices.

Additionally, further studies should be carried out in order to determine performance of life insurance in Kenya. This is in relation to identifying other external influences over which they have little control and how they impact on the other industries performance. Further research can be conducted to establish factors that can affect financial risk management and impact of risk management practices on firm performance through a focus on other fields and not than Life insurance so as to have an overall understanding of all sectors through the reliable information gathered.

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APPENDICES

Appendix 1: Data Collection Questionnaire

The purpose of this study is to collect data that will assist in determining the financial risk management practices and how they affect the profitability of the insurance company. 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 **--**

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2 How long has the organization been in existence?

Below 5 Years……………………………………..……………………….. …[ ]

6 - 10 Years…………………………………………..…….……………….[ ]

11 - 15 Years……………………………………..……………………..……..[ ]

Over 15 Years……………………………………..……………………..…… [ ]

3. What is the number of employees in your organization?

1-50 Employees……………………………………………………...………[ ]

51 -100 Employees..……………………………………………………........[ ]

101 - 250 Employees.………………………………………………………..[ ]

251 - 500 Employees.……………………………………………...……[ ]

501 - 1000 Employees.……………………………………………...……[ ]

More than 1000 Employees.…………………………………………...……[ ]

4. What is your annual turnover in Kenya Shillings?

Below 15 Million…………………………………………..…………….[ ]

15 – 30 Million………………………………..…………………………[ ]

30 – 50 Million…………………………..………………………………[ ]

Over 50 Million……………………..…………………………………..…[ ]

Part II: Business Information

SECTION I: RISK IDENTIFICATION

4) Indicate your level of agreement with the following statements as regards 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

NB: This scale should also be used for question number 5, 6 and 7.

STATEMENT	1	2	3	4	5
Risk inspection is done by managers					
Roles and responsibilities for risk identification are clearly defined					
Financial statement analysis enhances risk identification					
Establishing standards enhances risk identification					
Risk rating and collateral enhances risk identification					

SECTION II: RISK ASSESSMENT

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

STATEMENT	1	2	3	4	5
Risks are evaluated with assumptions and uncertainties being clearly considered and presented.					
Risk is evaluated in terms of both quantitative and qualitative value.					
Measurement of both of the quantities in which risk assessment is concerned - potential loss and probability of occurrence – is carried out by the company					
A risk with a potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of					

SECTION III: RISK MITIGATION

6) To what extent does your company adopt the following risk mitigation practices? Use a scale of 1 – 5.

STATEMENT	1	2	3	4	5
The company insures different types of risks but not all risks.					
The company does not insure catastrophic risks					
The organization has a mechanism for estimating potential losses at the time of entering into insurance contracts					
The company trains insured parties on ways to avoid or minimize the chances of losses occurring					
The company has a mechanism for transferring certain risks to third parties e.g. through reinsurance/hedging.					
The company sets aside sufficient technical reserves to pay for claims.					

SECTION IV: RISK MANAGEMENT IMPLEMENTATION AND MONITORING.

7) To what extent are the following facets of risk management implementation and monitoring applicable to your company? Use a scale of 1 – 5.

STATEMENT	1	2	3	4	5
Risk management program is well documented					
Risk management efforts are supported by senior management.					
Employees are properly trained on risk management policies					
The roles and responsibilities of each employee in the risk management efforts of the firm are well communicated to them.					
Controls are in place to evaluate the efficiency of the risk management program.					
Regular reviews of risk management efforts and reporting to senior management.					
Risks are subdivided into individual levels for further analysis					

SECTION V: FINANCIAL RISK MANAGEMENT AND FINANCIAL PERFORMANCE

To what extent is the following statement relating to the effect of financial risk management on profitability true

STATEMENT					
The company insuring different types of risks has reduced the risk of loss and hence enhancing company profits					
The training of insured parties on ways to avoid or minimize the chances of losses occurring has enhanced profitability					
The processes of reinsurance/hedging. Has reduced costs associated with claims hence higher profits					

The training of employees on risk management policies reduces costs associated with losses hence enhancing profits					
The evaluation of the efficiency of the risk management program leads to removal of inefficient process hence profitability					
The gains in profits witnessed in the past four years as represented in your company's profit growth rate is as a result of implementation of financial risk management practice s					

Appendix 2: List of Insurance Companies

1. Jubilee Holdings Ltd Ord 5.00
2. Pan Africa Insurance Holdings Ltd 0rd 5.00
3. Kenya Re-Insurance Corporation Ltd Ord 2.50
4. Liberty Kenya Holdings Ltd
5. Britam Holdings Ltd Ord 0.10
6. CIC Insurance Group Ltd Ord 1.00

Source: (NSE, 2016)