THE INFLUENCE OF RISK MANAGEMENT PROCESSES ON FINANCIAL PERFORMANCE OF INSURANCE FIRMS IN KENYA

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DECLARATION

I the undersigned declare that this proposal is my original work and has never been presented for a degree award or any other university programme.

Signed……. Date…….

Irene Muoti
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Declaration by the Supervisor

I confirm that the work in this proposal was done by the candidate under my/our supervision.

Signed…… ……. Date……30/07/2021…….

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DEDICATION

This research study is dedicated to my dear family; my husband , children and parents with deep gratitude and appreciation for their support and understanding during my entire study period. I will forever remain indebted and grateful to them for providing me a good atmosphere for my studies without which this accomplishment could not be arrived at.

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DEFINITION OF TERMS

Risk analysis; process of analyzing potential issues that could negatively impact key business initiatives or projects (Gómez-Fernández-Aguado, et al, 2020).

Risk identification; process of determining risks that could potentially prevent the organization or investment from achieving its objectives (Okogbuo et al., 2015).

Risk management planning: the planning description of how to deal with specific risks and what risk managing actions can be taken in order to mitigate or remove threats to the project activities and outcomes (Klishina & Magomedova, 2019).

Risk monitoring: involves taking quick corrective action when a risk materializes. It addresses how risk will be monitored (Muchelule, Iravo, Odhiambo & Noor, 2017).

ABSTRACT

Risk management is deemed as a core factor for business competitiveness. It facilitates a firm to develop a unique strategy to minimize the potential losses and open a door for the exploitation of new opportunities. In recent years, insurance companies have increased their focus on risk management. Insurance companies are in the risk business and as such cover various types of risks for individuals, businesses and companies. The general objective of this study was to establish the influence of risk management processes on financial performance of insurance firms in Kenya. The specific objectives assessed the influence of risk management planning, risk identification, risk analysis and risk monitoring on the performance of insurance firms in Kenya. The study was anchored on Risk Management Theory. Other theories included, Agency theory and contingency planning theory. The target population of the study was 56 insurance firms. The unit of observation in the insurance firms were the risk managers and accountants. Primary data was collected by means of a structured questionnaire. The data was analyzed using descriptive and inferential statistics. The study conducted normality test, multicollinearity and heteroscedasticity tests. A regression model was used to test the influence of risk management processes on performance. The hypotheses developed by the study were tested at 5% significance level. Findings revealed that there was a significant effect of risk management processes on the financial performance of insurance firms in Kenya. Risk management planning had a positive and significant effect on financial performance of insurance firms in Kenya. Risk identification process had a positive and significant effect on financial performance of insurance firms in Kenya. Risk analysis had a negative and insignificant effect on financial performance of insurance firms in Kenya. Risk monitoring had a positive and significant effect on financial performance of insurance firms in Kenya. To keep abreast with the changing economic times, insurance firms need to be vigilant on the measures they take so as to be able to minimize risk exposure. The study recommended that insurance firms should practice risk management strategies in order to boost their performance either in a financial or operational perspective. Moreover, an establishment of comprehensive risk management of insurance firms should be made a prerequisite as it contributes to the overall risk management systems. This study provides useful information to practitioners and academics who are interested in identifying the various risks that insurance firms in Kenya often face. This would go a long way in mitigating the risks before they occur.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Risk is a concept that denotes a potential negative impact to an asset or some characteristic of value that may arise from some present process or future event (Mieg, 2020). Risk management processes entails identifying, monitoring and managing potential risks in order to minimize the negative impact they may have on an organization (Dannreuther & Kessler, 2017). Gómez (2020) defines risk management as the process through which an organization identifies loss exposures facing it and selects the most appropriate techniques for treating such exposures.

Risk management through institutions is actually center in mitigating unpredictability in the business setting and in improving growth as well as performance (Thistlethwaite & Wood, 2018). Risk management is actually viewed as a primary variable for service competitiveness. It facilitates an organization to create a distinct technique to lessen the potential reductions and open a door for the profiteering of brand-new possibilities. According to Zou and also Hassan (2017), the development as well as performance of both companies as well as service facilities hinge mainly on the identification as well as management of both inherent dangers, market risks and procedures risk (Chepkoech & Rotich, 2017).

In recent years, insurance providers have enhanced their concentrate on risk management. Meredith (2014) proposes that there ought to make sure thinkings, through management of insurance provider, of insurable threats to avoid excessive reductions in clearing up insurance claims. It follows that risk management is a significant consider improving financial performance. Depending on to Klishina and also Magomedova (2019), insurance firms, as risk-bearing establishments can, as well as carry out, fall short if dangers are certainly not managed adequately. Insurance provider reside in the risk organization and as such cover different kinds of dangers for people, businesses and also companies (Okumu & Wanjira, 2017). It is consequently essential that insurance provider manage their risk visibility and carry out appropriate analysis to steer clear of losses as a result of the payment insurance claims produced by the guaranteed. Gathu (2018) monitors that the majority of insurance companies cover insurable risks without lugging out

appropriate analysis of the expected cases coming from customers and also without placing in place a mechanism of recognizing appropriate risk reduction techniques.

Poor management of risk, by insurance companies, triggers buildup of cases from the customers as a result bring about enhanced losses and also thus inadequate financial performance (Owolabi, Oloyede, Iriyemi & Akinola, 2017). Risk management activities are impacted due to the risk actions of managers. A strong risk management structure can assist organizations to reduce their direct exposure to dangers, and also enhance their financial performance (Alaa & Mirakhor, 2017). Even Further, McShane (2018) claims that the option of certain risk tools has a tendency to be connected with the organization's calculative society, the measurable perspectives that elderly selection makers feature in the direction of the use of risk management styles. While some risk functions pay attention to extensive risk dimension and also risk-based performance management, others center instead on qualitative discourse and the mobilization of specialist viewpoints regarding surfacing risk problems (Khan & Ali, 2017).

Globally, Brancato and Newman (2016) in United States of America, posited that the understanding of the market value of risk management processes is no more restricted to the insurance or financial industries. Leading insurance provider make use of risk management procedures to relocate from a solitary functional-silo view to a risk-adjusted, organization-wide planning technique. Delivering a comprehensive perspective, risk management contrasts the risk-adjusted value of one plan versus yet another. In Europe, Acharyya and Stanely (2018) located that risk management makes market value when the structure is actually totally installed within a firm's procedures, as well as it grows. The findings verify the demand to handle the execution of risk management in an alternative way if real advantages are to be realized.

In South Africa, Abdullah, Janor, Hamid and Yatim (2017) studied the effect of risk management processes on firm value. The research discovered that strengthened risk management top quality minimizes the amount of threats experienced by insurer, which eventually lowers solid market value. Further in South Africa, a large number of risk experts in South Africa disclosed that their risk management courses are totally or even partially incorporated into their services' functions. The 2019 Risk Management Document in South Africa indicated that 88% of the 97 risk specialists throughout insurance edges replying to the questionnaire performed stated either possessing

entirely or even partially combined risk management programs in operation, along with 45% coverage having a totally incorporated plan.

Locally, at least 9 insurance companies have suffered and collapsed over the past decade (Gathu, 2018). There are numerous obstacles encountering the insurance industry featuring architectural weak points, fraud by both clients and employees, higher cases, hold-ups in claim resolution, delayed premium selection, lack of assets causing crash of some agencies, low financial growth, poor control, reduced penetration of insurance services and also industry concentration (Muia, 2017; Chepkoech & Rotich, 2017).

1.1.1 Risk Management Processes

The key aspects of risk management processes include risk management planning, risk identification, risk analysis and risk monitoring (Okogbuo *et al*., 2015; (Silva, Kimura & Sobreiro, 2017; Baecke & Bocca, 2017). Risk management planning explains how to take care of certain dangers and also what risk managing actions may be consumed purchase to alleviate or remove threats to the venture tasks as well as end results (Klishina & Magomedova, 2019). The risk management strategy offers participants of the job management group a sense of the risk managing actions they can easily take to pinpoint, analyze and react to dangers (Rop & Rotich, 2018).

Risk analysis process involves analyzing potential issues that could negatively impact key business initiatives or projects (Gómez-Fernández-Aguado, et al, 2020). This process is done in order to help organizations avoid or mitigate those risks. Risk analysis process assess the likelihood of an adverse event occurring and uncertainty of forecasted cash flow streams, the variance of portfolio or stock returns and possible future economic states (Baecke & Bocca, 2017). Risk monitoring activities entails gathering relevant information on risk by providing inputs to ongoing risk assessment and response processes (Muchelule, Iravo, Odhiambo & Noor, 2017).

Risk management processes plays an important role in helping the companies to strengthen the ability of the firm in planning their strategy in handling any risk (Zou & Hassan, 2017). The ground of risk management methods is to reduce direct as well as secondary expenses of financial grief, earnings dryness, and negative shocks in financial markets, in addition to enhance the decision-making process to select the very best expenditure possibilities (Callahan & Soileau, 2017; Zou & Hassan, 2017). Risk management processes make it possible for agencies to lessen various types

of expenses related to firms' working and also non-operational tasks. Risk management processes aids leading management to handle various forms of risk properly (Annamalah, Raman & Arvindan, 2018).

1.1.2 Financial Performance

According to Maghanga and Kalio (2014), performance is an indicator of firm's success, conditions, compliance and refers to the degree to which financial objectives have been accomplished. Performance can be measured through non-financial and financial means. Bakar and Ahmad (2017) observed that a large number of associations commonly liked using financial ways to gauge their performance.

According to Tavitiyaman, Zhang as well as Qu (2018) solutions of business performance are efficiency, market base, profits as well as reputation/position. Kiragu (2015) highlights organizational performance in regards to 4 point of views which are actually the financial, consumer, interior processes as well as originality. The financial perspective of view recognizes the essential financial motorists of improving performance which are revenue frame, property turn over, take advantage of, cash flow, and also operating financing. The study further conditions that customer concentration describes performance in regards to brand picture, client contentment, client retention and customer success. Internal perspectives entail the performance of all the systems in the company while originality is actually interested in the simplicity along with which employees have the ability to adapt to modifying ailments. This research study will use sales performance, operational efficiency and also organizational development as steps of performance.

1.1.3 Insurance Firms in Kenya

Kenya has 56 insurance companies according to the Insurance Regulatory Authority (2020). Among the 56 insurance companies, 23 are life insurance companies and 26 are purely non-life insurance companies (Insurance Regulatory Authority, 2020). Out of the 23 life insurance companies, 16 companies also engage in general insurance business. The Insurance Regulatory Authority is the industry regulatory body which is mandated to supervise and regulate the insurance industry players. The industry has also established self-regulation through the Association of Kenya Insurers (Association of Kenya Insurers, 2019). The many risks and

challenges facing the insurance industry in Kenya prompted the Insurance Regulatory Authority to establish a comprehensive risk management guideline for the insurance sector, effective June 2013. This study will therefore asses how the risk management processes have influenced performance of these insurance firms in Kenya.

1.2 Statement of the Problem

The insurance sector in Kenya has had a turbulent history and challenges arising out of premium undercutting, fraud, low penetration and unpaid claims (Wanjohi & Ndambiri, 2017; Nyongesa, 2017). In addition, insurance firms in Kenya over time have shown an irregular trend in performance; ranging from some recording financial losses to some being pushed out of business (Murigu, 2019). The closure of several large insurance companies including Kenya National insurance company, Stallion insurance company, Access insurance company, Standard Assurance Company, Lake Star Insurance, United Insurance and others in the last two decades has been linked to poor risk management (Okumu & Wanjira, 2017; Janzen, et al, 2021).

While much empirical works have been given diverse reasons for the poor financial performance of insurance companies, research evidence on the effects of risk management on the corporate performance of insurance firms in the Kenyan context is scanty and creates research gaps. For instance, the study Onang'o (2017) on the effect of credit risk management on financial performance of commercial banks presents a contextual gap as it ventured into commercial banks while the current study will focus on insurance firms. Nyagah (2014) on the effect of enterprise risk management on financial performance of pension fund management firms in Kenya study also presents a contextual gap as it was conducted in pension firms while the current study will focus on insurance firms. A conceptual gap is created in the study by Okumu and Wanjira (2017) on risk mitigation strategies and performance of insurance industry in Kenya. The study objectives used were risk controlling strategy, risk avoidance, risk based audit strategy and product mix strategy while the current study will use risk management processes, risk management planning, risk identification process, risk analysis and risk monitoring. The study further creates a methodological gap as will use a correlational research design while the current study will use a descriptive research design. Further, the economic shock caused by the covid-19 pandemic posed as a great threat to the insurance industry as their return were highly compromised, studies done have not tackled this issue.

This study therefore sought to bridge the gap by establishing the influence of risk management processes on performance of insurance firms in Kenya.

1.3 General Objective

The general objective of this study was to establish the influence of risk management processes on performance of insurance firms in Kenya.

1.3.1 Specific Objectives

i) To assess the influence of risk management planning on the performance of insurance firms in Kenya
ii) To evaluate the influence of risk identification process on the performance of insurance firms in Kenya.
iii) To determine the influence of risk analysis on the performance of insurance firms in Kenya.
iv) To evaluate the influence of risk monitoring on the performance of insurance firms in Kenya.

1.4 Research Hypotheses

The study set out to evaluate the following research hypotheses;

H_{01}: Risk management planning has no significant influence on the performance of insurance firms in Kenya.

H_{02}: Risk identification process has no significant influence on the performance of insurance firms in Kenya.

H_{03}: Risk analysis has no significant influence on the performance of insurance firms in Kenya.

H_{04}: Risk monitoring has no significant influence on the performance of insurance firms in Kenya.

1.5 Significance of the Study

1.5.1 Managers of Insurance firms

The findings are going to develop the effects of risk management on performance of insurance companies in Kenya. Therefore, the result will be actually substantial to the management of the

insurance firms in delivering all of them along with insights into the several methods towards risk management techniques, the effects of risk management processes on financial performance, just how to properly manage the problems of risk management and exactly how to minimize exposure to the risk.

1.5.2 Management of Institutions in the Insurance Sector

Insurance agencies and similar financial institutions in the money industry in Kenya will certainly gain considerably as the research study results are going to straight reflect their performance and also suggestions deduced coming from the research study will be actually very appropriate. Through extension, other organizations in Kenya are going to take advantage of outcomes of the research study. Firm in a variety of sectors of the economy are going to likewise benefit from the investigation findings as they are going to implement them in creating updated decisions.

1.5.3 Policy Makers

To regulators and policy makers, the research study is going to offer the basis for command plan framework to reduce the dangers linked with the insurance field in Kenya. The insights supplied by the research will definitely be instrumental in the growth as well as application of risk management frameworks essential for the companies in the insurance sector as well as various other associated markets. The research study would consequently support the Federal government of Kenya in assessing the several parts of risk management execution in the insurance market and give ideal paths for their effective use.

1.5.4 Researchers, Academicians and Scholars

The study will also form a good literature base upon which further studies and references will be drawn. The research study would certainly deliver academicians with knowledge regarding the result of risk management on financial performance of insurance agencies in Kenya. The results of the research study would also aid pinpoint existing gap in the region of risk management processes and recommend more locations of research. Academicians, intellectuals and also analysts will, thus, benefit from the findings of this study as it is going to contribute to the body of existing expertise in risk management as well as financial performance of insurance organizations in Kenya.

1.6 Scope of the Study

The main objective of the study was to establish the influence of risk management processes on performance of insurance firms in Kenya. Conceptually, the study sought to establish the risk management processes; risk management planning, risk identification process, risk analysis and risk monitoring on the performance of insurance firms in Kenya. Contextually, this study was conducted in Kenya and particularly Nairobi County which has the highest concentration of insurance firms with their head offices. The population was 56 insurance firms licensed by the Insurance regulatory Authority (2020) (Appendix III). Methodologically, the study adopted a descriptive research design with a population comprising of the major insurance firms in Nairobi. Primary data was gathered for the study using structured questionnaires. The primary data was collected from the staff of these insurance firms.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter explored literature relating to risk management processes on financial performance of firms. The very first part went over the ideas notifying the study as well as their applicability to the risk management and also financial performance. The second segment took care of the empirical review which searches in to the researches that have done before on risk management procedures and also financial performance. The third segment looked into the visionary framework, which clarifies the relationship in between the private changeable and also the reliant adjustable pinpointed in the study.

2.2 Theoretical Review

This section discussed the theories on which this study is anchored. Theories are used by scholars when performing research studies to form a foundation for the parameters, or boundaries of a study (Eden & Ackermann, 2018). This study was anchored on Risk Management Theory. Other theories include, Agency theory, Prospect Theory, contingency planning theory.

2.2.1 Risk Management Theory

Risk Management Theory was proposed by Vaughan (1997) and proposed that risk includes elements of the personal or even the institution that is actually exposed to reduction, "the asset or even profit whose devastation or even dispassion will create financial reduction, as well as a danger that can easily create the reduction. This can be averted through risk management model which contains risk identification, risk monitoring, and also prioritization of threats adhered to through coordinated and also cost-effective application of sources to decrease, check, and control the chance and/or influence of unlucky events or even to maximize the awareness of opportunities (Koulafetis, 2017). The idea has actually been utilized in studies like Jarrow (2017); Krause and also Tse (2016); Bogodistov and Wohlgemuth (2017) in revealing risk management in the financial industry. Threats may come from anxiety in financial markets, project failures, lawful liabilities, credit risk, mishaps, natural causes and also calamities as well as deliberate strike from an adversary, or even events of unclear or uncertain root-cause. The vulnerability of insurance firms enhances along with boosting exposure to risk as well as unpredictability (Jarrow, 2017).

On behalf of the risk management idea, numerous risk management requirements have actually been actually developed featuring the Job Management Principle, the National Principle of Scientific Research and also Technology, actuarial cultures, and ISO specifications. Procedures, interpretations as well as goals differ largely according to whether the risk management procedure remains in the situation of task management, safety, design, industrial processes, financial portfolios, actuarial assessments, or even public health as well as safety (Beasley et al, 2016). The strategies to deal with risk usually consist of transferring the risk to yet another gathering, staying clear of the risk, "lessening the bad result or probability of the risk, or perhaps taking some or even every one of the prospective or true consequences of a certain risk. Efficient risk management may bring much getting to perks to all associations, whether sizable or even tiny, public or economic sector (Follower & Stevenson, 2018). These benefits feature, exceptional financial performance, better basis for strategy setting, strengthened service delivery, greater competitive advantage, less opportunity devoted firefighting as well as less uninvited shocks, boosted likelihood of change initiative being achieved, nearer interior focus on carrying out the correct factors appropriately, much more dependable use resources, lowered misuse as well as scams, and much better value for cash, boosted innovation as well as better management of section as well as upkeep tasks (Krause & Tse, 2016).

Successful risk management design supports far better choice creating through a good understanding of the risks and also their probably effect. "In practicing risk management, if risks are left behind unmanaged, they can easily lead to an unfavorable influence on ante holder's value. It as a result indicates that really good risk management enhances investors worth (Koulafetis, 2017). By producing a really good style in risk management, it aids improve control process as well as a result boosts efficiency. According to Bogodistov and Wohlgemuth (2017), making sure that an institution creates economical use of risk management to begin with involves creating a technique developed of precise risk management and afterwards embedding all of them. These risk management consist of financial dangers management, functional risk management, governance risk management, and critical risk management.

This study was anchored on Risk Management Theory. In application, the vulnerability of insurance firms' increases with increasing exposure to risk and uncertainty. The Theory informed the risk management processes variables; risk management planning, risk identification, risk

analysis and risk monitoring by positing that the firms should have risk management process to avoid high exposure to risk and uncertainty.

2.2.2 Contingency Planning Theory

Contingency Planning Theory was developed by Fiedler (1978), posits that no single planning style can be effective without parallel input from complementary or countervailing traditions. Contingency Planning Theory has been used by previous studies such as Ni, Rong, Wang and Cao (2019); Otley (2016); Hisnson and Kowalski (2018) to explain on risk planning. The theory combines ideas about risk and uncertainty in the environment and external factors influencing work with context-specific features of leadership and decision-making. Fiedler believed there was a direct correlation to the traits of a leader and the effectiveness of a leader. According to Fiedler, certain leadership traits helped in a certain risk, crisis and so the leadership would need to change given the new set of circumstances.

Contingency planning likewise referred to as company continuity planning is actually a critical aspect of risk management. The key basis of contingency planning is that, given that all dangers can easily certainly not be actually completely eliminated virtual, residual threats regularly remain (Lexander, 2017). Backup idea suggests that managers must change their management types to match the situations at hand. Ni, Rong, Wang and Cao (2019) sums up the concept as the best means to arrange relies on the nature of the setting to which the association must relate. Contingency strategies to organizational structure are actually those which are actually based on the suggestion that the performance of an institution depends upon having a design that is appropriate to its own atmosphere (Otley, 2016).

Even with the company's very best attempts to stay clear of, stop or relieve all of them, events are going to still take place. "Particular conditions, combos of unfavorable events or even unanticipated hazards and vulnerabilities might conspire to bypass or even overwhelm even the very best info security controls made to ensure confidentiality, integrity as well as supply of information resources (Hisnson & Kowalski, 2018). In the context of the research study, backup planning is specified as the totality of activities, managements, procedures, plans relating to major incidents and catastrophes.

The Contingency Planning Theory relevance and application was hinged on risk management for an exceptional risk that, though unlikely, would have catastrophic consequences for the insurance firms if not identified, monitored and responded to. Thus, the Contingency Planning Theory was key in planning in risk identification, risk analysis and risk monitoring in the insurance firms.

2.2.3 Agency Theory

Agency theory was initially an idea initiated by Fama and Miller (1972) and expounded by Jensen and Meckling (1976) of who concentrated on agency costs. Agency cost, likewise referred to as costs of disagreement of rate of interest suggest that within a firm, the agency cost is actually dispersed in various levels as well as one of the most anxious is the conflict in between investors and managers (Jensen & Meckling, 1976). Jensen as well as Meckling (1976) explain 2 sorts of agency prices that arise due to problem of interest in between money and representatives. One is agency cost of equity between equity-holders and managers as well as the various other is actually agency expense of personal debt in between debtholders as well as shareholders. Agency theory has actually been actually utilized through Maestrini, Luzzini as well as Ronchi (2018); Aretz, Bartram as well as Dufey (2017) to clarify on use of solutions to manage risks in companies.

Agency theory addresses troubles that come up within agency connections; that is, the partnership in between capital funds as well as agents (Jensen & Meckling, 1976). Agency theory addresses 2 issues, one that develops when the principal and agent perform certainly not share the very same enthusiasms or purposes for your business, and also the other occurs when the capital funds and also representative possess different approaches towards risk. Due to the above differences, the capital funds and also representative might both be actually skewed to take various techniques. The theory likewise tries to address the issues that may develop when the leader and also the broker have various risk hungers which possesses an impact on the actions that might be preferred (Maestrini, Luzzini & Ronchi, 2018). Where market blemishes exist, risk management at the business amount is appropriate to improve the firm's value to shareholders through minimizing prices connected with agency disputes, external loan, financial grief, as well as taxes (Aretz, Bartram, & Dufey, 2017).

Agency Theory was therefore, relevant in this study by evaluating the effect of risk monitoring on the effect of financial performance of insurance firms. Internal checks entail ensuring that the targets as well as requirements of the shareholders are actually satisfied through proper procedures

of the insurance agencies and thus, when the leader as well as agent settle on attaining the same objective then the insurance agencies will definitely develop. Depending on to Agency theory, risk management intervention assistance to promote cost-effective partnerships in between the head and broker. Agency theory assisted in explaining the presence of interior risk in organizations, as an example it can be made use of to determine whether cross-sectional disparity in between interior risks regulates demonstrate the various agency partnerships occurring coming from the distinctions in financial performance of insurance firms. The theory informs the variable on risk monitoring.

2.3 Empirical Review

This section focused on establishing the existing empirical studies on risk management processes and financial performance. The key sub-sections highlighted include risk management planning, risk identification process, risk analysis and risk monitoring.

2.3.1 Risk Management Planning and Financial Performance

Mburu (2016) analyzed that relationship between risk management planning and the financial performance of the insurance companies in Kenya. An informative study design was made use of for the research, along with the intended population being actually the 51 enrolled insurance provider in Kenya. The investigation study took advantage of each main in addition to subsequent relevant information for the analysis. The analysis developed that risk management planning has been adopted as portion of the strategies in most of the insurance organizations in Kenya. This is found in the range of factors of countless risk management planning adopted by the institutions. Hence, organizations have far better interior commands and likewise risk environment to acquire far better performance in the organizations. The research much more thought that while risk management could possess an impact on the performance of insurer, the alliance has actually been actually challenged due to the research because a number of the techniques possess unfavorable collaboration while others possess weak useful beta coefficients. The study was based on risk management planning while the current study will expound to risk management planning, risk identification process, risk analysis and risk monitoring.

Omasete (2014) studied on the effect of risk management planning on the performance of Kenyan insurance firms financially. A descriptive research design was adopted for the research. The research study adopted a demographics survey of all the 49 signed up Kenyan insurance

organizations. The research study discovered that risk management planning to become the most notable in influencing the financial performance of Kenyan insurance organizations. This was actually observed through risk mitigation, the management of risk plan application and also monitoring as well as risk assessment. The study was only based on risk management planning while the current study expanded to risk identification process, risk analysis and risk monitoring.

Wanjohi and Ndambiri (2017) studied the effect of financial risk planning on the financial performance of commercial banks in Kenya. To take a look at the financial risk planning practice, an individual- performed questionnaire set of questions was used around the financial institutions. The research study found that a large number of the Kenyan banking companies were in fact carrying out definitely great financial risk planning as well as likewise consequently the financial risk management methods discussed within possess a beneficial partnership to the financial performance of commercial banks in Kenya. Although there was really an overall understanding concerning risk and likewise its management with the banking companies, the study supposed that bank must build current day risk measurements methods like market value at risk, simulation approaches and also Risk-Adjusted Gain on Capital. The study was conducted in commercial banks while the current study was conducted in insurance firms.

Mutuku (2015) conducted a study on the effect of risk management planning on financial performance of commercial banks in Kenya. The main core objectives of the study were to analyze the risk management practices embraced by Kenyan Commercial Banks and to evaluate the impact of these risk management practices on their profitability of the Kenyan banks. The risks management practices adopted by financial institutions are fundamentally classified into; Risks management environment, risks monitoring, risk measurement, internal controls, capital adequacy and investment guidelines and strategic guidelines. The risks management practices where studied by use of a questionnaire and linked to the commercial banks financial performance which was measured by use of ROE. The main objective was to determine the effect of these risk management practices to the financial performance of the commercial banks. With a specific goal to carry out this study, the researcher obtained primary data through an organized survey. This survey was done using a structured questionnaire that was conveyed out to the 42 Commercial Banks in the nation. Equally, secondary data was obtained from the specific banks websites and published financial results. Both sets of data were analyzed using the SPSS tool and a multiple regression

equation was established. From the research it was concluded that risk management practices under study significantly affected the financial performance of commercial banks with an exception of capital adequacy and risk monitoring which had a negative effect. The study was based on commercial banks while the current study assessed insurance firms.

Gaitho (2015) studied the risk planning practices adopted by insurance firms in Kenya on performance. Key source of data was actually made use of which was actually accumulated with interview guide. Key interviewees of the research study included the underwriting supervisor, service advancement supervisor, customer care manager, as well as the communications supervisor. The findings for suggested that there exist risk planning practices amongst all of them comp commands that make sure higher degree of performance in addition to periodic examination that ensure insurance firms strengthened performance. The study was qualitative in nature while the current study was quantitative.

Aldehayyat and Twaissi (2017) studied risk planning and corporate performance relationship in business firms in the Middle East. The pragmatic research study was really collaborated through a survey of little bit of Jordanian commercial openly on call associations. The seekings provided practical paperwork worrying the involvement of most ideal as well as collection management in planning, the use of ecological screening process, and also using strategy tools along with strategies. Much more, the research study found a powerful favorable relationship in between risk planning as well as company performance. The analysis study offered a new empirical document pertaining to the value of important planning to company performance from Middle East nations instances. The study was conducted in the Middle East while the current study was conducted in Kenya. The current study sought to establish if these findings would be replicated.

2.3.2 Risk Identification Process and Financial Performance

Rostami, Sommerville, Wong and Lee (2015), investigated the efficacy of different tools and techniques of risk identification in financial firms in the United Kingdom. The research developed that the complication of sensing the ideal tools and strategies in organizations are actually the vital barricades that impair the strategy of risk management. The outcomes highlighted film evaluation; skilled opinion; list and information event as the most significant methods within risk identification. These are actually performed for their valuable results, basic methods as well as easy-to-comprehend factors of the framework. Risk identification was considered to be substantial

for agency effectiveness; and it was actually created that it has a favorable effect on the crucial criteria. The research study was conducted in the UK while the current research study was carried out in Kenya. This research sought to find out if these findings would be actually imitated in the present research study.

Altanashat, Al Dubai and Alhety (2019) analyzed the effect of company risk identification and management on the organizational performance of detailed companies in Jordan. A total of 313 questionnaires were accumulated using a set of questions as the questionnaire procedure. The resulting information is actually assessed through a building equation modeling device (Smart-PLS), as well as based on the analysis, the business's risk identification and also management has a substantial effect on organizational performance. Analysis of the outcomes revealed that the company's risk identification and management methods are crucial to boost the performance of the Jordan insurance organizations. The analysis likewise highlighted the continued application of global risk management strategies to improve the performance of Jordanian insurance firms. Besides goal prep work, other individual variables (inner atmosphere, event identification, risk analysis, risk action, management tasks, information as well as communication, monitoring) were considerable predictions. These variables anticipated the performance of Jordan insurance firms in a statistically substantial way. The study was conducted in the Jordan while the current study was conducted in Kenya. This study sought to establish if these findings would be replicated in the current study.

Renault, Agumba and Ansary (2016) conducted a theoretical review of risk identification in the construction industry. The examined literature exposed that the entire risk management process is actually certainly not just restricted to handling concern in advance however likewise for the occurrence of any kind of unforeseen future complications. The research study additionally signified that problems with possible hazards envisaged in a firm are certainly not just a way to lower reductions within the firm, however additionally a means to transmit dangers right into options, which can trigger financial profitability, ecological and various other advantages. The study used a desktop review methodology while the current study used a descriptive research design.

Otaal (2019) analyzed the effect of risk identification and risk analysis on performance of insurance firms in Kenya. The particular objectives of the research were actually to figure out the

effect of risk identification and risk analysis on insurance agencies performance. The equipment of data compilation were structured surveys. The findings presented that risk identification has a positive and substantial effect on risk management strategies in performance of insurance firms. Risk analysis possesses good as well as notable result on the risk management techniques in performance of insurance firms. In conclusion, risk identification as well as risk analysis variables were actually located to have an effect on risk management strategies on performance of insurance firms. The study was based on risk identification while the current study expounded to risk management planning, risk analysis, risk identification and risk monitoring.

Lagat and Tenai (2017) studied the effect of risk identification on performance of financial institutions. The research study used explanatory analysis style. The research utilized stratified random sampling to choose respondents coming from aim at populace comprising of managers of 46 commercial banks, 52 Micro Money management establishments and also 200 Cost savings as well as Credit History Co-Operative Culture and a sample size of 239 respondents acquired. Data was gathered making use of questionnaires. Detailed data existed, while inferential statistics was carried out making use of Pearson item instant relationship. The results signified that the risk identification (β=0.026) was actually not substantially pertaining to financial performance. The study assessed a combination of financial institutions; commercial banks, micro finance institutions (MFIs) and SACCOs while the current study solely focused on insurance firms.

2.3.3 Risk Analysis and Financial Performance

Kasiva (2012) conducted a study on the impact of risk-based analysis on financial performance in Kenya's insurance companies. The study was actually performed through among 44 participants that included money management police officers, inner accountants, credit scores police officers, connection police officers, and accountants determined that risk-based analysis through risk management ought to be boosted to make it possible for the company worried to detect dangers promptly. The research even further argued that scams risk examination is one region that is worthy of considerable dependence on internal audit job. Due to the fact that interior accountants are actually even more privy with the functions of the company they benefit than external auditors, are specifically fit to carry out scams risk evaluation. The study concentrated on fraud risk analysis

while the current study focused on risk classification, risk probability, risk assessment, risk prioritization as the basis for risk analysis.

Muli (2013) administered an investigative study on the management of characteristic dangers in Kenya making use of a study of the insurance industry. A qualitative analysis of the available data was actually adopted. The study located that although risk management is actually purposely found in Kenyan insurance service, there still does not have a clear understanding of the discipline in the field. The study recommended computerization and general improvement of their information systems.

Kaliti (2015) studied the effect of risk analysis practices on performance of firms in the hospitality industry. The study discovered that risk analysis including risk analysis, risk response, advancement as well as quality possessed beneficial significant impacts while internal environment and also command activities possessed beneficial notable effects on the financial performance of companies in the friendliness business in Nairobi County. Overall risk management strategies accounted for nearly all of the variation in financial performance of the organizations. The research wrapped up that the risk analysis strategies affect the financial performance of agencies in the friendliness industry to a big magnitude. The study on risks was conducted in the hospitality industry while the current study was conducted in insurance firms.

Lagat (2017) conducted a study on the effect of risk evaluation on performance of financial institutions. The study used explanatory research design. The research used stratified random sampling to pick participants coming from target populace consisting of managers of 46 commercial banks, 52 Micro Finance establishments and also 200 Savings as well as Credit Score Co-Operative Community as well as a sample size of 239 participants obtained. The outcomes suggested that there was actually a positive influence of risk assessment on the performance of banks was obtained. The risk examination positively determined the performance of financial institutions. The risk analysis had favorable relationship with performance of financial organizations. The ineffective speculation saying that there is no significant effect of risk assessment on performance of financial institutions was refused. This shows that for every boost in the risk examination, there is 0.821 boost in performance of financial institutions. The research study developed the value of possession framework as a body of business governance that considerably moderates the relationship in between risk management methods and also

performance of financial institutions may capitalize on several risk management techniques identification, analysis, examination and monitoring ought to be actually improved thus concerning deliver effectiveness in the performance of financial institutions. These might be achieved with facility as well as execution of risk identification, analysis, analysis and also monitoring policy framework which will substantially affect performance of banks and also enrich shareholder functionalities to examine all dangers that can easily hinder the banks coming from obtaining their established goals. The study was conducted in commercial banks, Micro Finance institutions and Savings and Credit Co-Operative Society while the current study was conducted in insurance firms. In addition, the study creates a methodological gap as it used explanatory research design while the current study used a descriptive research design.

Wanjohi and Ombui (2013) examined the impacts of risk management practices on the performance of insurance companies in Kenya along with an instance of AIG Insurer. "The findings of the research expose that on operational risk management the underlying causes of working risk reductions are certainly not always originally visible. It can be complicated to uncover the precise chain of events that led to the event of the loss. In addition, one trigger may be connected to much more than one activity or even one event may have various sources (e.g. plunging command breakdowns), causing different forms of losses that can be covered through different insurance. On governance risk management through training and also related activities targeted at developing intended for building recognition of the value of company risk management, parts and also duties and market value to become originated from business risk management. These end results indicate suitable pay attention to risk control due to the fact that relevant, in a timely manner details risk as well as obligations. On calculated risk management, boards are finding rapid increases both in the rate along with which risk occasions take place as well as the taint along with which they dispersed across different groups of risk. They are especially concerned concerning the rising impact of 'devastating' dangers, which can easily threaten an association's really presence as well as also threaten whole entire sectors. The study was based on operational risk while the current study expounded to risk management planning, risk analysis, risk identification and risk monitoring.

2.3.4 Risk Monitoring and Financial Performance

Mburu, Ngugi and Ogolla (2017) in their study on relationship between risks monitoring and control management strategy and supply chain performance among manufacturing companies in Kenya pointed that depending on risk assumptions, constraints, priorities, as well as tolerance levels, the collection of risk monitoring practices in fact executed at any type of one time may vary from what is actually recorded in the risk monitoring method. Organizations screen risk factors of significance on a continuous basis to make certain that the info required to make legitimate, risk-based choices remains to be on call in time. Monitoring risk factors (such as danger resources and threat celebrations, weakness as well as inclining disorders, capabilities and also intent of enemies, targeting of organizational functions, properties, or individuals) can easily give important details on changing health conditions that might potentially affect the capability of organizations to administer core missions and also organization functions. The study was based on monitoring and control management in manufacturing companies strategy while the current study will expounded to risk management planning, risk identification process and risk analysis in insurance firms.

Alawattegama (2018) conducted a study on the effect of enterprise risk management on firm performance with evidence from the diversified industry of Sri Lanka. Monitoring function showed a damaging influence on the agency performance. The research study claimed that the damaging influence is actually derivable to the raised price of monitoring tasks that is critical for a diversified company setting. The research developed that business risk management supportive inner atmosphere, risk-aligned unbiased environment, tournament identifications, and also risk action have a positive impact on agency performance. Nonetheless, none of those effects were statistically substantial. Observational documentation exposed that risk analysis and command activities have a damaging effect on the organization performance. Details and also interaction and monitoring functions show a significant influence on organization performance. The concluded that other than interaction as well as monitoring, the adopting of enterprise risk management has no notable impact on the firm performance. The study was conducted in the Sri Lanka while the current study was conducted in Kenya.

Ashraf *et al.*, (2017) indicated that information derived from the on-going monitoring of risk variables can be utilized to freshen risk evaluations at whatever frequency deemed ideal. Organizations can likewise try to record improvements in the efficiency of risk feedback actions

so as to maintain the money of risk evaluations. The objective is actually to sustain a continuous situational understanding of the organizational administration constructs as well as activities, mission/business methods, info units, and atmospheres of function, and thereby all of the risk elements that might impact the risk being actually acquired by companies. In administering the risk assessment circumstance or risk framework (such as extent, objective, beliefs, restraints, risk endurances, priorities, as well as give-and-takes), organizations consider the part risk variables play in the risk feedback plan implemented. The current study assessed risk monitoring and how it affects the financial performance of insurance firms in Kenya.

Nyaga (2014) found that, risk monitoring as part of risk management affects the performance of pension fund management firms in Kenya. The research study also developed that, risk reaction as a venture risk management method carries out not have an effect on the financial performance of pension fund management firms in Kenya. On the inner atmosphere as a risk management method, the research created a beneficial as well as a notable effect on financial performance. Enterprise risk management may lower the corporate tax trouble in the existence of convex tax schedules. Risk management is a vital component of company management though the advantages that it generates are typically hidden. The current study assessed risk monitoring and how it affects the financial performance of insurance firms in Kenya.

According to Annamalah *et al.,* (2018) risk monitoring tasks apply the risk monitoring tactic by acquiring information by means of automated or manual ways, notifying or reporting on details appropriate to intended functions for risk monitoring, as well as delivering inputs to on-going risk examination as well as response procedures. The purpose of risk monitoring is to resolve exactly how risk will definitely be actually kept an eye on. This consists of confirming compliance with the risk reaction choices through ensuring that the association carries out the risk reaction procedures, finds out the continuous performance of risk feedback measures, as well as determines any type of changes that would impact the risk posture. Risk monitoring activities at a variety of degrees of the institution ought to be worked with as well as interacted. This may include sharing risk evaluation results that would possess an organization-wide influence to risk feedbacks being organized or applied. . The current study assessed risk monitoring and how it affects the financial performance of insurance firms in Kenya.

Passia (2014) asserts that monitoring process assists to promote openness and obligation of the information to the stakeholders consisting of donors, task named beneficiaries as well as the bigger community in which the venture is actually applied. Monitoring monitors as well as documents resource usage throughout the implementation of the project It also boosts accountability in that it assists in the exhibition of the information usage throughout the application of the venture. The current study assessed risk monitoring and how it affects the financial performance of insurance firms in Kenya.

2.4 Conceptual Framework

The conceptual framework model is developed from literature review and it sheds light on the interrelationship among the key variables in a study. In a conceptual framework, it is assumed that when the independent variable is manipulated it causes an effect on the dependent variable(Cooper & Schindler, 2014). The dependent variable synonymously used with criterion variable is expected to be affected by manipulation of an independent variable. According to Kothari, (2004), a dependent variable is one that depends upon or is a consequence of the other variable, while the variable that is precursor to the dependent variable, is termed as the independent variable. The conceptual framework depicts the relationship between risk management processes and its components; risk management planning, risk identification process, risk analysis and risk monitoring on financial performance of insurance firms in Kenya.

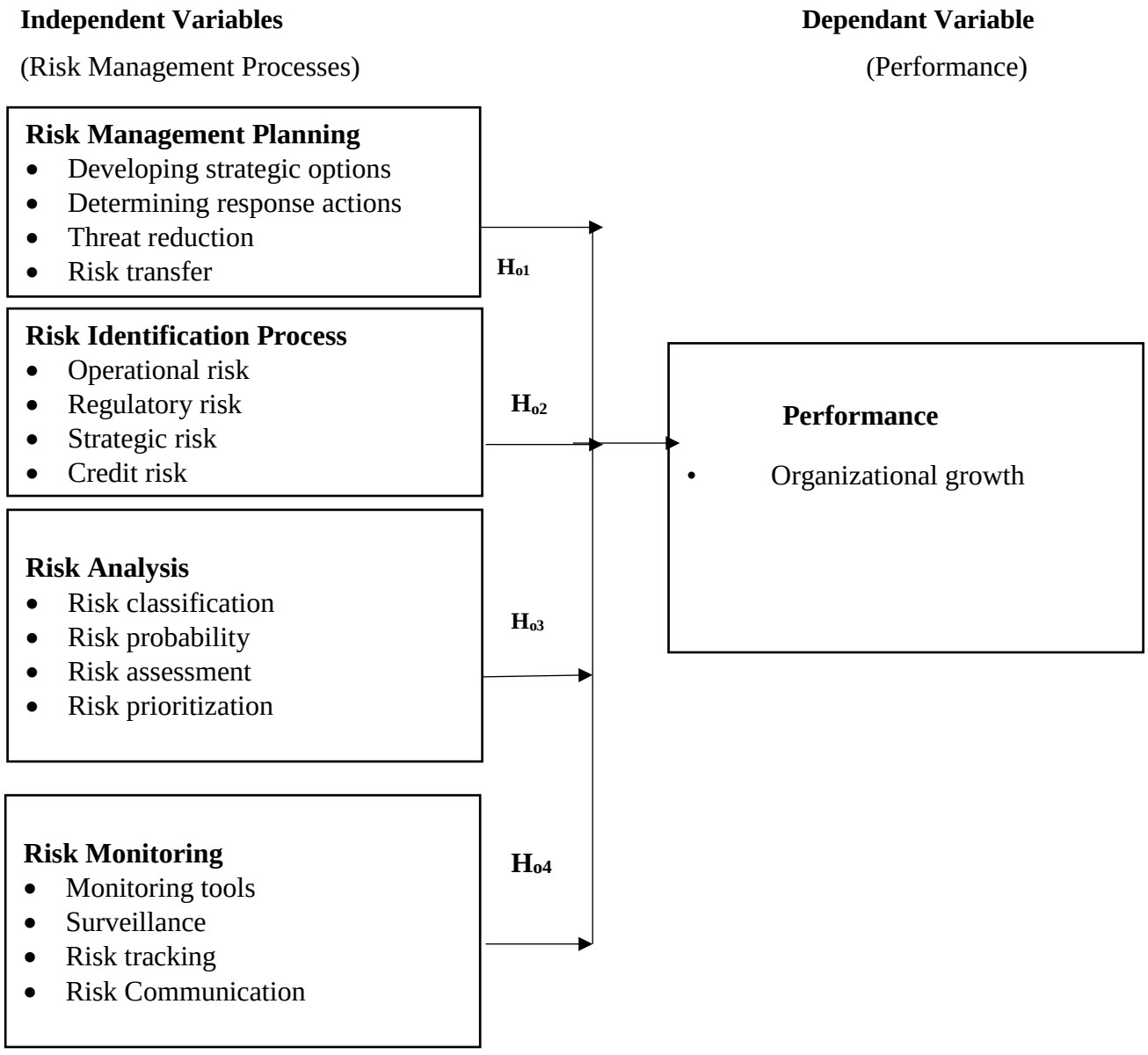

Figure 2.1: Conceptual Framework

The conceptual framework indicates that the risk management planning indicators are developing strategic options, determining response actions, threat reduction and risk transfer. Risk

identification process indicators are operational risk, regulatory risk, strategic risk and credit risk. Risk analysis indicators are risk classification, risk probability, risk assessment and risk prioritization. The indicators for risk monitoring are monitoring tools, surveillance, risk tracking and risk communication. Lastly, the indicators for performance are organizational growth, operational efficiency, profitability, market share and customer perspectives.

The following hypotheses were developed from the relationships depicted above;

H_{01}: Risk management planning has no significant influence on the performance of insurance firms in Kenya.

H_{02}: Risk identification process has no significant influence on the performance of insurance firms in Kenya.

H_{03}: Risk analysis has no significant influence on the performance of insurance firms in Kenya.

H_{04}: Risk monitoring has no significant influence on the performance of insurance firms in Kenya.

2.5 Measurement of Study Variables

Operationalization of study variables ensures that variables are strictly defined into measurable factors allowing for their measurement empirically and quantitatively (Saunders & Tossey, 2015). Operationalization of the study variables was important as it allowed the researcher to measure the variables quantitatively and thus enabled the testing of the formulated hypotheses (Cooper & Schindler, 2014). The measurement of the independent and the dependent variables was as shown in Table 2.1.

Table 2.1: Operationalization of Variables

Variables	Operational Indicators	Measure	Type of Scale
Risk Management Planning	• Developing strategic options • Determining response actions • Threat reduction • Risk transfer	5-point Likert Type Scale	Interval Scale

Risk Identification Process	• Operational risk • Regulatory risk • Strategic risk • Credit risk	5-point Likert Type Scale	Interval Scale
Risk Analysis	• Risk classification • Risk probability • Risk assessment • Risk prioritization	5-point Likert Type Scale	Interval Scale
Risk Monitoring	• Monitoring tools • Surveillance • Risk tracking • Risk Communication	5-point Likert Type Scale	Interval Scale
Performance	• Organizational growth	5-point Likert Type Scale	Interval scale

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlighted the research methodology that the study adopted. This included the research design, target population, sample size, sampling procedure data collection and data analysis.

3.2 Research Design

Research design refers to an outline of how information with regards to the study variables specified will be collected. This includes the data collection instruments, administration of the instruments, organization and analysis of the data obtained (Kisilu *et al.* 2006). The study adopted a descriptive research design as this provided accurate information of the insurance firms' situation (Saunders *et al*. 2009). This highlighted the various characteristics of interest to the researcher. A descriptive research design is a scientific method which involves observation and description of phenomena without changing the observed characteristics (Cooper & Schindler, 2008). Its main purpose is creating a picture of a situation the way it is.

This descriptive research design was adopted because the current study sought to describe one variable in a population at the insurance companies. The objective was stated clearly and a clear definition of the population will be given. The descriptive research design established the relationship between risk management processes and performance.

3.3 Target Population

McBurney and Theresa (2010) define population as the aggregate or totality of all the subjects, members or objects that conform to a given set of specifications. In addition, Ngechu (2004) asserts population as a defined set of things, elements, people and items to be researched on. The target population of the study was 56 insurance firms licensed by the Insurance regulatory Authority (IRA) (2020) (Appendix III). The unit of observation in the insurance firms were the risk managers and accountants. Therefore, a total of 112 respondents was used in the study as shown in Table 3.1.

Table 3.1: Target Population

Category	No.	Number of insurance firms	Total
Risk Manager	1	56	56
Chief Accountant	1	56	56
Total			112

3.4 Sample and Sampling Techniques

Sampling is a process used in statistical analysis in which a predetermined number of observations are taken from a larger population. The study essentially adopted a census sampling technique where the entire population of 112 will be used. According to McMillan and Schumacher (2014), a study where all objects in the population take part in the research is referred to as census. Census technique is appropriate where a researcher needs to attain high levels of accuracy and reliability (Blumberg, Cooper & Schindler, 2014). Furthermore, the technique is preferable when the subjects in the population are few. Unlike other sampling methods, where a subset of target population is selected for inclusion and enumeration, a census method generally has minimal sampling errors (Rominger, 2018).

3.5 Research Instrument

Primary data was collected by means of a structured questionnaire. The questionnaires were administered through the use of online questionnaires and drop and pick later method. The online and pick up later method are preferred due to convenience of the respondents and to observe Covid-19 protocols. According to Blumberg, Cooper and Schindler (2014), the use of structured questions on the questionnaire allowed for uniformity of responses to questions. The questionnaire was in 2 sections. Section A contained demographic information and section B questions to capture perception on risk management processes. The key variables included the independent variables, which are risk management planning, risk identification process, risk analysis and risk monitoring. The use of questionnaire ensured collection of data from many respondents within a short time and respondents were free to give relevant information because they were assured of their anonymity as indicated by Dalati and Gómez (2018) and Rominger (2018).

3.6 Validity and Reliability of Research Instrument

Validity is the precision and significance of inductions, which depend on the research results (Saunders, Lewis and Thornhill, 2012). Both construct and content validity will be assessed for validity of the research instrument. The study used Keser-Meyer-Olkin and Sphericity test to measure construct validity. The questionnaire was examined by different project supervisors for relevance to ensure content validity.

Reliability measures the consistency of the specified items (Cronbach, 1951). Reliability will be assessed using the Cronbach alpha where values above 0.7 are deemed appropriate (Cronbach, 1995). Consequently, (Sekaran, 2006) highlights that the Cronbach alpha values close to 1 show high reliability. The data collected was tested for validity and reliability. The data was coded into SPSS and the construct validity and reliability statistics obtained.

3.6.1 Reliability Results

In order to ascertain the validity and reliability of the research instrument the Cronbach alpha was used. The following were the results obtained;

Table 3.1 Cronbach Alpha Summary Statistics

Variable	Cronbach alpha
Risk Management Planning	0.801
Risk Identification Process	0.767
Risk Monitoring	0.721
Risk Analysis	0.745

From the table above, all the variables assessed were reliable. The Cronbach alpha values were tending to one (Sekaran, 2006). The researcher collected data based on each of the constructs.

3.7 Data Collection Procedure

Data collection refers to acquisition of subjects and collection of information needed for an investigation; techniques of collection varied depending on the research design, (Kothari, 2012). Primary data was used for this study and was collected by the use of a structured questionnaire. The study implemented online questionnaires, drop and pick method. Further, scheduled phone calls were used to follow-up on the questionnaires response progress from the respondents.

3.8 Diagnostic Tests

The study conducted normality test, multicollinearity and heteroscedasticity. The diagnostics were conducted so as to avoid doing regression analysis with spurious results.

3.8.1 Multicollinearity

Multicollinearity will be found present if VIF value is above 10. This is according to Bryman and Bell (2013) who indicated that where VIF $\geq$ 10 indicate presence of Multi-collinearity. Where the values are above 10, multicollinearity was to be corrected by removing the highly correlated independent variables.

3.8.2 Heteroscedasticity

Heteroscedasticity refers to a situation where observations are given equal weight which leads to discrimination of standard errors (Williams, 2016). This may lead to incorrect inferences in hypothesis testing. The study adopted the Breusch-Pagan test to check for heteroscedasticity on the data obtained. This was tested at 0.05 significance level based on the rule of the thumb. If the p-value obtained would be >0.05 then it would be concluded that heteroscedasticity does not exist. Consequently, if the p-value obtained would be <0.05 then heteroscedasticity exists.

3.8.3 Normality test

The normality indicative test is done to guarantee that the information acquired from the sample is from a normally distributed population. The test permits one to make precise statistical surmising from testing a given hypothesis (Field, 2009). The current study adopted the Shapiro Wilk test measurement to test for the normality of the residuals. The general guideline is that the information gathered is normal. Assuming the p-value got will be over the significance level 0.05, the sample information is normal; the null hypothesis wouldn't be dismissed. In the event that the p-value

acquired will be less than the pre-specified 0.05, then, the sample information is not normally dispersed; the null hypothesis would be rejected

3.9 Data Processing and Analysis

Data analysis according to Kothari (2012) involves a number of closely related operations which are performed with the purpose of summarizing the collected data and organizing them in such a manner that they answer the research questions. Before the actual analysis of data using SPSS, data will be cleaned, edited, checked for accuracy and coded. Data was analyzed using descriptive and inferential statistics. Quantitative data collected using a questionnaire was analyzed by the use of descriptive statistics using the Statistical Package for Social Sciences (SPSS) and was presented through percentages, means, standard deviations and frequencies.

A regression model was used to test the influence of risk management processes on financial performance of insurance firms. This helped in evaluating the relationships between the dependent and independent variables of the study. The regression model used took the form:

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

Where;

Y = Performance

X_1 = Risk Management Planning

X_2 = Risk Identification

X_3 = Risk Analysis

X_4 = Risk Monitoring

β_0= Constant Term;

β_1, β_2, β_3, β_4= Beta coefficients;

ε = Error Term.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The chapter presents the results and interpretations of the study, which were guided by the set research objectives. Data analysis was performed using descriptive, and regression analysis. Descriptive analysis was used to address the profile of respondents and regression analysis was used to determine the impact of the research objectives on the financial performance of insurance firms in Kenya. Finally, the analysis of variance (ANOVA) test was done to compare the relationship between the objectives (independent variables) and financial performance (dependent variables).

4.2. Response rate

The response rate is measured by how well the targeted sample size was achieved. It was expressed as a ratio of the actual number of respondents used in the study in a percentage form. Since response rate is related to sampling fraction, which is the ratio of the sample size to the population size, the higher the response rate the higher the sampling fraction and consequently, a good sample representation.

The study identified one hundred and twelve (112) respondents. However, only ninety-eight (98) questionnaires were duly filled. Thus, the response rate was given by;

$$\frac{Actual\ responses}{Expected\ responses} = \frac{98}{112}$$

$$= 87.5\%$$

The response rate which was at 87.5% was quite high and was deemed appropriate according to Mugenda and Mugenda (2003). Mugenda & Mugenda (2003) argued that a 50% reaction rate is adequate for generalization and 60% is good, while a 70% response rate is an outstanding. The high response rate in this study, therefore, implied that the study used instruments and procedures that were clear, precise and within the acceptable number.

4.3 Demographic Information

Demographic information focused on the respondents' personal details that included; gender, level of education, position in the firm and how long they had worked in the insurance firm. The section describes the percentage of each demographic information. The features help in analyzing the power of the reaction provided on a specific problem by the respondents.

4.3.1. Gender

The study sought to evaluate the effect of risk management processes on financial performance of insurance firms in Kenya. The respondents were asked to specify their gender. The findings were as shown below;

Table 4.1 Gender Distribution

Gender	Frequency	Valid Percent
Female	42	42.8%
Male	56	57.14%
Total	98	100.0%

It is clear from the table that the majority of participants are male at 57.14%, while the female gender constitutes 42.8%. This is an indication that there are more males engaged in the risk management processes of insurance firms in Kenya. It is worth noting that the difference is not very big.

4.3.2 Age

The study assessed the respondents' age. This was to determine if the age of the respondents had an impact of risk management processes in Kenyan insurance firms. The distribution was as follows;

Table 4.2: Age distribution

Age	Frequency	Percentage
Below 20 years	3	3.1%
21-30 years	23	23.5%
31-40 years	49	50%
41-50 years	23	23.5%
Total	98	100%

Based on the table shown above the dominant age was 31-40 years at 50%. This was followed by those aged between 41-50 years and 21-30 years at 23.5%. Participants aged below 20 years were at 3.1%.

4.3.3 Education level

Education level of the participants was also put into consideration. This was to gauge whether education level had an impact on the respondents' knowledge on risk management processes and insurance firms.

Table 4.3: Education level distribution

Education level	Frequency	Percentage
Secondary	1	1.0%
Diploma	13	13.3%
Bachelor's degree	51	52.0%
Masters	32	32.7%

PhD	1	1.0%
Total	98	100%

From the table shown above, majority of the respondents 52% had bachelor's degree as their highest education level. This was followed by masters at 32.7% and diploma at 13.3%. This clearly highlights the fact that most of the respondents' knowledge was somewhat limited to basic education. Consequently, those who had attained secondary and PhD level of education were at 1%.

4.3.4 Position in Insurance Firms

The study assessed the departments with which the respondents worked in. Risk management processes are vital in the insurance sector as risks are able to be identified and mitigated before they affect the organization negatively.

Table 4.4 Position Distribution

Department	**Frequency**	**Percentage**
Risk Manager	46	46.9%
Accountant	52	53.1%
Total	98	100%

From the positions highlighted, most of the respondents were Accountants (53.1%). This was followed closely by Risk Managers at (46.9%). The distribution between accountants and risk managers is almost equal; there is no disparity between the two positions.

4.3.5 Experience in the Insurance Sector

The study assessed the number of years that the respondents had been working in the insurance sector. This was meant to gauge the quality of the responses given by the participants. It is believed that experienced people tend to have more knowledge on a particular subject compared to those that have little or no experience.

Table 4.5 Experience Distribution

Experience	Frequency	Percentage
Less than 1 year	12	12.2%
1-2 years	41	41.8%
3-4 years	38	38.8%
5 years and above	7	7.1%
Total	98	100%

From the table above, there seems to be some disparity in experience level. The modal class was the 1-2 years in the insurance sector (41.8%) which was closely followed by 3-4 years' experience at 38.8%. Less than a year was at 12.2% while five years and above was 7.1%. This highlights the fact that there is a lot of movement in risk management positions; people hardly hold their job positions for more than five years.

4.4 Descriptive Statistics

This section highlights the outcome of the descriptive analysis done on effect of risk management processes on financial performance of insurance firms. The risk management processes and financial performance were assessed using a 5-point likert scale that ranged from strongly disagree

(1) to strongly agree (5. The scores of little involvements have been taken to represent a variable that had a mean of less than 2.5 on the continuous Likert scale. The scores of moderate involvements have been represented as a variable with a mean of 2.5-3.4, while the mean score of 3.5-5 on the continuous Likert scale represents great or very great involvement.

4.4.1 Risk Management Planning

Risk Management Planning was identified as one of the independent variables in the study. The indicators were; developing strategic options, determining response actions, threat reduction and risk transfer. These were analyzed using a 5-point likert scale and the following descriptive statistics were obtained from the responses;

Table 4.6 Risk Management Planning Summary Statistics

Statement	Mean	Standard Deviation
Our insurance firm develops risk strategic options.	3.29	1.149
Our insurance firm determines active risk response actions.	2.16	1.216
Our insurance firm has mechanisms for threat reduction.	4.06	1.322
Our insurance firm conducts risk transfer.	3.64	1.058
Our insurance firm has risk response strategies guided by the types of risk.	3.51	1.264

It is worth noting that most of the respondents agreed that there are processes in place that enable risk management planning. The results obtained established that respondents agreed to a moderate extent that their insurance firms develop risk strategic options (Mean=3.29) and agreed to a small extent that their firms determine active risk response actions (Mean=2.16). The findings also highlighted that respondents agreed to a great extent that their insurance firms usually have mechanisms for threat reduction (Mean=4.06), conduct risk transfer (Mean=3.64) and have risk response strategies guided by the types of risk (Mean=3.51). The standard deviation values

obtained revealed that the responses did not deviate far away from the mean as the values were small.

4.4.2 Risk Identification Process

Risk Identification was identified as one of the independent variables in the study. The indicators were; operational risk, regulatory risk, strategic risk and credit risk.

These were analyzed using a 5-point likert scale and the following were the descriptive statistics obtained from the responses;

Table 4.7 Risk Identification Processes Summary Statistics

Statement	Mean	Standard Deviation
Our insurance firm has an active risk identification mechanism.	3.65	1.219
Our insurance firm conducts evaluation on operational risks regularly.	2.21	1.086
Our insurance firm assesses regulatory risks in the market often.	2.43	1.112
Our insurance firm strategic risk mechanisms in place.	3.13	1.145
Our insurance firm oversees credit risk regularly.	3.10	1.144

The results obtained established that respondents agreed to a great extent there are active risk identification mechanisms in their insurance firms (Mean=3.65) and agreed to a small extent that their firms conduct evaluation on operational risks regularly (Mean=2.21). The findings also highlighted that respondents agreed to a small extent that their insurance firms assess regulatory risks in the market often (Mean=2.43). Respondents agreed to a moderate extent that the insurance firms have strategic risk mechanisms in place (Mean=3.13) and oversee credit risk regularly (Mean=3.10). The standard deviation values obtained revealed that the responses did not deviate far away from the mean as the values were small.

4.4.3 Risk Analysis

Risk Analysis was identified as one of the independent variables in the study. The indicators were; risk classification, risk probability, risk assessment and risk prioritization.

These were analyzed using a 5-point likert scale and the following were the descriptive statistics obtained from the responses;

Table 4.8 Risk Analysis Summary Statistics

Statement	Mean	Standard Deviation
Our insurance firm conducts risk classification regularly.	2.78	1.051
Our insurance firm is able to assess the probability of risk occurrence.	2.80	1.077
Our insurance firm has a risk assessment platform for risk response.	2.90	1.010
Our insurance firm has a priority schedule in addressing potential and existing risk.	2.96	1.045
Our insurance firm has risk response mapping guided by the types of risk.	2.79	1.349

The results obtained established that respondents agreed to a moderate extent that the insurance firms conduct risk classification regularly (Mean=2.78) and agreed to a moderate extent that their firms are able to assess the probability of risk occurrence (Mean=2.80). The findings also highlighted that respondents agreed to a moderate extent that their insurance firms have risk assessment platform for risk response (Mean=2.90), their firms have a priority schedule in addressing potential and existing risks (Mean=2.96) and they have risk response mapping guided by the types of risk (Mean=2.71). The standard deviation values obtained revealed that the responses did not deviate far away from the mean as the values were small.

4.4.4 Risk Monitoring

Risk Monitoring was identified as one of the independent variables in the study. The indicators were; risk execution, risk communication, risk monitoring tools and risk surveillance risk. These were analyzed using a 5-point likert scale and the following were the descriptive statistics obtained from the responses;

Table 4.9: Risk Monitoring Summary Statistics

Statement	Mean	Standard Deviation
Our insurance firm has established adequate risk monitoring tools and techniques	2.66	1.266
Our insurance firm conducts surveillance of potential risks in the market	4.35	0.964
Our insurance firm conducts risk tracking for any potential market risks	2.66	1.074
Our insurance firm communication mechanism to relay information on any identified risk	3.65	0.821
Our insurance firm has technological risk evaluation platforms	3.59	1.092

The results obtained established that respondents agreed to a small extent that the insurance firms have established adequate risk monitoring tools and techniques (Mean=2.66) and agreed to a very great extent that their firms conduct surveillance of potential risks in the market (Mean=4.35). The findings also highlighted that respondents agreed to a small extent that their insurance firms conduct risk tracking for any potential market risks (Mean=2.66), their firms have well-established communication mechanisms that relay information on identified risks (Mean=3.65) and they have technological risk evaluation platforms (Mean=3.59). The standard deviation values obtained revealed that the responses did not deviate far away from the mean as the values were small.

4.4.5 Insurance Firms' Financial Performance

Insurance Firms' Organizational Performance was as the dependent variable in the study. The indicators were; Operational efficiency, organizational growth, organizational profitability and

market share. These were analyzed using a 5-point likert scale and the following were the descriptive statistics obtained from the responses;

Table 4.10: Insurance Firms' Financial Performance Summary Statistics

Statement	Mean	Standard Deviation
Our insurance firm has increased operational efficiency over the last five years	2.60	1.382
Our insurance firm has experienced increased profitability over the last five years.	4.09	1.066
Our insurance firm has improved customer service delivery over the last five years.	3.73	1.145
Our insurance firm has experienced an increased market share over the last five years.	3.55	0.996
Our insurance firm has experienced increased customer base over the last five years.	3.21	1.048

The results obtained established that respondents agreed to a moderate extent that the insurance firms have increased operational efficiency over the last five years (Mean=2.60) and agreed to a great extent that their firms have increased profitability over the last five years (Mean=4.09). The findings also highlighted that respondents agreed to a moderate extent that their insurance firms' have improved customer service over the last five (Mean=3.73), their firms have increased market share (Mean=3.55) and have increased customer base over the last five years (Mean=3.21). The period five years was deemed appropriate to gauge performance as a trend could be established from the respective firms' financial performance. The standard deviation values obtained revealed that the responses did not deviate far away from the mean as the values were small.

4.5 Diagnostic Test Results

The study conducted a number of diagnostic tests to ensure that the regression model did not violate the assumptions of the classical linear regression model. The diagnostic tests conducted were normality, multicollinearity and heteroscedasticity tests.

4.5.1 Normality

The assumption of a classical linear regression model demands that the data needs to assume a normal curve (Normal distribution). The normality of the dependent variable was tested through Kolmogorov-Smirnova (K-S). In the Kolmogorov-Smirnova (K-S) test, the null hypothesis is that the data is normally distributed while the alternative hypothesis is that the data is not normally distributed.

A significance value greater than 0.05 indicated that the data is normally distributed since the null hypothesis was not to be rejected. The results for the Kolmogorov-Smirnova (K-S) test are presented in Table 4.11. The results indicate that the significance of the statistic was not significant (Sig = 0.215 > 0.05). The null hypothesis that the data is normally distributed was not rejected. The data on the dependent variable was therefore normally distributed.

Table 4.11 Kolmogorov-Smirnova (K-S) test of Normality

Test of Normality

	Kolmogorov-Smirnova (K-S)			**Shapiro-Wilk Test**		
	Statistic	Df	Sig	Statistic	Df	Sig
Financial Performance	0.876	97	0.298	0.987	97	0.321

4.5.2 Multicollinearity

Multicollinearity is a situation where the correlation between the independent variables is greater than 0.8. In such a case, the standard errors of the regression model are inflated thus giving false coefficients of the regression model variables. Such values cannot be relied on to predict a

relationship between the independent and dependent variables. The study tested for multicollinearity through Variance Inflation Factor (VIF) method where VIF values below 10 are acceptable. The findings for the VIF values are presented in Table 4.16 show that values are less than 10 which imply that all variables are within the threshold for lack of multicollinearity.

Table 4.12 Variance Inflation Factor (VIF) Test of Multicollinearity

	Collinearity Statistics	
	Tolerance	**VIF**
Risk Management Planning	.707	1.414
Risk Identification Process	.839	1.192
Risk Analysis	.620	1.613
Risk Monitoring	.976	1.025
Dependent Variable: Financial Performance		

4.5.3 Heteroscedasticity

The study tested for violations of heteroscedasticity. In this test, Breusch Pagan method was used whereby significance value of the probability chi square greater than 0.05 indicates absence of Heteroscedasticity. The results were presented in Table 4.13. The results indicated that the Prob > Chi^2 value was (0.55> 0.05) hence the null hypothesis of constant variance was not rejected. Therefore, the data was suitable to run on multiple linear regression.

Table 4.13 Breusch Pagan test of Heteroscedasticity

Breusch-Pagan test for Heteroscedasticity

Ho: Constant variance	
Variables: Fitted values of Financial Performance	
$Chi^2(1)$	0.34
Prob > Chi^2	0.55

4.6 Inferential Statistics

The study set out to establish the effect of risk management financial performance of Insurance firms in Kenya. A number of firms were identified and respondents asked to respond to a number of questions in order to test the developed hypotheses. The inferential statistics done included correlation analysis, multiple linear regression analysis and the analysis of variance (ANOVA).

4.6.1 Correlation Analysis

A correlation analysis was used to establish the association between the study variables. This study utilized the Pearson correlation coefficient to establish the association between the variables used in the study. According to Kumar (2011), a correlation analysis indicates the direction and strength of the relationship between variables and ranges from -1 to +1. The results for the correlation analysis are presented in Table 4.14.

Table 4.14 Correlation Analysis

		RMP	RIP	RA	RM	FP
RMP	Pearson Correlation	1				
	Sig. (2-tailed)					
RIP	Pearson Correlation	.200	1			
	Sig. (2-tailed)	.049				
RA	Pearson Correlation	.535	.389	1		

	Sig. (2-tailed)	.020	.000			
RM	Pearson Correlation	-.049	-.074	.0.059	1	
	Sig. (2-tailed)	.631	.000	.000		
FP	Pearson Correlation	.0411	.1830	.1057	.3841	1
	Sig. (2-tailed)	.042	.009	.026	.000	
	N	98	98	98	98	98

Where;

RMP- Risk Management Planning

RIP - Risk Identification Process

RA- Risk Analysis

RM- Risk Monitoring

FP- Financial Performance

The results in table 4.14 indicated that risk management planning has a weak positive and significant relationship with insurance firms' financial performance (r = 0.0411, Sig = 0.042, < 0.05). This implies that an increase in risk management planning processes leads to a significant improvement in the financial performance of insurance firms. The findings imply that when there are precise risk management planning processes, the financial performance of insurance firms is likely to improve.

The correlation analysis done highlighted that risk identification processes had a weak positive and significant relationship with insurance firms' financial performance (r = 0.1830, Sig = 0.009, < 0.05). This implies that elaborate risk identification processes increase the financial performance of insurance firms. It was also established that risk analysis has a weak positive and significant relationship with insurance firms' financial performance (r = 0.1057, Sig = 0.026, < 0.05). This implies that effective risk analysis processes increase the financial performance of insurance firms.

Finally, it was established that risk monitoring has a weak positive and significant relationship with insurance firms' financial performance (r = 0.3841, Sig = 0.000, < 0.05). This implies that efficient risk monitoring processes improves the financial performance of insurance firms in Nairobi County.

4.6.2 Multiple Linear Regression Analysis

To establish the effect of risk management processes (risk management planning, risk identification processes, risk analysis and risk monitoring) on insurance firms' financial performance in Kenya, a multiple linear regression model was used. The model took the form;

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

Where;

Y = Financial Performance

X_1 = Risk Management Planning

X_2 = Risk Identification Process

X_3 = Risk Analysis

X_4 = Risk Monitoring

β_0= Constant Term;

$\beta_1, \beta_2, \beta_3, \beta_4$= Beta coefficients;

ε = Error Term.

The model was used to test the following hypotheses;

H_{01}: Risk management planning has no significant effect on the performance of insurance firms in Kenya.

H_{02}: Risk identification process has no significant effect on the performance of insurance firms in Kenya.

H_{03}: Risk analysis has no significant effect on the performance of insurance firms in Kenya.

H_{04}: Risk monitoring has no significant effect on the performance of insurance firms in Kenya.

The estimation of the regression model has model summary, ANOVA and model coefficients. The results are presented and explained in the sub sections that follow. The model summary results as presented in Table 4.15.

Table 4.15: Regression Model Summary

R	R-Squared	Adjusted R-Squared	Std. Error Estimate
0.223	0.1917	0.1569	0.65443

Predictors: (Constant) Risk Management Planning, Risk Identification Process, Risk Analysis and Risk Monitoring

The results in Table 4.15 showed that the four factors analyzed that is Risk Management Planning, Risk Identification Process, Risk Analysis and Risk Monitoring had a weak positive correlation with financial performance of insurance firms (R = 0.223). This implies that the four practices have a significant effect on the financial performance of insurance firms in Kenya.

The R-square indicates the change in the dependent variable (financial performance) explained by the independent variables (Risk Management Planning, Risk Identification Process, Risk Analysis and Risk Monitoring). The R-square value commonly known as the coefficient of determination was 0.1917 in this study. This implies that up to 19.17% of the variation in financial performance of insurance firms is explained by the four processes (Risk Management Planning, Risk Identification Process, Risk Analysis and Risk Monitoring). The remaining percentage, is explained by other factors other than the four practices assessed. The model was however a good fit.

In order to establish the significance of the regression model used, Analysis of Variance (ANOVA)was used. ANOVA shows the deviation of the predicted regression model from the actual regression model. The ANOVA results are presented in Table 4.13. The F statistic value was significant ($F = 5.51$, p-value = $0.0005 < 0.05$) which implies that the overall regression model to determine the effect of risk management processes (Risk Management Planning, Risk Identification Process, Risk Analysis and Risk Monitoring) on financial performance of

insurance firms in Kenya. The regression model confirms the suitability of risk management processes as critical determinants of insurance firms' financial performance.

Table 4.16 Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	9.4722	4	2.368	5.51	.0005
Residual	39.9432	93	0.429		
Total	49.4155	97			

Dependent Variable: Financial Performance

Predictors: (Constant Risk Management Planning, Risk Identification Process, Risk Analysis and Risk Monitoring

To establish the beta coefficients, constant and their significance, the regression results were highlighted in Table 4.17. The study established the model significance using both P values as well as critical t values. For the p-values, a variable had a significant effect on insurance firms' financial performance if the value was less than 0.05 and critical t value was greater than absolute 1.96. In such a case, the null hypothesis was rejected. The regression model coefficients are presented in Table 4.17.

Table 4.17 Regression Model Coefficients

	Unstandardized Coefficients	Standardized Coefficients

	B	Std. Error	Beta	t	Sig.
(Constant)	0.824	0.653		1.29	0.019
Risk Management Planning	0.0193	0.119	0.038	2.341	0.034
Risk Identification Process	0.301	0.142	0.202	2.11	0.017
Risk Analysis	-0.0298	0.151	-0.022	-0.20	0.844
Risk Monitoring	0.5203	0.1226	0.390	4.24	0.000

Dependent Variable: Financial Performance

From Table 4.14 above, the regression equation is given by;

$Y = 0.824 + 0.0193 X_1 + 0.301 X_2 - 0.0298 X_3 + 0.5203 X_4$

Where: Y = Financial Performance, X_1 = Risk Management Planning, X_2 = Risk Identification Process, X_3 = Risk Analysis and X_4 = Risk Monitoring.

The regression model indicates that when risk management practices; risk identification, risk assessment, risk mitigation and risk management implementation are held constant, the organizational performance of insurance firms is positive at 0.824.

4.5.3 Hypotheses Testing

The study set out to test the developed hypotheses around the influence of risk management processes (Risk management planning, risk identification process, risk analysis and risk monitoring) on the financial performance of insurance firms in Kenya. The following are the results obtained from the regression analysis done.

H_{01}: *Risk management planning has no significant influence on the performance of insurance firms in Kenya.*

The results in Table 4.17 indicate that risk management planning has a positive and significant effect on financial performance of insurance firms in Kenya (B = 0.0193; t = 2.341 > 1.96, = P-Value = 0.034, < 0.05). These results imply that efficient risk management planning improves financial performance of insurance firms. The null hypothesis developed on the non-significance of risk management planning on financial performance of insurance firms in Kenya was rejected.

H_{02}: *There is no significant influence of risk identification process on organizational performance of listed insurance firms in Kenya*.

The results in Table 4.17 indicate that risk identification process has a positive and significant effect on financial performance of insurance firms in Kenya (B = 0.301; t = 1.971 > 1.96, = p-value = 0.017, < 0.05). These results imply that efficient risk identification processes improve financial performance of insurance firms. The null hypothesis developed on the non-significance of risk identification process on financial performance of insurance firms in Kenya was rejected.

H_{03}: *There is no significant influence of risk analysis on financial performance of insurance firms in Kenya*.

The results in Table 4.17 indicate that risk analysis has a negative and insignificant influence on financial performance of insurance firms in Kenya (B = -0.028; t = -0.20 < 1.96, = P-value = 0.844, > 0.05). These results imply that though Kenyan insurance firms have risk analysis processes, they are inadequate to improve their financial performance. The null hypothesis developed on the non-significance of risk analysis on financial performance of insurance firms in Kenya was not rejected.

H_{04}: *There is no significant influence of risk monitoring on financial performance of insurance firms in, Kenya.*

The results in Table 4.17 indicate that risk monitoring has a positive and significant effect on financial performance of insurance firms in Kenya (B = 0.5203; t = 4.24 > 1.96, = P-value = 0.008, < 0.05). These results highlight the fact that risk monitoring processes improve the financial performance of insurance firms in Kenya. The null hypothesis developed on the non-significance of risk monitoring on financial performance of insurance firms in Kenya was rejected.

4.7 Discussion of Findings

The following section discusses the results of the study in line with the research objectives and hypotheses formulated in chapter one of the study. These were based on conceptual and empirical literature. Multiple linear regression model was used to test the hypotheses. Further the section discusses the results of the study to show the extent of agreement to prior studies.

4.7.1 The Influence of Risk Management Planning on the Financial Performance of Insurance Firms in Kenya

Results of the first hypothesis revealed that risk management planning had a positive and significant effect on financial performance of insurance firms in Kenya. These results concurred with Mburu (2016) who analyzed the relationship between risk management planning and the financial performance of the insurance companies in Kenya. Findings revealed a positive and significant effect of risk management planning on the insurance companies in Kenya. Similarly, Omasete (2014) studied on the effect of risk management planning on the performance of Kenyan insurance firms financially. The results highlighted a positive and significant relationship between risk management planning and financial performance.

However, a study by Wanjohi and Ndambiri (2017) on the effect of financial risk planning on the financial performance of commercial banks in Kenya found mixed results. Though the effect of financial risk planning was significant, it was negative in nature. Consequently, Aldehayyat and Twaissi (2017) studied risk planning and corporate performance relationship in business firms in the Middle East. The research study found an insignificant effect of risk planning on corporate performance.

4.7.2 The Influence of Risk Identification Process on the Financial Performance of Insurance Firms in Kenya

Results of the second hypothesis revealed that risk identification process had a positive and significant effect on financial performance of insurance firms in Kenya. These results concurred with Rostami, Sommerville, Wong and Lee (2015) who investigated the efficacy of different tools and techniques of risk identification in financial firms in the United Kingdom. Findings revealed a positive and significant effect of risk identification techniques and performance of various financial firms in the UK. Similarly, Altanashat, Al Dubai and Alhety (2019) analyzed the effect

of company risk identification and management on the organizational performance of detailed companies in Jordan. Analysis of the outcomes revealed that the company's risk identification and management methods are crucial to boost the performance of the Jordan insurance organizations.

However, a study by Renault, Agumba and Ansary (2016) on risk identification in the construction industry had contradicting results. The research highlighted the insignificance of risk identification on performance of construction firms. Consequently, Otaal (2019) that analyzed the effect of risk identification and risk analysis on performance of insurance firms in Kenya found mixed results. Though the effect was significant, it was negative, risk identification did not boost the financial performance of the insurance firms.

4.7.3 The Influence of Risk Analysis on the Financial Performance of Insurance Firms in Kenya

Results of the third hypothesis revealed that risk analysis had a negative and insignificant effect on financial performance of insurance firms in Kenya. These findings were at par with Kasiva (2012) who conducted a study on the impact of risk-based analysis on financial performance in Kenya's insurance companies. The study concentrated on fraud risk analysis while the current study focused on risk classification, risk probability, risk assessment, risk prioritization as the basis for risk analysis. The study found out that risk based analysis had a negative and insignificant effect on the financial performance of Kenyn insurance companies.

However, contradicting results were evident in a study by Kaliti (2015) on the effect of risk analysis practices on performance of firms in the hospitality industry. The research wrapped up that the risk analysis strategies affect the financial performance of agencies in the friendliness industry to a big magnitude. The study revealed a significant and positive effect of risk analysis on performance of firms in the hospitality industry. Consequently, Lagat (2017) conducted a study on the effect of risk evaluation on performance of financial institutions. The outcomes suggested that there was a positive and significant influence of risk assessment on the performance of banks.

4.7.4 The Influence of Risk Monitoring on the Financial Performance of Insurance Firms in Kenya

Results of the fourth hypothesis revealed that risk monitoring had a positive and significant effect on financial performance of insurance firms in Kenya. These findings were at par with a study by

Mburu, Ngugi and Ogolla (2017) who assessed the relationship between risks monitoring, control management strategy and supply chain performance among manufacturing companies in Kenya. The study found out that risk monitoring had a positive and significant relationship on performance of manufacturing companies in Kenya. Consequently, Passia (2014) asserted that monitoring process assists to promote openness and obligation of the information to the stakeholders consisting of donors, task named beneficiaries as well as the bigger community in which the venture is actually applied.

However, a study by Alawattegama (2018) on the effect of enterprise risk management on firm performance from the diversified industry of Sri Lanka contradicted with the findings of the current study. The study revealed that monitoring function had a negative and significant relationship on agency performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings of the research on the influence of risk management processes (risk management planning, risk identification process, risk analysis and risk monitoring) on the financial performance of insurance firms in Kenya. Precisely, the chapter contains the findings summary, conclusions, limitations, recommendations and the suggested areas for further study. All the itemized headings are discussed as per the general and specific objectives of the study.

5.2 Summary

Primary data was obtained from structured questionnaires from forty-nine insurance firms. The data collected was coded and analyzed on SPSS version 25. Diagnostic tests were also done to affirm the right model to use where multiple linear regression model was deemed appropriate to analyze the influence of risk management processes (risk management planning, risk identification process, risk analysis and risk monitoring) on the financial performance of insurance firms in Kenya. The indicators of risk management planning were developing strategic options, determining response actions, threat reduction and risk transfer. The indicators of risk identification process were operational risk, regulatory risk, strategic risk and credit risk. The indicators of risk analysis were risk classification, risk probability, risk assessment and risk prioritization. The indicators of risk monitoring were risk execution, risk communication, risk monitoring tools and risk surveillance risk. The results obtained showed that there was a

significant effect of risk management processes on financial performance of insurance firms in Kenya.

5.2.1 Risk Management Planning and Financial Performance

The first specific objective of the study was to evaluate the influence of risk management planning on the financial performance of insurance firms in Kenya. The results of the study revealed the presence of positive and significant relationship between the two variables. Correlation analysis too showed a positive and weak strength between the two variables. Further, analysis demonstrated that a unit change in risk management planning caused the financial performance of Kenyan insurance firms to increase by 0.0193 units.

5.2.2 Risk Identification Process and Financial Performance

The second specific objective of the study was to evaluate the influence of risk identification process on financial performance of insurance firms in Kenya. Results obtained from the hypothesis testing revealed that risk identification had a positive and significant effect on financial performance of insurance firms in Kenya. Correlation analysis also confirmed the regression analysis of a positive and weak relationship between risk identification process and financial performance. The analysis highlighted that a unit increase in risk identification process leads to an increase in insurance firms' financial performance by 0.301 units.

5.2.3 Risk Analysis and Financial Performance

The third specific objective of the study sought to find out the influence of risk analysis on financial performance of Kenyan insurance firms. Results from the analysis showed that there was a negative and insignificant relationship. Correlation analysis revealed a negative but weak relationship between risk analysis and financial performance of insurance firms. In addition, a unit change in risk analysis decreased the financial performance of insurance firms by 0.028 units.

5.2.4 Risk Monitoring and Financial Performance

The fourth specific objective of the study sought to find out the influence of risk monitoring on financial performance of Kenyan insurance firms. Results from the analysis showed that there was a positive and significant relationship. Correlation analysis revealed a positive but weak relationship between risk monitoring and financial performance of insurance firms. In addition, a unit change in risk analysis increased the financial performance of insurance firms by 0.5203 units.

5.3 Conclusions

The study sought to assess the influence of risk management processes (risk management planning, risk identification process, risk analysis and risk monitoring) on the financial performance of insurance firms in Kenya. From the analysis, the overall outcome reveals that insurance firms evidently face a number of financial risks that tend to undermine their financial performance. For their financial performance to be improved, risk management processes should be used soon enough in order to mitigate the risks effectively.

The study highlights the importance of the risk management planning in influencing the financial performance of insurance firms in Kenya, thus it can be concluded that insurance firm ought to increase their risk management planning techniques in order to boost their financial performance. The results led to the rejection of the null hypothesis on the insignificance of risk identification process on the financial performance of insurance in Kenya. Consequently, risk identification highlights the need to be watchful on the risks that face the insurance firms.

The study leads to a conclusion that the null hypothesis on the insignificance of the influence of risk analysis on the financial performance of insurance firms was not rejected. Though this influence was negative, Kenyan insurance firms need to up their game in as far as risk analysis

techniques are concerned. The measures that are in place currently need to be reevaluated in order to fix the problem of risk exposure. Further, the final objective on the influence of risk monitoring processes on the financial performance of insurance firms in Kenya. This urges insurance firms to boost their risk monitoring techniques in order to improve their financial performance.

5.4 Limitations of the Study

Conceptual Limitation: Whereas there are many factors which can affect the financial performance of insurance firms for example competition with rival insurance firms and mismanagement of funds. The study only focused on risk management processes (risk management planning, risk identification process, risk analysis and risk monitoring) and their influence on the financial performance of insurance firms.

Contextual Limitation: Whereas financial performances of other entities such as manufacturing sector, MFIs, SACCOs, Small and Medium Enterprises (SMEs) are of significance to the economic growth of any economy, the current study concentrated only on insurance firms in Kenya. However, a study in the insurance firms was found suitable given the problems that they recently face. Despite the limitation, the quality of the result was not compromised.

Methodological Limitation: Whereas financial performance of firms can be measured using various models such as panel data analysis or desktop analysis, the current study adopted a multiple linear regression model. However, this did not compromise the results of the study. Multiple linear regression analysis was found more suitable for the study since primary data was obtained by means of a questionnaire.

Theoretical Limitation: Whereas more theories could have been used in this study, the current study used risk management theory, contingency theory and agency theory. The theories used informed the study variables.

5.5 Recommendations

One of the major roles that insurance firms play is insuring against loss, which as highlighted in the current study exposes these insurance firms to unforeseen risks. This may arise when

customers fail to honor their premiums. Thus, there is need for insurance firms to set up measures that enable them to mitigate against the risks.

The study asserted the necessity to have efficient risk management processes around risk management planning, risk identification, risk analysis and risk monitoring strategies. This would go a long way in ensuring that insurance firms are able to perform their stipulated objectives effectively. In doing so, these insurance firms would be able to improve their financial performance.

Additionally, insurance firms are not the only institutions that face risks, other businesses for example commercial banks face risks too. Therefore, the study recommends that all business entities should practice risk management strategies in order to boost their performance either in a financial or operational perspective. Moreover, an establishment of comprehensive risk management of insurance firms should be made a prerequisite as it contributes to the overall risk management systems.

5.6 Suggestion for Further Studies

The study focused only on risk management processes (risk management planning, risk identification process, risk analysis and risk monitoring), there are other ways for example risk exposure that identify how these insurance firms are exposed to various risks. Other studies need to incorporate these risks.

The study used primary data sources; other studies should consider widening the scope to different methodologies for example panel data models. This would give a different perspective from what the study has.

5.7 Chapter Summary

In summary, the research presented in this chapter has highlights the different practices into how different components of risk management; risk management planning, risk identification process, risk monitoring and risk analysis affect the financial performance of insurance firms in Kenya. The chapter presented a summary of findings where all the null hypotheses developed by the researcher in chapter one of the study were rejected at 5% level of significance. The chapter also presents a summary of conclusions, recommendations for further studies which highlighted the study gaps and limitations of the study.

In conclusion, findings brought to light the importance of risk management processes based on risk management planning, risk identification process, risk analysis and risk monitoring and their effect on financial performance of insurance firms in Kenya. The greatest contribution to the body of knowledge is that there is need for an effective and efficient risk management process in the insurance industry that will boost their financial performance in Kenya. Key attention needs to be given to risk management especially the four aspects assessed by the current study; risk management planning, risk identification, risk analysis and risk monitoring. Failure to incorporate these practices might lead to poor financial performance by insurance firms.

In conclusion, the study recommended that insurance firms should practice risk management strategies in order to boost their performance either in a financial or operational perspective. Moreover, an establishment of comprehensive risk management of insurance firms should be made a prerequisite as it contributes to the overall risk management systems. This study provides useful information to practitioners and academics who are interested in identifying the various risks that insurance firms in Kenya often face. This would go a long way in mitigating the risks before they occur.

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APPENDICES

Appendix I: Introduction Letter

Dear Respondent,

I am a researcher from the KCA University undertaking a study to examine the *THE INFLUENCE OF RISK MANAGEMENT PROCESSES ON PERFORMANCE OF INSURANCE FIRMS IN KENYA* as a requirement to fulfil my master's degree. The study is purely for educational purposes and any responses you give will be treated confidentially. You will be required to respond to the questions from Section A Section to F. Your honest response will be highly appreciated.

Irene Muoti

Reg. 09/04533

Appendix II: Questionnaire

Section A: Background of Respondents

Kindly tick in the boxes as appropriate

1. What is your gender?

   I. Male_[ ]
   II. Female_[ ]

2. What is your age?

   I. Below_20 years
   II. 21years to 30years
   III. 31years to 40years
   IV. 41years to 50years
   V. Over 50years

3. What is your highest level of education?

   a. Secondary [ ]
   b. Diploma [ ]
   c. Bachelor's [ ]
   d. Master [ ]
   e. PhD [ ]

4. What is your position in the organization?

   a. Risk manager [ ]
   b. Chief Accountant [ ]

5. How many years have you been in the insurance sector?

   a. Less than 1 years [ ]
   b. 1-2years [ ]

c. 3-4 years [ ]

d. 5 years and above [ ]

Section B: Risk Management Planning

This section contains statements on risk management planning in insurance firms in Kenya. Please express your agreement and disagreement by marking the appropriate box.

Use the scale where; 1= Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree 5= Strongly_ Agree

Statement	**1**	**2**	**3**	**4**	**5**
Our insurance firm develops risk strategic options					
Our insurance firm determines active risk response actions					
Our insurance firm has mechanisms for threat reduction					
Our insurance firm conducts risk transfer					
Our insurance firm has risk response strategies guided by the types of risk					

Section C: Risk Identification Process

This section contains statements on risk identification process in insurance firms in Kenya. Please express your agreement and disagreement by marking the appropriate box.

Statement	**1**	**2**	**3**	**4**	**5**

Our insurance firm has an active risk identification mechanism					
Our insurance firm conducts evaluation on operational risks regularly					
Our insurance firm asses regulatory risk in the market often					
Our insurance firm has strategic risk mechanisms in place					
Our insurance firm oversees credit risk regularly					

Section D: Risk Analysis

This section contains statements on risk analysis process in insurance firms in Kenya. Please express your agreement and disagreement by marking the appropriate box.

Statement	**1**	**2**	**3**	**4**	**5**
Our insurance firm conducts risk classification regularly					
Our insurance firm is able to assess the probability of risk occurrence					
Our insurance firm has a risk assessment platform for risk response					

Our insurance firm has a priority schedule in addressing potential and existing risk					
Our insurance firm has risk response mapping guided by the types of risk					

Section E: Risk Monitoring

This section contains statements on risk monitoring process in insurance firms in Kenya. Please express your agreement and disagreement by marking the appropriate box.

Statement	**1**	**2**	**3**	**4**	**5**
Our insurance firm has established adequate risk monitoring tools and techniques					
Our insurance firm conducts surveillance of potential risks in the market					
Our insurance firm conducts risk tracking for any potential market risks					
Our insurance firm communication mechanism to relay information on any identified risk					

Our insurance firm has technological risk evaluation platforms					

Section F: Performance

This section contains statements on performance of performance of insurance firms in Kenya. Please express your agreement and disagreement by marking the appropriate box.

Statement	**1**	**2**	**3**	**4**	**5**
Our insurance firm has increased operational efficiency over the last five years					
Our insurance firm has increased profitability over the last five years					
Our insurance firm has experienced improved customer service delivery over the last five years					
Our insurance firm has experienced an increased market share over the last five years.					
Our insurance firm has experienced increased customer base over the last five years.					

Appendix III: List of Insurance Firms

1. AAR Insurance Company Limited
2. Africa Merchant Assurance Company Limited
3. AIG Kenya Insurance Company Limited
4. Allianz Insurance Company of Kenya Limited.
5. APA Insurance Limited.
6. APA Life Assurance Company Limited.
7. Barclays Life Assurance Kenya 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 Sheild 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. Jubilee General Insurance Limited.

25. Jubilee Health Insurance Limited.

26. Kenindia Assurance Company Limited.

27. Kenya Orient Insurance Limited.

28. Kenya Orient Life Assurance Limited.

29. KUSCCO Mutual Assurance Limited.

30. Liberty Life Assurance Kenya Limited.

31. Madison General Insurance Kenya Limited

32. Madison Insurance Company Kenya Limited.

33. Mayfair Insurance Company Limited.

34. Metropolitan Cannon General Insurance Company Limited.

35. Metropolitan Cannon Life Assurance Limited.

36. MUA Insurance Kenya Limited.

37. Occidental Insurance Company Limited.

38. Old Mutual Assurance Company Limited.

39. Pacis Insurance Company Limited.

40. Pioneer Assurance Company Limited.

41. Pioneer General Insurance Company.

42. Prudential Life Assurance Company Limited

43. Resolution Insurance Company Limited.

44. Saham Assurance Company Kenya Limited.

45. Sanlam General Insurance Company Limited.

46. Sanlam Life Insurance Company Limited.
47. Takaful Insurance of Africa Limited.
48. Tausi Assurance Company Limited.
49. The Heritage Insurance Company Limited.
50. The Jubilee Insurance Company of Kenya Limited.
51. The Kenya 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 2020