

**EFFECTS OF RISK MANAGEMENT PRACTICES ON
FINANCIAL PERFORMANCE OF NON-LIFE INSURANCE
FIRMS OPERATING IN KISII COUNTY, KENYA**

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**Effects of Risk Management Practices on Financial Performance of
Non-Life Insurance Firms Operating in Kisii County, Kenya**

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DECLARATION

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

Signature.....Date.....

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This project report has been submitted for review with my approval as the university supervisor.

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TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGEMENT	iii
TABLE OF CONTENTS.....	iv
LIST OF FIGURES	ix
LIST OF TABLES	x
LIST OF APPENDICIES.....	xii
LIST OF ABBREVIATIONS AND ACRONYMS	xiii
DEFINITION OF TERMS.....	xiv
ABSTRACT.....	xvi
CHAPTER ONE	1
INTRODUCTION.....	1
1.1Background Information	1
1.2 Statement of Problem.....	4
1.3 Purpose of the Study	5
1.4 Objectives of the Study	5

1.5 Research Questions	5
1.6 Significance of the Study	6
1.7 Scope of the Study	6
1.8 Limitation of the Study	6
CHAPTER TWO	7
LITERATURE REVIEW.....	7
2.1 Introduction.....	7
2.2 Theories of Risk Management Practices.....	7
2.2.1 Stakeholder Theory	7
2.2.2 Agency Theory.....	9
2.3 Empirical Review.....	10
2.4 Conceptual framework.....	14
2.4.1 Risk Management Practices by Insurance Firms	14
2.4.2 Financial Performance of Insurance Firms	17
2.5 Research Gap	18
CHAPTER THREE	19
RESEARCH METHODOLOGY	19

3.1 Introduction	19
3.2 Research Design.....	19
3.3 Target Population	19
3.4 Sample Design	21
3.4.1 Sampling Technique and Sample Size.....	21
3.5 Data Collection Instruments.....	21
3.5.1 Pilot Study	21
3.6 Data Analysis	23
CHAPTER FOUR.....	24
RESULTS AND DISCUSSION	24
4.1 Introduction.....	24
4.2 General Information of the Respondents	24
4.2.1 Gender of Respondent.....	24
4.2.2 Level of Education of the Respondents	25
4.2.3 Designation of Respondents.....	26
4.2.4 Respondent’s duration of service in current position.....	27
4.3 Effects of Risk Identification Practice and Financial performance	28

4.3.1 Whether Risk Identification Practice Affects Financial Performance.	28
4.3.2 New premiums collected per year	29
4.3.3 Renewal premiums lost to competitors per year	30
4.4 Effects of Risk Mitigation Practice and Financial Performance.....	31
4.4.1 How Risk Mitigation Practice affects Financial Performance.....	32
4.4.2 Amount of claims paid per year	32
4.4.3 Amount of Money Paid to Reinsurance as Premiums Ceded Per Year	34
4.4.4 Amount of Money Received from Reinsurance Claims Per Year	35
4.5 Effects of Risk Monitoring Practice and Financial Performance.....	36
4.5.1 How risk monitoring practice affects financial performance.....	37
4.6 Financial Performance of Non- Life Insurance Firms	38
4.6.1 Amount of profits of Non- life Insurance firms	38
4.6.2 Analysis of Financial Performance of Non- life Insurance firms	39
4.7 Regression Analysis	40
4.7.1 Multiple Linear Regression Coefficients	40
4.7.2 Model Summary Showing Coefficient of Determination, R Square.....	42
4.7.3 ANOVA Table Showing F Statistic	43

CHAPTER FIVE	44
SUMMARY, CONCLUSION AND RECOMMENDATIONS	44
5.1 Introduction.....	44
5.2 Summary of findings.....	44
5.2.1 Risk identification practice	44
5.2.2 Risk mitigation practice	45
5.2.3 Risk monitoring practice	45
5.3 Conclusions.....	46
5.4 Recommendations.....	48
5.5 Suggestions for further studies.....	49
REFERENCES	50
APPENDICES	57

LIST OF FIGURES

Figure 2.1: Stakeholders	8
Figure 2.2: Conceptual framework	14
Figure 4.1: Respondent's highest level of education attained	25
Figure 4.2: Respondent's duration of service in current position	27

LIST OF TABLES

Table 3.1: Target Population.....	20
Table 3.2: Reliability Analysis.....	22
Table 4.1: Gender of respondent.....	24
Table 4.2: Designation of respondents.....	26
Table 4.3: Whether risk identification practice affects financial performance.....	28
Table 4.4: Which risk identification practice affects financial performance most?.....	29
Table 4.5: New premiums collected per year.....	30
Table 4.6: Renewal premiums lost to competitors per year.....	31
Table 4.7: Which risk mitigation practice affects financial performance most?.....	32
Table 4.8: Amount of claims paid per year.....	33
Table 4.9: Amount of money paid to reinsurance as premiums ceded per year.....	34
Table 4.10: Amount of money received from reinsurance claims per year.....	35
Table 4.11: Risk Monitoring Practice and Financial Performance.....	36
Table 4.12: Which risk monitoring practice affects financial performance most?.....	37
Table 4.13: Amount of profits of Non- life Insurance firms.....	38

Table 4.14: Summary of descriptive statistics for Return on assets (ROA)	39
Table 4.15: Multiple linear regression coefficients.....	40
Table 4.16: Model summary showing coefficient of determination, R square	42
Table 4.17: ANOVA table showing F statistic	43

LIST OF APPENDICIES

APPENDIX I: Transmittal letter.....	57
APPENDIX II: Questionnaire	58
APPENDIX III: ROA per year of the ten Non- life Insurance firms	65

LIST OF ABBREVIATIONS AND ACRONYMS

DEA:	Data Envelopment Analysis
RAROC:	Risk Adjusted Return on Capital
ROA:	Returns on Assets
SACCOs:	Savings and Credit Cooperative societies

DEFINITION OF TERMS

- Agency problems** - Are differences caused by principal and agent not having similar goals making the principal not able to know what the agent is doing and the other problem is when principal and agent do not have similar attitudes towards business risks hence making decisions which are not similar (Ndungu & Njeru, 2014).
- Financial performance** - How well or badly an organization works in monetary terms (Terence, 1989).
- Non- life insurance** - A contract where one person agrees to pay another a given amount of money upon the happening of a particular predetermined event on asset, in consideration of payment of small manageable annual amounts of money to the former person (Ayimey, *et al.*,2013).
- Resources** - These are human, physical or organizational assets (Poppo & Weigelt, 2000)
- Risk** - This is anything that can create hindrances in the way of achievement of certain objectives (Shafiq & Nasr, 2010)

Stakeholders

- Stakeholders are persons who create wealth for organizations and also include beneficiaries plus persons exposed to risks arising from what the organizations do (Mahoney, 2014).

ABSTRACT

Insurance services offered by non- life insurance firms do cushion against risks faced by people and non- insurance firm industries. Transfer of uncertainties to insurance firms by people and non- insurance firm industries is important because risk management is a difficult thing to do by any person as it involves identification of source of risk and then coming up with methodology of quantifying the risk using mathematical models which helps understand risk profile of the person which assists in handling the risk. Unfortunately, some insurance firms still face numerous challenges like having difficulties in growth of their profitability and some end up closing doors; probably poor risk management policies are the major causes of failures and poor performance of firms. The purpose of this study was to examine effects of risk management practices on financial performance of non- life insurance firms operating in Kisii County, Kenya with the following specific objectives: To find out the extent to which risk identification practice affects financial performance of non-life insurance firms in Kisii County, to find out the extent to which risk mitigation practice affects financial performance of non-life insurance firms in Kisii County, to establish the extent to which risk monitoring practice affects financial performance of non-life insurance firms in Kisii County and to establish the relationship between effects of risk management practices and financial performance of non-life insurance firms in Kisii County. Descriptive survey research design was used to collect data. Target population was 237 respondents comprising of 116 directors and 121 senior managers involved in risk management of ten selected insurance firms. Sample size was forty eight respondents which represent 20 % of target population where stratified random sampling method was used to get the sample. Primary data was collected using a structured questionnaire. Secondary data was collected from published reports and financial statements presented to IRA for the five years period between 2010 and 2014 then analyzed using descriptive and inferential statistics and presented using frequency tables, percentages, charts and regression analysis. Findings on the extent to

which effects of risk identification practice affect financial performance of non-life insurance firms were beneficial to management since managers knew premiums should be set commensurate to their getting high profits once they have identified frequency and severity of a given risk; findings on the extent to which effects of risk mitigation practice affect financial performance of non-life insurance firms were beneficial to organizations since they were cautioned to transfer risks through re-insurance and seek help from re-insurance companies when their risk control techniques are overwhelmed by claims received from clients; findings on the extent to which effects of risk monitoring practice affects financial performance of non-life insurance firms were beneficial to management since managers would discover problems which have occurred in systems early in time when appropriate product pricing in line with estimated risk is adopted with aim of achieving required profitability. Based on findings on the extent to which effects of risk identification practice affect financial performance, the study concludes that increased number of people understand importance of insurance; based on findings on the extent to which effects of risk mitigation practice affect financial performance, the study concludes that risk can never be eliminated completely. The study recommends insurance companies to structure their products or set competitive premiums to curb competition faced from rivalries hence avoid losing customers to the competitors; the study further recommends insurance companies to adopt appropriate product pricing in line with estimated risk which will eventually increase profitability.

CHAPTER ONE

INTRODUCTION

1.1 Background Information

Risk is anything that can create hindrances in the way of achievement of certain objectives, creates financial loss and arises from uncertainties of given situations plus certainties of exposing oneself to such situations (Shafiq & Nasr, 2010). Risks call for prudent management to ensure that objectives of organizations are achieved. The study asserts that management of risks means optimizing risk- return trade off. Risk management therefore requires one to understand the risk, identify it, assess and analyze it, monitor and finally manage it. According to Ndwiga, *et al.*, (2012), identifying risk is the first step in the process of risk management and methods used in identifying risks involve tools used to optimize opportunities of knowing hazards inherent in certain systems, facilities or products and the tools are categorized in broad headings of inductive, deductive or intuitive methods. Organizations are faced with many risks which can emanate from financial variables' uncertainties, accidental occurrences or even failing of businesses; this can be reduced through risk monitoring and controlling (Saunders 1996). According to Soyemi *et al.* (2014), risk managers should put in place a working management information system to help monitor levels of risk and facilitate timely review of positions of risk plus their exceptions after which risk control should be done through setting of standards, policies and procedures that define both authority and responsibility and this ensures that exposure to risks is minimized. According to Ndwiga, *et al.*, (2012), risk monitoring is the last step in the process of risk management and is the most important duty done by risk managers

Insurance services offered by non- life insurance firms do cushion against risks faced by people and non- insurance firm industries (Amaya & Memba, 2015). Transfer of

uncertainties to insurance firms by people and non- insurance firm industries is important because risk management is a difficult thing to do by any person as it involves identification of source of risk and then coming up with methodology of quantifying the risk using mathematical models which helps understand risk profile of the person which assists in handling the risk (Kealhofer, 2003).

Shahroudi, *et al.* (2012), study on application of two-stage DEA(Data Envelopment Anaysis) technique for efficiency measuring of private insurance companies used a sample of fourteen private insurance companies in Iran. Measuring efficiency of insurance companies helps increase quality of services that they offer and help them in identification and handling of risks. The study asserts that insurance companies engage in government social programs and have positive effects on a country's economic growth. The study contends that insurance industry brings stability and reduces anxiety in people through identification of source of risk and hence extends productivity by providing safety and confidence in people. A study made in Brazil over a period of 10 years by Pignanelli and Csillag (2008) about the impact of risk management on profitability of institutions, sampled 31 firms and collected data from 5354 respondents where controversial relationships were found to exist between profitability and risk. The conclusion of the study therefore was that there was no evidence of profitability in organizations that embraced quality management in Brazil. This was so because the researchers analyzed firms that were only recognized by National Quality Award of Brazil hence ignoring other firms in their sample that were important to confirm the assertions empirically and hence recommended further studies on the same topic by use of a larger sample of firms and include sectors which embrace risk management practices like the current study which investigated effects of risk management practices on financial performance of non-life insurance firms in Kenya. An examination about availability of risk disclosure in financial reports of selected Malaysian firms was conducted by Arman, *et al* (2009) with an aim of testing characteristics of the firms.

Findings from the study showed that strategic risks were placed at the top and then operations plus empowerment risks followed. Nature of industry greatly influences degree of risk disclosure with technology and infrastructure industries leading in requiring their firms to disclose more risk information.

Insurance firms continue to grow day in, day out and many people have changed their negative attitude towards insurance. This positive attitude has led to high growth in capital of insurance industry and hence increased its strength. According to Hamadu, *et al.* (2011), Nigeria's insurance industry capital is 1.62 billion dollars which drastically shot up from 243 million dollars, a growth by 15 percent. Akhigbe and Madura (2001), assert that this growth is attributed to merging of firms which bring about economies of scale and closure of inactive branches by the newly formed company. Despite this impressive growth, insurance firms still face numerous challenges. Mudaki *et al.* (2012) assert that profitability of insurance business in Kenya is low due to the increasing mortality rates caused by ailments, poverty, lack of food and low living standards which result to inability to raise premium for buying insurance. The performance of insurance industry in Kenya may have been poor about three decades ago due to lack of a regulatory body which made several firms to operate without enough capital and hence leading to their statutory management or collapse.

Currently, insurance industry in Kenya comprises of about forty eight registered companies, five hundred agents and two hundred brokers all regulated by insurance regulatory authority. According to Kiragu (2014), Association of Kenya Insurers (AKI) report for the year 2010 indicate that registered insurance companies were forty seven consisting of 10 life assurers, 21 non-life insurers and 16 composite insurance companies. According to that report, re-insurance companies were three whereas there were 3931 insurance agents, 161 insurance brokers, 24 medical insurance providers, 2 claim settling agents, 21 loss adjusters, 193 loss assessors and 26 insurance surveyors.

Mudaki *et al.*, (2012) asserts that non- life insurance firms should have at least three hundred million Kenya shillings capital to ensure their growth and development. Firms which do not attain this minimum capital eventually collapse or are placed in receivership. According to Agyei and Yeboah (2011), some financial institutions have had difficulties in growth of their profitability and some end up closing their doors; probably poor risk management policies and practices are the major causes of failures and poor performance of these firms. Kiragu (2014) asserts that insurance companies should be monitored and assessed on their risk levels to ensure stability in the industry and increase insurance penetration which will then reduce failures and poor performance of these firms.

1.2 Statement of Problem

Insurance firms are in the core business of managing risk. The firms manage the risks of both their clients and their own risk. This requires an integration of risk management into its core business activities, systems, processes and culture. Insurance firms have for a long time contributed to the development of economies, particularly in the developing countries. Unfortunately, these firms face numerous challenges associated with risk management practices. According to Agyei and Yeboah (2011), some financial institutions have had difficulties in growth of their profitability and some end up closing their doors; probably inadequate risk management policies and practices are the major causes of failures and poor performance of these firms. Bandara and Weerakoon (2012) assert that risk management is important in insurance firms as it is the backbone of success but a few studies have been conducted concerning relationship between risk management practices and financial performance. It is unclear the extent to which performance of insurance firms can be linked to risk management practices. This study therefore sought to assess the effects of risk management practices on financial performance of insurance firms in Kisii County, Kenya.

1.3 Purpose of the Study

The purpose of the study was to examine effects of risk management practices on financial performance of non- life insurance firms operating in Kisii County, Kenya.

1.4 Objectives of the Study

The main objective of the study was to assess the effects of risk management practices on financial performance of insurance firms in Kenya with specific interest of non-life insurance firms in Kisii County; the study was guided by the following specific objectives:

- i. To find out the extent to which effects of risk identification practice affect financial performance of non-life insurance firms in Kisii County.
- ii. To find out the extent to which effects of risk mitigation practice affect financial performance of non-life insurance firms in Kisii County.
- iii. To establish the extent to which effects of risk monitoring practice affects financial performance of non-life insurance firms in Kisii County.

1.5 Research Questions

The study was guided by the following research questions:

- i. To what extent do effects of risk identification practice affect financial performance of non-life insurance firms in Kisii County?
- ii. To what extent do effects of risk mitigation practice affect financial performance of non-life insurance firms in Kisii County?
- iii. To what extent do effects of risk monitoring practice affect financial performance of non-life insurance firms in Kisii County?

1.6 Significance of the Study

The findings of current study had both theoretical and practical implications in that they helped in establishing how risk management practices are of significance to non- life insurance firms and influenced the firms in application of risk management practices in their operations. The study added knowledge to already existing literature about financial performance of non- life insurance firms. The findings of current study further benefited management of non- life insurance firms since they helped the managers come up with sound decisions in the management of their firms' finances using the best practices in improving their profitability. The study would also be of help to future researchers who would want to study similar topics as would get ready materials for literature review.

1.7 Scope of the Study

This research was conducted in non- life insurance firms found in Kisii County which is located in south western Kenya. The County is the main urban and commercial center in Gusii Highlands.

1.8 Limitation of the Study

The study was conducted in non- life insurance firms found in Kisii County only. Due to this reason, a large sample was used to be representative of all insurance firms in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section discussed theoretical models on risk management practices of non- life insurance companies with a focus on risk identification practice, risk mitigation practice and risk monitoring practice as the main variables of risk management practices. Literature review was from past studies obtained from relevant sources like journals, conference proceedings and website.

2.2 Theories of Risk Management Practices

2.2.1 Stakeholder Theory

Stakeholders are persons who create wealth for organizations and also include beneficiaries plus persons exposed to risks arising from what the organizations do (Mahoney, 2014). According to Mahoney (2014), stakeholders comprise of the Organization, management, shareholders, suppliers, employees, local community and clients. According to Freeman (2012), each of these stakeholders affect or benefit from the other, for example shareholders have a financial interest in the organization and employees have an interest of security and salary from the same organization as the organization expects to get labour from the employees. On the other hand the organization depends on suppliers for inputs to produce quality goods as suppliers depend on them for payment because organizations are their customers. Reynolds *et al.* (2006) assert that stakeholder theory helps managers in making decisions on how they can balance interests of all stakeholders surrounding organizations to ensure that they maintain the support they receive from the stakeholders. According to Reynolds et al.

(2006), balancing interests of stakeholders is done where managers distribute scarce resources to those who claim against the organization.

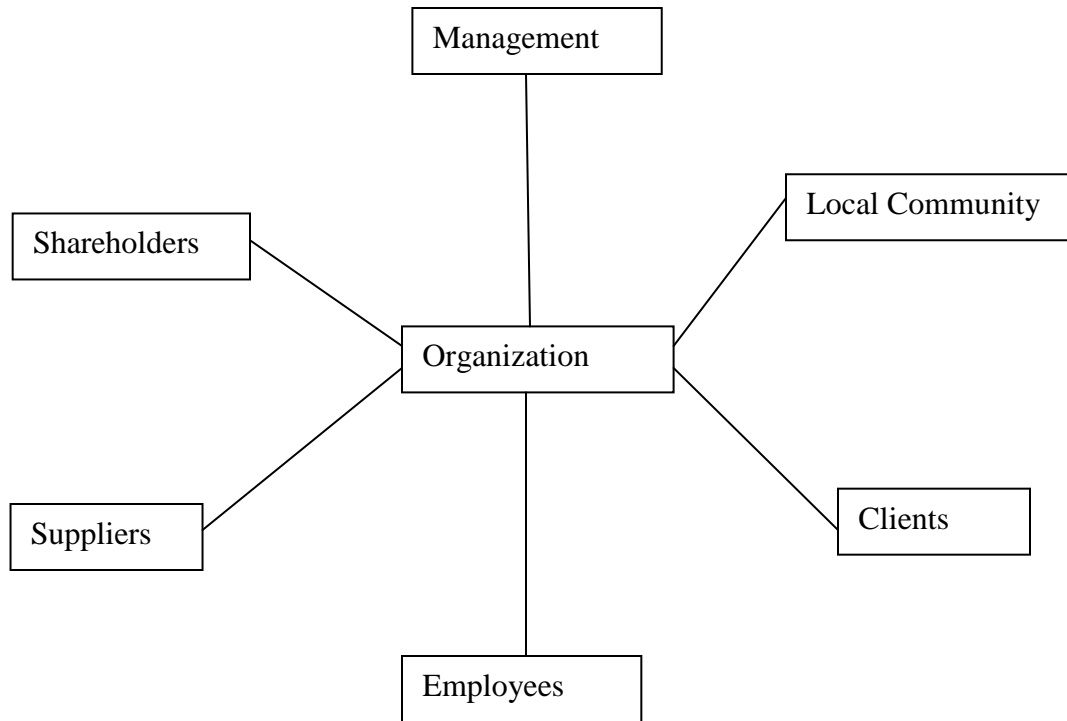


Figure 2.1: Stakeholders

Figure 2.1 above shows how the organization depends on stakeholders as they also depend on the organization. The figure clearly shows how the stakeholders are exposed to risks arising from what the organization does as they are directly linked to it and the way the organization will manage those risks will have an effect on stakeholders' financial performance same way as the organization.

2.2.2 Agency Theory

Agency theory extends the analysis of the firm to include separation of ownership and control and managerial motivation. According to Ndungu and Njeru (2014), agency theory tends to depict relationship between principal and agent doing business together and helps to solve problems between the principal and agent usually called agency problems arising from having goals that are not same. The other problem is when principal and agent do not have similar attitudes towards business risks hence they make decisions which are not similar (Ndungu & Njeru, 2014). To avoid differences, principals make goals which agents are required to follow. Smith and Stulz suggest agency problems have been shown to influence managerial attitude towards risk. The Theory also explains a possible mismatch of interest between shareholders, management and debt holders due to asymmetries in earning distribution, which can result in the firm taking too much risk or not engaging in positive net value projects (Mayers & Smith, 1987). Agency theory provides strong support for risk management as a response to mismatch between managerial incentives and shareholder interests. Shareholders and managers have different interests to the firm and risk management objectives vary for the different stakeholders. While shareholders may require high risk – high return investments, management prefer low risk and return investments. The agency theory emphasizes the need for risk management to align the interests of managers and shareholders and to contribute to the financial performance of the firm

Stulz (1984) first suggested a reason for the interest in risk management by managers of a firm. He asserts that managers are presumed to be working on behalf of firm owners and therefore, concern themselves with both expected profit and the distribution of firm returns around their expected value. They have an inclination to avoid risk in order to minimize the variability of firm returns and hence achieve the. For firm owners, risk management saves on agency costs since, by reducing the variability of returns of their firms, managers are working in line with the shareholder wealth maximization goal.

2.2.3 Resource Based Theory

Barney (1991) indicates that resource based theory involves analyzing of internal environment of business firm which is simply analyzing strengths and weaknesses of that firm. According to Barney (1991), business firms develop ways of maximizing on their strengths and thus minimizing weaknesses so as to have competitive advantage. According to Halawi *et al.* (2005), resource based theory assumes that business firms create value- addition capabilities and was developed to show how business firms obtain sustained competitive advantage. Poppo and Weigelt (2000) indicate that resource based theory tends to explain why different business firms have different economic performance. The study further confirms that business firms that manage resources better than others spend little money plus offer high quality goods and services hence have better economic performance. Bridoux (2004) contends that firms may come together to build resources and increase their competitive advantage through creation of rent- yielding organizational competencies hence reduce risks associated with mobilization of such competencies. The study continues to assert that firms which make profits on top of their cost of capital are those that are in attractive industries and have established competitive advantage over their rivals.

2.3 Empirical Review

Pignanelli and Csillag (2008) made an investigation about the impact of risk management on profitability by sampling 31 institutions which are known by the National quality award of Brazil over a period of 10 years. Data was collected from more other firms in the same sector making a total of 5354 respondents. According to theories used in this study, controversial relationships were found to exist between profitability and risk as those organizations that embraced quality management showed no evidence of profitability which was supposed to be the case. This was so because the

researchers analyzed firms that were only recognized by National Quality Award of Brazil hence ignoring other firms in their sample that were important to confirm the assertions empirically and hence recommended further studies on the same topic by use of a larger sample of firms and include sectors which embrace risk management practices.

Kalluci (2011) made an investigation by analyzing the Albanian banking system in a risk performance environment with an aim of suggesting some indicators and a risk index that can be helpful to supervisors of banks when executing their duties. The findings in this study are that high risk index is attributed by high returns on assets (ROA) and a well-capitalized banking system, as well as by low ROA volatility. The return on equity changes significantly owing to a change in equity multiplier and the return on assets ratio. ROA changes proportionally to the change in net interest margin and earning assets ratio, as well as a consequence of the banks being unable to cover non-interest expenses by non-interest income but is negatively correlated to the rise in the loan loss provisions to total assets ratio. Net interest margin falls as a result of the increase in the cost of borrowed funds and earning assets financed by paying liabilities. In insurance industry, net interest margin falls when risk tolerance is low which can be mitigated by using premiums collected from policy owners to buy various low-risk investments, charging reasonable fees on both the policies bought and management of clients' capital (Deakins, 1990).

An examination about financial management practices, wealth maximization methods and firm value was carried out by Eriki, *et al.* (2012) on a sample of ten listed public banks in Nigeria from year 2004 to 2008 using ordinary least squares multiple regression and correlation to establish the relation between financial management practices and the value of stockholders wealth. Eriki, *et al.* (2012), found out that using correlation financial management practices relation to either stockholders wealth or firm value was

negative while by using ordinary least squares multiple regression, stockholders wealth or firm value were found to be affected by investment and dividend decisions.

A study conducted by Almajali, *et al.* (2012) on factors affecting the financial performance of Jordanian Insurance Companies listed at Amman stock market had objective of identifying the effect of age, leverage, liquidity and size on the financial performance of insurance companies. The study took all twenty five insurance companies listed in Amman stock market between the years 2002 and 2007 as their sample. The study whose focus was on Return on Assets found out that, age of the company has no significant statistical impact on financial performance of insurance companies but leverage, liquidity, management competence and size have a significant statistical impact on financial performance of insurance companies. Mwangi and Iraya(2014) who carried out a study on determinants of financial performance of general insurance underwriters in Kenya had a conflicting result on size of the companies since they found out that size has no significant impact on financial performance. On the other hand, Omondi and Muturi (2013) in their study about factors affecting financial performance of listed companies at Nairobi Securities Exchange in Kenya found out that liquidity has a significant positive impact while leverage has a significant negative impact on financial performance of insurance underwriters.

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

Olando, *et al.* (2013) undertook a study about the contribution of SACCO financial stewardship to growth of SACCOs in Kenya with a survey of 44 SACCOs in Meru County and data collection instruments were questionnaire and document review tool using inferential and descriptive statistics. The research findings were that the growth of SACCOs is influenced by the level of innovation embraced strength of the firm and management practices. Olando, *et al.* (2013) recommended that SACCOs should use appropriate management practices, embrace good financing mix and the government to review its regulations to ensure SACCOs use institutional capital for their growth. Padachi and Howorth (2013) assert that, “three of the most frequently investigated financial management techniques relate to financial and business risk adjustment, capital budgeting and Working Capital Management.”

A study was carried out by Magali (2014) about the influence of leadership, corporate governance and regulations on credit risk management with a survey of rural financial institutions in Tanzania using a sample of 37 rural financial institutions from Dodoma, Morogoro and Kilimanjaro regions starting the months of February to the month of May in the year 2013. The research findings were that corporate governance, good leadership and government regulations while avoiding influence from politics led to acceptable credit risk management in the rural financial institutions.

2.4 Conceptual framework

Independent variables

Dependent variable

Risk management practice

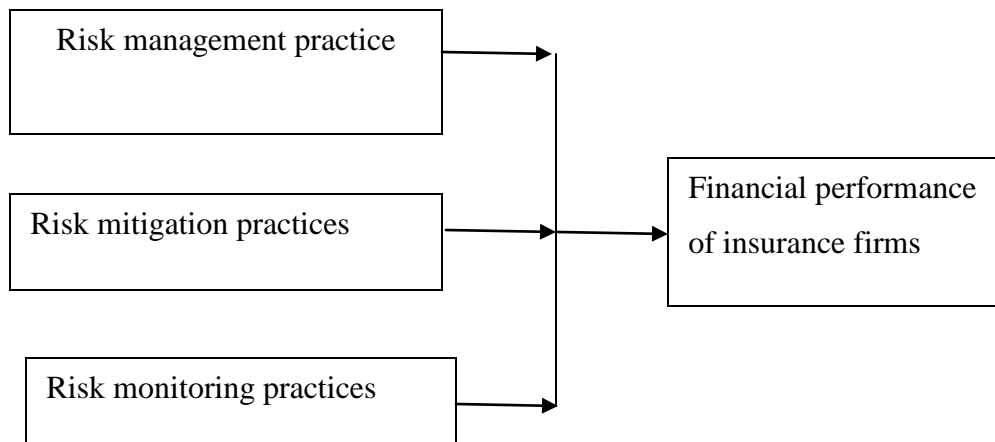


Figure 2.2: Conceptual Framework

2.4.1 Risk Management Practices by Insurance Firms

According to Saleem and Abideen (2011), risk management involves identifying, analyzing, assessing, monitoring and controlling risks hence leading to better process of decision making. Saleem and Abideen (2011) further assert that organizations which use risk management practices have high financial performance and a high competitive edge in the market. According to Amaya and Memba (2015), insurance firms manage risks transferred to them by other persons after agreeing to compensate the persons in the event of financial losses. Amaya and Memba (2015) further assert that insurance provides protection to persons against an insured event by paying a predetermined sum of money in case that event happens. This allows persons to protect themselves against

financial losses which require risk management and financial performance analysis. What Amaya and Memba (2015) did not mention is that most organizations do not embrace use of risk management practices nor do they have a documented risk management policy and hence they are not in a position to deal with risks accordingly or systematically which eventually leads to negative effects (Saleem & Abideen, 2011). This inadequacy called for the current study on effects of risk management practices on financial performance of insurance companies.

2.4.1.1 Risk Identification Practice

Risk identification is the first step in the process of risk management as one would want to know source of risk once it has occurred. According to Ndwiga, *et al.*, (2012), methods used in identifying risks are tools used to optimize opportunities of knowing hazards inherent in certain systems, facilities or products and the tools are categorized in broad headings of inductive, deductive or intuitive methods. Once a framework for identifying risks has been put in place, methods are now used in different products, organizations, systems or situations. Once an insurance company has identified and known how small or large a risk is, it sets up a premium that a client would pay in future in case he transfers it to the company. According to Ocholla, *et al.* (2006), premiums paid by policy holders reflect partially the number of claims the insurance company encountered in the past or how large the risk transferred to insurance firm is. When computing premiums to be charged by insurance firms, the following should be taken into account: expected claims and some loadings which include management costs, agents' commissions, profits for insurance, claim settlement costs and cost for the risk taken by the insurance company for accepting the uncertainties of insured person (Kahane, 1979).

2.4.1.2 Risk Mitigation Practice

Risk can never be eliminated completely and is inherent in all businesses. Risk can only be managed through selection of one or a combination of available risk management techniques for mitigating loss exposure through risk control and risk financing (Rejda, 2008). According to Vaughan and Vaughan (2008), risk control is the process of minimizing or reducing the frequency of the firm's exposure to uncertainty using least possible cost and suggests the following risk control techniques: Risk reduction which involves measures used to minimize the chances of a loss to occur and risk avoidance which involves decisions made not to accept a risk in situations where the potential gain is less than the potential loss as a result of high claims ratio. According to Rejda (2008), risk financing refers to techniques that provide the financing of losses while Vaughan and Vaughan (2008), asserts that risk financing involves availing funds to meet losses arising from risks that remain after the application of risk control techniques. The study suggests the following risk financing techniques: Risk transfer that involves measures such as re-insurance management, risk retention that involves retaining the losses that cannot be transferred and retention which requires provisions in the firm's balance sheet to settle the claims in the event of occurrence.

2.4.1.3 Risk Monitoring Practice

Risk monitoring is the last step in the process of risk management and is the most important duty done by risk managers as it involves frequent contact with clients who see managers as problem solvers and trusted advisors (Ndwiga, *et al.*, 2012). It is the process that helps managers discover problems which have occurred in systems early in time though the last step in risk management process. When an appropriate risk monitoring strategy is adopted, it means that appropriate product pricing in line with estimated risk is achieved which in turn affects profitability (Saunders & Allen, 2002).

According to Soyemi *et al.* (2014), risk managers should put in place a working management information system to help monitor levels of risk and facilitate timely review of positions of risk plus their exceptions. After risk monitoring, control should be done through setting standards, policies and procedures that define both authority and responsibility. This ensures that exposure to risks is minimized.

2.4.2 Financial Performance of Insurance Firms

According to Amaya and Memba (2015), examining financial performance calls on identifying financial strengths and weaknesses of an institution which involves looking at the association of items in profit and loss account plus balance sheet. Insurance companies help other persons in spreading their financial risks just by paying small amounts of money which when put together as a group makes a pool, from which those who will suffer losses will be paid. According to the study, examining financial performance of insurance companies is crucial since insurance companies form a financial intermediation in the economy. By financial intermediation, capital is accumulated into a nation's economy because money contributed by customers of insurance companies is put into projects which are long term in nature ensuring that a pool of money is accessed by borrowers when they need it for investment, usually done in stock exchange where they easily meet with savers hence reducing risks involved if borrowers and savers deal directly among themselves (Darzi, 2011).

2.5 Research Gap

From the literature reviewed above, it is apparent that the findings are controversial, in that risk management practices show a negative relationship to performance of firms in some studies while in other studies positive relationship is seen. According to Padachi and Howorth (2013), previous studies have shown that enterprises tend to avoid the study of financial and business risk management and hence the major reason for their poor financial performance. It is because of these reasons that the present research is going to study effects of risk management practices on financial performance of non-life insurance firms in Kisii County, Kenya

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section presented methodology that was used in collecting and analyzing data. The section further described type and source of data, research design, target population, sampling techniques and sample size plus pilot study and how data was analyzed.

3.2 Research Design

The current study used a survey research design to study effects of risk management practices on financial performance of non-life insurance firms in Kenya. According to Thayer-Hart, *et al.*, (2010), a survey research design is appropriate because primary data is collected from a sample of respondents and findings of study generalized to represent whole population where the sample was drawn from.

3.3 Target Population

The target population of this study was 237 respondents comprising of 116 directors and 121 senior managers involved in risk management of insurance firms. The directors and senior managers were drawn from the following companies: Cooperative insurance, APA insurance, Blue shield, British American, Insurance company of East Africa (ICEA), Jubilee insurance, Invesco, Kenindia, Heritage insurance and African Merchant Assurance company (AMACO) all offering short term insurance business. The respondents are as shown in table 3.1 below.

Table 3.1: Target Population

Name of company	Number of respondents		TOTAL
	Directors	Senior managers	
Cooperative insurance	11	9	20
APA Insurance company	13	15	28
Blue shield Insurance company	9	13	22
British American Insurance company of East Africa (ICEA)	10	17	27
Jubilee insurance company Ltd.	13	11	24
Invesco Assurance company	11	11	22
Kenindia Assurance company	11	13	24
Heritage insurance company	7	7	14
African Merchant Assurance company (AMACO)	22	13	35
TOTAL	9	12	21
	116	121	237

3.4 Sample Design

Sample design refers to methods used to select individuals from given population to be included in a sample for measurement in a study (Corona, et al., 2014).

3.4.1 Sampling Technique and Sample Size

The study's sample size was 48 respondents which represented 20 % of target population. According to Yount (2006), 20 % is appropriate as a sample for small populations. Stratified random sampling was used to select respondents in this study.

3.5 Data Collection Instruments

The study collected both primary and secondary data. Primary data was collected using structured questionnaires while secondary data was collected from published reports from AKI and audited financial statements as presented to IRA for the period 2010 to 2014. Structured questionnaire was appropriate in this study because respondents more readily responded truthfully to sensitive questions as they completed it at a time and place convenient for them (Eiselen & Uys, 2005) and was E-mailed to respondents.

3.5.1 Pilot Study

According to Gardner *et al.* (2003), pilot study is a small scale version that produces meaningful findings by confirming design and operational processes of the main study. Pilot study was used to test reliability of questionnaire of this research.

3.5.1.1 Reliability of Research Instruments

Reliability is the extent to which findings are found to be consistent over a length of time (Bashir, *et al.*, 2008). To assess reliability of the questionnaire, pilot study was conducted on twenty respondents not included in the sample.

3.5.1.2 Reliability Analysis

Table 3.2: Reliability Analysis

Scale	Cronbach's Alpha	Number of Items
Risk identification practice	0.740	8
Risk mitigation practice	0.710	5
Risk monitoring practice	0.750	4

Reliability analysis was done using Cronbach's Alpha to measure internal consistency by establishing whether a certain item within a scale measured the same construct. When Cronbach Alpha value is less than 0.7, it means that internal consistency is questionable (George & Mallery, 2003). Cronbach's Alpha reliability coefficient was therefore established for every independent variable of this study as shown in table 4.1 above. Risk monitoring practice had the highest reliability ($\alpha=0.750$), followed by risk identification practice ($\alpha=0.740$) and finally by risk mitigation practice ($\alpha=0.710$). This means that all three variables were reliable since their Cronbach reliability values were not less than 0.7 (George & Mallery, 2003).

3.5.1.3 Validity of Research Instruments

Validity is the extent to which a research instrument shows the reality of what it measures (Bashir, *et al.*, 2008). Validity of questionnaire was ensured by guidance of an expert to ensure adequate coverage of the topic under study.

3.6 Data Analysis

Data collected was analyzed using both descriptive and inferential statistics which involved use of frequency tables, percentages and regression analysis. The regression model that was used is as follows:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \varepsilon$$

where,

Y = Financial performance of non-life insurance companies,

x_1 = Risk identification practice

x_2 = Risk mitigation practice

x_3 = Risk monitoring practice

ε = Error term and

$\beta_0, \beta_1, \beta_2$ and β_3 are regression coefficients

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This section presents the output of data analysis. Descriptive and inferential statistics were used to discuss results of the study which were then presented form of tables, frequencies, percentages and regression analysis. The study's sample size was 48 respondents where only 39 filled and returned back questionnaires making a response rate of 81.3% which was satisfactory to make conclusions for the study since according to Hidioglou, *et al.* (1993), a response rate is good representative of the opinion of whole population if it is more than 30% of the total sample size.

4.2 General Information of the Respondents

4.2.1 Gender of Respondent

The study established the gender of respondents and the response rate obtained from the field is in table 4.1 below.

Table 4.1: Gender of Respondent

Gender	Frequency	Percentage
Male	30	76.9
Female	9	23.1
Total	39	100

From the results, it was found out that 76.9% of respondents were of male gender while 23.1% were of female gender. This shows that females have low representation in management than their male counter parts. This gender response rates are important in this study since they have shown that the issue of gender equity is still not taken seriously in organizations and hence females are the most affected lot whose rate of recruitment should be increased.

4.2.2 Level of Education of the Respondents

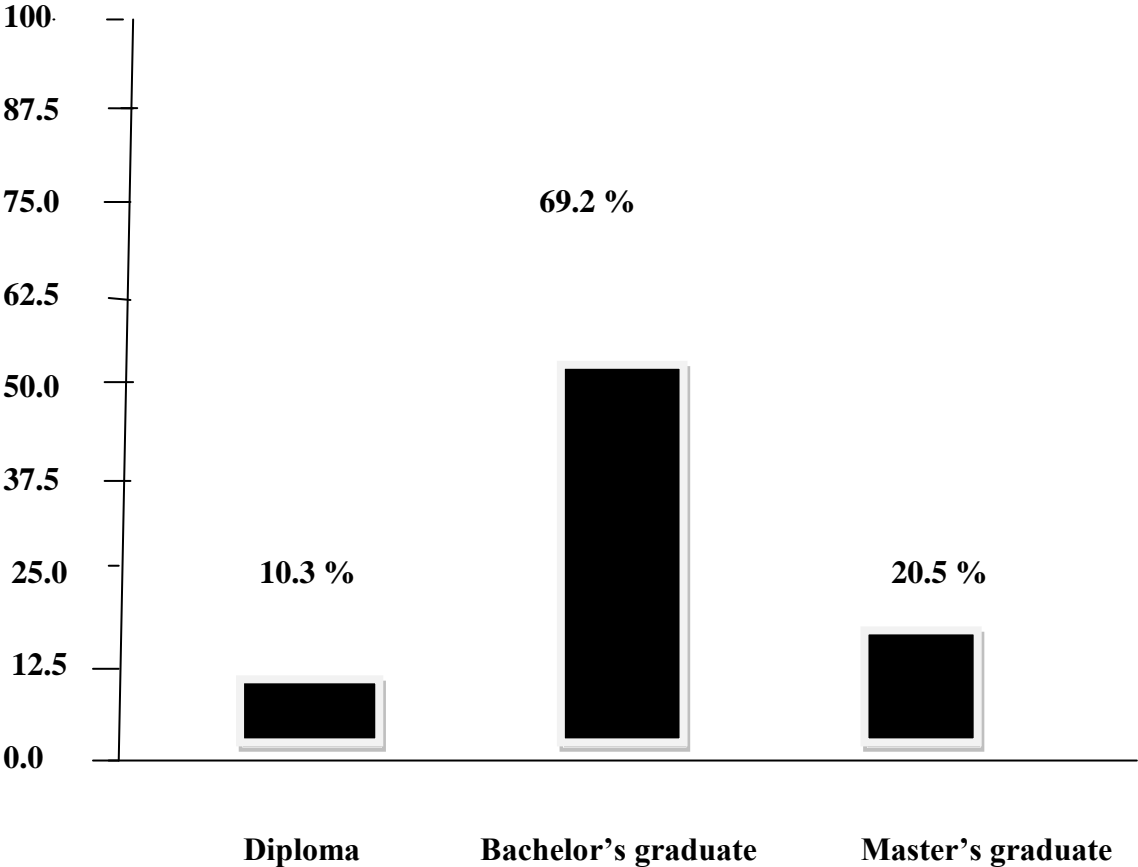


Figure 4.1: Respondent's highest level of education attained

Figure 4.1 above reveals that most of respondents have a bachelor's degree (69.2%), followed by master's degree (20.5%) and finally by diploma (10.3 %). This indicates that most of those in management levels are well educated with bachelor's degree and above since organizations look for managers who have knowledge about risk management practices as supported by Ndwiga, *et al.*, (2012) who asserts that risk managers are involved in frequent contact with clients who see them as problem solvers and trusted advisors. Therefore level of education and qualifications help in understanding the real process of risk management.

4.2.3 Designation of Respondents

The study established designation of respondents. Information obtained from the field was presented in table 4.2 below.

Table 4.2: Designation of Respondents

Designation	Frequency	Percentage
Director	15	38.5
Manager	24	61.5
Total	39	100

From the results, it was found out that 61.5% of respondents were managers while 38.5% were directors. This indicates that managers are more than directors meaning that number of employees continue to reduce as one climbs up the ladder towards the top of an organization since top management is concerned with making decisions which are then implemented by those in lower levels who should be a good number to cope up with various assignments that would be delegated.

Top managers were important in this study since they are the ones involved in organizations' risk management and possessed relevant information for this study (Kendrick, 2015)

4.2.4 Respondent's duration of service in current position

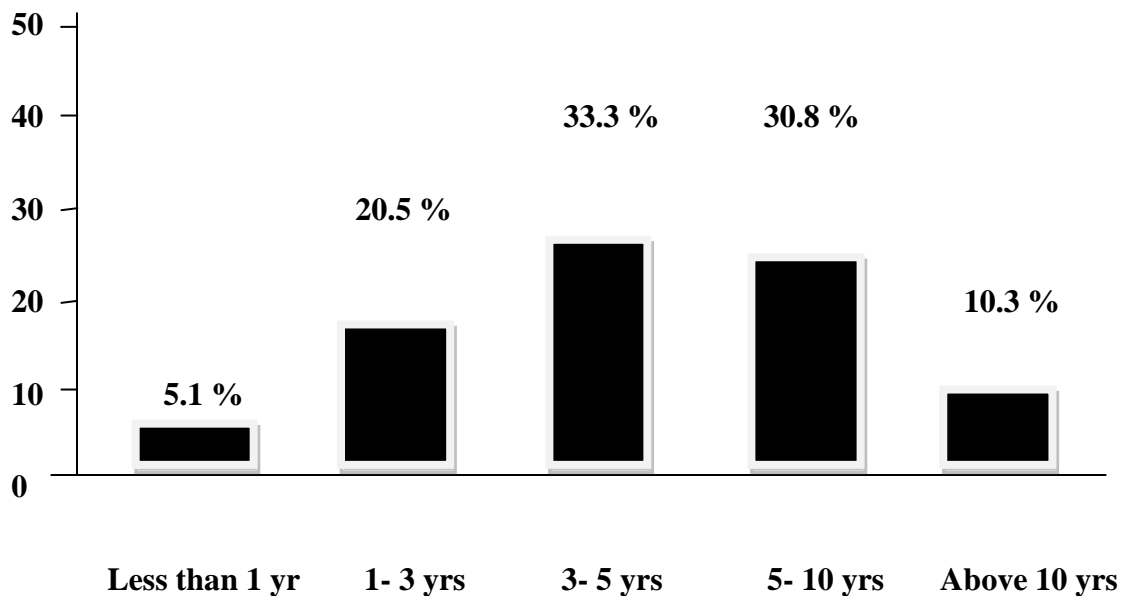


Figure 4.2: Respondent's Duration of Service in Current Position

Figure 4.2 above reveals that most of the respondents have worked in their current organization's management levels for 3- 5 years (33.3 %), followed by 5- 10 years (30.8 %), 1- 3 yrs (20.5 %), above 10 yrs (10.3 %) and finally by less than 1 year (5.1 %). This indicated that most of the respondents have worked in management levels for a good period of time hence have enough and reliable information regarding this research.

4.3 Effects of Risk Identification Practice and Financial performance

The study sought to find out the extent to which effects of risk identification practice affect financial performance of non-life insurance firms and details of the analysis are shown in frequency tables below:

4.3.1 Whether Risk Identification Practice Affects Financial Performance.

Table 4.3: Whether Risk Identification Practice Affects Financial Performance.

Opinion	Frequency	Percentage
Yes	38	97.4
No	1	2.6
Total	39	100

Table 4.3 above reveals that most of respondents agree that risk identification practice affects financial performance as shown by 97.4 % with those disagreeing at 2.6 %. Risk identification practice helps in risk management by ensuring that opportunities are maximized. This rhymes with assertions from Ndwiga, *et al.*, (2012) that the methods used in identifying risks are tools used to optimize opportunities of knowing hazards inherent in certain systems, facilities or products and the tools are categorized in broad headings of inductive, deductive or intuitive methods. Once a framework for identifying risks has been put in place, methods are now used in different products, organizations, systems or situations.

Table 4.4: Which Risk Identification Practice Affects Financial Performance Most?

Opinion	Frequency	Percentage
Risk frequency	3	7.69
Risk severity	7	17.95
Amount of premium set	29	74.36
Total	39	100

Table 4.4 above reveals that majority of respondents agreed that amount of premium set by a non- life insurance company affects its financial performance most as shown by 74.36 %, followed by risk severity (17.95 %) and finally by risk frequency (7.69 %). Probably this is because insurance would always set premiums commensurate to their getting high profits once they have identified frequency and severity of a given risk. This concurs with findings of Ndwiga, *et al.*, (2012) who asserts that once an insurance company has identified and known how small or large a risk is, it sets up a premium that a client would pay in future in case he transfers it to the company and the moment a risk is identified, an organization comes up with strategies for tackling it hence improve financial performance while when not identified, organization will definitely experience financial loss.

4.3.2 New premiums collected per year

Insurance companies tend to collect more premiums as possible with an aim of taking optimal advantage of identified risks which might impact on company's planned figures if not tackled and eventually cause financial loss to them. The following table shows amounts of premiums that individual insurance companies collected between the years 2010 and 2014.

Table 4.5: New premiums collected per year

Premium	Frequency					Average	percentage
	(Percentage)	2010	2011	2012	2013		
Less than one billion		8(20.51)	7(17.95)	8(20.51)	9(23.08)	7(17.95)	7.8(20.00)
One to three billion		21(53.85)	20(51.23)	19(48.72)	21(53.85)	20(51.23)	20.2(51.78)
Three to five billion		1(2.56)	5(12.82)	1(2.56)	2(5.13)	5(12.82)	2.8(7.18)
Five to ten billion		4(10.26)	3(7.69)	6(15.38)	4(10.26)	3(7.69)	4.0(10.26)
More than ten billion		5(12.82)	4(10.26)	5(12.82)	3(7.69)	4(10.26)	4.2(10.77)
Total		39	39	39	39	39	

Table 4.5 above reveals that majority of respondents agreed that premiums collected per year by individual insurance companies was between 1- 3 billion shillings as shown by an average of 51.78 %. This is an indication that increased number of people understand importance of insurance and expect a good probability of an eventuality occurring which may cause financial losses to them.

This assertion is supported by findings of Ocholla, *et al.* (2006), who contends that premiums paid by policy holders reflect partially the number of claims the insurance company encountered in the past or how large the risk transferred to insurance firm is.

4.3.3 Renewal premiums lost to competitors per year

The following table shows amounts of premiums lost to other insurance companies per year and the effect of premium loss to competitors.

Table 4.6: Renewal premiums lost to competitors per year

Amount	Frequency	Percentage
Less than 1 billion	33	84.6
1- 3 billion	4	10.2
3-5 billion	1	2.6
5-10 billion	0	0.0
Above 10 billion	1	2.6
Total	39	100

Table 4.6 above reveals that majority of respondents agreed that renewal premiums lost to competitors per year by individual insurance companies was less than 1 billion shillings as shown by 84.6 %. This indicates clearly that there exists competition in this sector faced from rivalries and one company would lose customers to the other depending on how they have structured their products or how much they charge in terms of premium and if an insurance company does not take it seriously, this competition can lead to its loss of profits hence poor financial performance. This assertion is supported by findings from Kahane (1979), who argues that when computing premiums to be charged by insurance firms, the following factors are taken into account: expected claims and some loadings which include management costs, agents' commissions, profits for insurance, claim settlement costs and cost for the risk taken by the insurance company for accepting the uncertainties of insured person. Therefore risk identification practice is a pillar in influencing financial performance of non- life insurance firms.

4.4 Effects of Risk Mitigation Practice and Financial Performance

The study sought to find out the extent to which effects of risk mitigation practice affects financial performance and the analysis details are shown in frequency tables below:

4.4.1 How Risk Mitigation Practice affects Financial Performance

The following table 4.7 shows responses made by different individuals concerning how risk mitigation practice affects financial performance of non life insurance companies.

Table 4.7: Which risk mitigation practice affects financial performance most?

Opinion	Frequency	Percentage
Risk control	20	51.28
Appropriateness of risk standards set	8	20.51
Appropriateness of risk limits assigned	11	28.21
Total	39	100

Table 4.7 above reveals that majority of respondents agreed that risk control by a non-life insurance company affects its financial performance most as shown by 51.28 %, followed by appropriateness of risk limits assigned (28.21 %) and finally by appropriateness of risk standards set (20.51 %). It is true because risk control reduces frequency of risks occurring hence reducing cost or losses which means level of profit goes up.

This concurs with findings of Rejda (2008) who asserts that risk can never be eliminated completely and is inherent in all businesses but risk can be managed through selection of available risk management techniques for mitigating loss exposure through risk control and risk financing.

4.4.2 Amount of claims paid per year

The following table shows amounts of claims paid by individual insurance companies to citizens who have lost their insured assets between the years 2010 and 2014.

Table 4.8: Amount of claims paid per year

Claims Frequency (Percentage)	2010	2011	2012	2013	2014	Average percentage
	Less than one billion	15(38.46)	17(43.59)	15(38.46)	13(33.33)	16(41.03)
One to three billion	12(30.77)	10(25.64)	11(28.21)	13(33.33)	10(25.64)	11.2(28.72)
Three to five billion	10(25.64)	8(20.51)	11(28.21)	10(25.64)	9(23.08)	9.6(24.62)
Five to ten billion	2(5.13)	3(7.69)	2(5.13)	3(7.69)	4(10.26)	2.8(7.18)
More than ten billion	0(0)	1(2.56)	0(0)	0(0)	0(0)	0.2(0.51)
Total	39	39	39	39	39	

Table 4.8 above reveals that majority of respondents agreed that amount of money paid as claims per year by individual insurance companies was less than one billion shillings as shown by a 38.97 %. This indicates that citizens are careful on how they handle their assets since there is a reduced occurrence of accidents which would call for compensation from insurance companies.

This could be so because of the risk control strategies employed by insurance firms of ensuring that clients do not lodge claims for the sake of it, like where they are required to pay a given percentage before they can be compensated for amount that remains as balance of claim. This assertion is supported by findings of Vaughan and Vaughan (2008), risk control is the process of minimizing or reducing the frequency of the firm's exposure to uncertainty using least possible cost and suggests the following risk control techniques: Risk reduction which involves measures used to minimize the chances of a

loss to occur and risk avoidance which involves decisions made not to accept a risk in situations where the potential gain is less than the potential loss as a result of high claims ratio.

4.4.3 Amount of Money Paid to Reinsurance as Premiums Ceded Per Year

The following table shows amounts of premiums that individual insurance companies submitted to reinsurance companies as premiums ceded per year.

Table 4.9: Amount of Money Paid to Reinsurance as Premiums Ceded Per Year

Amount	Frequency	Percentage
Less than 100 million	9	23.1
100- 300 million	14	35.9
300-500 million	12	30.8
Above 500 million	4	10.2
Total	39	100

Table 4.9 above reveals that majority of respondents agreed that amount of money paid to reinsurance as premiums ceded per year by individual insurance companies was between 100 and 300 million shillings as shown by 35.9 %. This shows how insurance companies are cautious in risk mitigation as they transfer risks through re-insurance management and through other measures such as risk retention that involves retaining the losses that cannot be transferred and retention which requires provisions in the firm's balance sheet to settle the claims in the event of occurrence.

4.4.4 Amount of Money Received from Reinsurance Claims Per Year

Insurance companies cushion themselves from possible big losses by reinsuring what their clients have insured with them to be helped pay the clients' claims in case of an eventuality.

The following table shows amounts of money that individual insurance companies received from reinsurance companies for claims launched per year.

Table 4.10: Amount of Money Received from Reinsurance Claims Per Year

Amount	Frequency	Percentage
Less than 100 million	10	25.6
100- 300 million	8	20.5
300-500 million	10	25.6
Above 500 million	11	28.2
Total	39	100

Table 4.10 above reveals that majority of respondents agreed that amount of money received from reinsurance claims launched per year by individual insurance companies is above 500 million shillings as shown by 28.2 %. This shows that insurance companies seek help when risk control techniques are overwhelmed by claims received.

Reinsurance receipts are required during this period when claims to insurance companies are bigger than manageable which is one way of risk financing techniques that involves availing funds to meet losses arising from risks that remain after the application of risk control techniques.

4.5 Effects of Risk Monitoring Practice and Financial Performance.

The study sought to establish the extent to which effects of risk monitoring practice affects financial performance and the analysis details are shown in frequency tables below:

The following table shows whether risk monitoring practice affects financial performance of insurance firms.

Table 4.11: Risk Monitoring Practice and Financial Performance.

Opinion	Frequency	Percentage
Yes	38	97.4
No	1	2.6
Total	39	100

Table 4.11 above reveals that most of respondents agree that risk monitoring practice affects financial performance as shown by 97.4 % with those disagreeing at 2.6 %. This calls for insurance risk managers to be in constant contact with clients to know their problems and come up with ways of solving those problems to continue retaining the clients for better good of the companies. This argument rhymes with Soyemi et al. (2014) assertions that, risk managers should put in place a working management information system to help monitor levels of risk and facilitate timely review of positions of risk plus their exceptions.

After risk monitoring, control should be done through setting standards, policies and procedures that define both authority and responsibility which ensures that exposure to risks is minimized.

4.5.1 How risk monitoring practice affects financial performance

The following table shows effect of risk monitoring practice on financial performance of insurance firms.

Table 4.12: Which Risk Monitoring Practice Affects Financial Performance Most?

Opinion	Frequency	Percentage
Product pricing	22	56.41
Compliance with risk standards	7	17.95
Compliance with risk limits	10	25.64
Total	39	100

Table 4.12 above reveals that majority of respondents agreed that product pricing by a non- life insurance company affects its financial performance most as shown by 56.41 %, followed by compliance with risk limits (25.64 %) and finally by compliance with risk standards (17.95 %). This concurs with findings of Saunders and Allen (2002) who contend that when an appropriate risk monitoring strategy is adopted, it means that appropriate product pricing in line with estimated risk is achieved which in turn affects profitability. A risk monitoring strategy helps managers discover problems which have occurred in systems early in time although is the last step in risk management process.

4.6 Financial Performance of Non- Life Insurance Firms

The study sought to establish relationship between effects of risk management practices and financial performance of non-life insurance firms. Analysis details of financial performance are shown in frequency table 4.13 below:

4.6.1 Amount of profits of Non- life Insurance firms

The following table shows amounts of profits made by individual insurance companies between the years 2010 and 2014.

Table 4.13: Amount of profits of Non- life Insurance firms

Profits	Frequency (Percentage)	2010	2011	2012	2013	2014	Average percentage
Less than 100 million		0(0)	1(2.56)	0(0)	0(0)	1(2.56)	0.4(1.03)
100 to 300 million		9(23.08)	8(20.51)	6(15.38)	7(17.95)	8(20.51)	7.6(19.49)
300 to 500 million		13(33.33)	12(30.77)	14(35.90)	13(33.33)	11(28.21)	12.6(55.38)
500 million to1 billion		6(15.38)	6(15.38)	8(20.51)	6(15.38)	7(17.95)	6.6(16.92)
More than 1 billion		11(28.21)	12(30.77)	11(28.21)	13(33.33)	12(30.77)	11.8(30.26)
Total		39	39	39	39	39	

Table 4.13 above reveals that majority of respondents agreed that amount of profits made per year by individual insurance companies was between 300 and 500 million shillings as shown by 55.38% followed by more than 1 billion shillings as shown by 30.26% . Insurance firms make huge profits since they make pools of money contributed by their clients who in turn expect compensation in case of eventualities and when there

is no such eventualities, the money remains to the company as part of profit. This therefore enables insurance firms to form financial intermediation in the economy with those monies. The assertion is supported by Darzi (2011) who contend that, by financial intermediation, capital is accumulated into a nation's economy because money contributed by customers of insurance companies is put into projects which are long term in nature ensuring that a pool of money is accessed by borrowers when they need it for investment, usually done in stock exchange where they easily meet with savers hence reducing risks involved if borrowers and savers deal directly among themselves.

4.6.2 Analysis of Financial Performance of Non- life Insurance firms

Ratio analysis of financial performance of non- life insurance firms was done through the adoption of return on assets (ROA) tool. The researcher divided net income by total assets of all the ten non- life insurance firms got from their financial statements over a period of five years and got the figures shown in appendix III.

Table 4.14: Summary of Descriptive Statistics for Return on as

YEAR	N	Return on assets (ROA)			
		MIN ROA	MAX ROA	MEAN	STD DEV.
2010	10	1.23	6.12	3.335	1.55859
2011	10	2.44	6.93	4.039	1.50025
2012	10	2.44	8.74	4.818	2.08500
2013	10	3.22	10.61	6.277	2.43870
2014	10	4.56	9.93	7.075	2.00336

From the findings, the lowest return on assets was 1.23 in year 2010 and highest return on assets was 10.61 in year 2013. In addition a low standard deviation is a sign of lower variation in financial performance of non-life insurance companies. There is an improvement of return on assets for the non-life insurance companies over the years which tells that they have been doing well financially.

4.7 Regression Analysis

4.7.1 Multiple Linear Regression Coefficients

Table 4.15: Multiple linear regression coefficients

		Unstandardized		Standardized		
		Coefficients		Coefficients		
Model		B	Std. error	Beta	t	Sig
1	(Constant)	1.736	.497		3.492	.001
	Risk identification	.591	.163	.558	3.628	.001
	Practices					
	Risk mitigation	.539	.202	.509	2.666	.012
	Practices					
	Risk monitoring	.156	.125	.176	1.251	.219
	practices					

- a. Predictors: (Constant), Risk identification practices, Risk mitigation practices, Risk monitoring practices
- b. Dependent variable: Financial performance

As generated by regression analysis, shown in table 4.14 above, the established regression equation is:

$$Y = 1.736 + 0.591X_1 + 0.539X_2 + 0.156X_3$$

From the above regression model obtained from multiple regression analysis that was conducted, it is revealed that the constant for financial performance of non-life insurance companies would be 1.736. It was established that a unit increase in risk identification practices in non-life insurance companies would cause an increase in financial performance by 0.591, a unit increase in risk mitigation practices would cause an increase in financial performance of non-life insurance companies by 0.539 and a unit increase in risk monitoring practices would cause an increase in financial performance of non-life insurance companies by 0.156. This shows that risk identification has the most influence on financial performance of non-life insurance companies followed by risk mitigation and finally risk monitoring. Risk identification and risk mitigation significantly influence financial performance of non-life insurance companies while risk monitoring is statistically not significant despite a positive ($\beta=0.156$). The study further shows that there is a positive relationship between financial performance of non-life insurance companies, risk identification practices, risk mitigating practices and risk monitoring practices.

4.7.2 Model Summary Showing Coefficient of Determination, R Square

In analyzing correlation between risk management practices and financial performance of non- life insurance firms, Pearson correlation coefficient was used which showed that financial performance has a strong significant positive relationship with risk management practices with a Pearson correlation coefficient of 0.851 (table 4.16 below).

Table 4.16: Model Summary Showing Coefficient of Determination, R Square

Model	R	R square	Adjusted R square	Std error of estimate	Sig. F Change
1	.851 ^a	.724	.658	.744	.001

- a. Predictors: (Constant), Risk identification practices, Risk mitigation practices, Risk monitoring practices
- b. Dependent variable: Financial performance

Table 4.16 above reveals that coefficient of determination, $R^2 = 0.724$ indicating that 72.4 % of variation in financial performance can be explained by changes in the three studied risk management practices meaning that the remaining 27.6 % can be explained by moderating variables when a further research is conducted incorporating them.

4.7.3 ANOVA Table Showing F Statistic

Table 4.17: ANOVA Table Showing F Statistic

Model		Sum of squares	df	Mean square	F	Sig
1	Regression	18.005	3	6.002	6.618	.001
	Residual	31.739	35	.907		
	Total	49.744	38			

- a. Predictors: (Constant), Risk identification practices, Risk mitigation practices, Risk monitoring practices
- b. Dependent variable: Financial performance

The ANOVA table 4.17 above shows significance value is 0.001 which is less than 0.05 hence the model is statistically significant. The table further reveals that risk management practices significantly predict changes in financial performance of insurance firms with F statistic being 6.618. This shows that risk management practices contributed to variance in financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The following summary, conclusion and recommendations were made from data that was collected and analyzed, based on the following objectives of the study: To find out the extent to which effects of risk identification practice affect financial performance, to find out the extent to which effects of risk mitigation practice affect financial performance, to establish the extent to which effects of risk monitoring practice affects financial performance and to establish the relationship between effects of risk management practices and financial performance of non-life insurance firms.

5.2 Summary of findings

5.2.1 Risk identification practice

From the findings, it was found out that risk identification practice was the most significant variable influencing financial performance with a unit increase in risk identification resulting to 0.591 unit increase in financial performance. The regression coefficient of risk identification and financial performance was positive ($\beta=0.591$) and significant (p value =0.001) this means that risk identification is statistically significant. It was further revealed that risk identification practice helps in risk management by ensuring that opportunities are maximized and increases financial performance of insurance firms because they always set premiums commensurate to their getting high profits once they have identified frequency and severity of a given risk. It also established that increased number of people understand importance of insurance, expect an eventuality occurring which may cause financial losses to them and that premiums paid by policy holders reflect partially the number of claims the insurance company

encountered in the past or how large the risk transferred to insurance firm is. It was further revealed that there is competition from rivalry companies and one insurance company loses customers to the other depending on how much they charge in terms of premium hence losing renewal premiums.

5.2.2 Risk mitigation practice

The results indicate that risk mitigation practice was the second most significant in influencing financial performance with a unit increase led to an increase of 0.539 in financial performance. The regression coefficient of risk mitigation and financial performance is positive ($\beta=0.539$) and significant (p value=0.001). This implies that risk mitigation was statistically significant and has a positive impact on financial performance. The results further reveals that risk mitigation increases financial performance because it reduces frequency of risks occurring hence reducing cost or losses which means level of profit goes up. Risk can never be eliminated completely and is inherent in all businesses but can be managed through selection of available risk management techniques for mitigating loss exposure through risk control and risk financing. The study also showed that citizens are careful on how they handle their assets since there is a reduced occurrence of accidents which call for compensation from insurance companies. Insurance companies on the other hand are cautious in risk mitigation for they transfer risks through re-insurance management and seek help from re-insurance companies when their risk control techniques are overwhelmed by claims received from clients.

5.2.3 Risk monitoring practice

The study found out that risk monitoring practice was the least significant in influencing financial performance with a unit increase in risk monitoring leading to a 0.156 increase in financial performance.

The regression coefficient of risk monitoring and financial performance was positive ($\beta=0.156$) although statistically not significant (p value= 0.219). The study reveals that insurance risk managers should be in constant contact with clients to know their problems and come up with ways of solving those problems to continue retaining clients for better good of their companies. The study further established that when appropriate product pricing in line with estimated risk is adopted, the required profitability will be achieved and therefore, risk monitoring strategy helps managers discover problems which have occurred in systems early in time although is the last step in risk management process.

The overall study revealed a strong positive relationship between risk management practices namely risk identification, risk mitigation, risk monitoring and the financial performance of non-life insurance companies as explained by the positive correlation of $R=0.851$. In addition, a combination of risk identification, risk mitigation and risk monitoring have 72.4% ($R^2=0.724$) predictive potential for financial performance. This means 72.4% of variation in financial performance can be explained by changes in the three studied risk management practices. The value of adjusted R^2 is 0.658. This reveals that, the risk management practices confirmed only 65.8% of the non-life insurance companies' financial performance in Kisii County Kenya.

Lastly from the results of ANOVA the study revealed that the regression model is statistically significant (p value= 0.001) was less than the significant level of 0.05 .This implies that better risk management by non-life insurance companies leads to improved financial performance

5.3 Conclusions

The study concludes that risk identification and mitigation influences financial performance most. Based on findings on the extent to which effects of risk identification

practice affect financial performance of non-life insurance firms, the study concludes that risk identification has a significant influence on financial performance of non-life insurance firms in Kisii County Kenya. The regression coefficient of risk identification and financial performance is positive and significant. The study also reveals that increased number of people understand importance of insurance, expect an eventuality occurring which may cause financial losses to them and that premiums paid by policy holders reflect partially the number of claims the insurance company encountered in the past or how large the risk transferred to insurance firm is; based on findings on the extent to which effects of risk mitigation practice affect financial performance of non-life insurance firms, the study concludes that risk mitigation has a significant influence on financial performance. The regression coefficient of risk mitigation is positive and significant. The study further concludes that risk can never be eliminated completely and is inherent in all businesses but can be managed through selection of available risk management techniques for mitigating loss exposure through risk control and risk financing; based on findings on the extent to which effects of risk monitoring practice affects financial performance of non-life insurance firms, the study concludes that risk monitoring significantly influences financial performance but statistically insignificant. The study also concludes that when appropriate product pricing in line with estimated risk is adopted, the required profitability will be achieved and therefore, risk monitoring strategy helps managers discover problems which have occurred in systems early in time.

The study also concludes that the regression model was significant. The findings showed that all the three risk management practices were significant in influencing financial performance and therefore the conclusion of this study is that insurance companies should adopt in their risk management, efforts that that bring together all the practices that were focused in this study.

The study concludes that there is a strong relationship between risk management practices and financial performance of insurance companies in Kisii County Kenya as explained by coefficient of determination, $R^2 = 0.724$ indicating that 72.4 % of variation in financial performance can be explained by changes in the three studied risk management practices .The study finally concludes that the remaining 27.6 % can be explained by moderating variables when a further research is conducted incorporating them.

5.4 Recommendations

Based on the findings and conclusions on the extent to which effects of risk identification practice affect financial performance of non-life insurance firms, the study recommends that insurance companies should embrace use of risk identification practices to help them in risk management by ensuring that opportunities are maximized and increase financial performance of the firms through setting premiums commensurate to their getting high profits once they have identified frequency and severity of given risks. Companies should also structure their products or set competitive premiums to curb competition faced from rivalries hence avoid losing customers to those competitors; based on the findings and conclusions on the extent to which effects of risk mitigation practice affect financial performance of non-life insurance firms, the study recommends insurance companies to be cautious in risk mitigation by transferring risks to re-insurance companies that would help them when their risk control techniques are overwhelmed by claims received from clients; based on the findings and conclusions on the extent to which effects of risk monitoring practice affects financial performance of non-life insurance firms, the study recommends insurance companies to adopt appropriate product pricing in line with estimated risk which will eventually increase profitability. This risk monitoring strategy would help managers discover problems

which have occurred in systems early in time although is the last step in risk management process.

5.5 Suggestions for further studies

The present study was on effects of risk management practices on financial performance of non-life insurance firms but never studied moderating variables. Future researchers may undertake a similar study but incorporate moderating variables to improve level of variation in financial performance that can be explained. Future researchers may also narrow down and focus on effects of product pricing on financial performance of non-life insurance firms.

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APPENDICES

Appendix I: Transmittal letter

Joyce Mong'ina Osiemo

5th October, 2015

Dear Sir/Madam,

RE: REQUEST FOR PARTICIPATION IN A RESEARCH STUDY

I am a student at Jomo Kenyatta University of Agriculture and Technology. I am currently undertaking a research project on “EFFECTS OF RISK MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF NON LIFE INSURANCE FIRMS”. I would be grateful if you would spare some time from your busy schedule and participate in the study. All the information provided will be used purely for academic purposes and will be treated with anonymity and utmost confidentiality.

Thank you for your cooperation.

Yours faithfully,

Joyce Mong'ina Osiemo

APPENDIX II: Questionnaire

Dear Respondent, My name is Joyce Mong'ina Osiemo. I am a student at Jomo Kenyatta University of Agriculture and Technology currently carrying out a study for the purpose of writing a thesis as a requirement for the award of Master of Business Administration. The research topic is EFFECTS OF RISK MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF NON LIFE INSURANCE FIRMS. You have been randomly chosen to participate in this study because of the importance of your information and you are kindly requested not to write your name anywhere on this questionnaire. The information you volunteer will only be used for the purpose of this study and will be treated with strict confidentiality never to be leaked to anybody else. Please feel free and answer all the questions honestly. Thank you in advance for your cooperation.

INSTRUCTION:

Please tick where appropriate.

PART A: GENERAL INFORMATION

1. Please indicate your gender.

- a) Male []
- b) Female []

2. Please indicate your level of education.

- a) Certificate []

- b) Diploma
- c) Bachelor's graduate
- d) Master's graduate
- e) Other (Specify).....

3. Please indicate your designation.....

4. Please indicate the duration of service in your current organization.

- a) Less than one year
- b) Between 1- 3 years
- c) Between 3- 5 years
- d) Between 5- 10 years
- e) Above 10 years

PART B: RISK IDENTIFICATION PRACTICE

5. Does risk identification practice affect financial performance of non-life insurance firms in Kenya?

- a) Yes
- b) No

6. If yes in question 5 above, how in your opinion does risk identification practice affect financial performance of non-life insurance firms?

- a) Increases financial performance
- b) Decreases financial performance

7. In your opinion, which of the following risk identification practices affect financial performance of non-life insurance firms most?

- a) Risk frequency

b) Risk severity []

c) Amount of premium set []

8. In the table below, please indicate number of new clients on average that your firm recruited in regard to the following years:

Number of clients/ Year	2010	2011	2012	2013	2014
Less than 1000					
1000 to 3000					
3000 to 5000					
5000 to 10000					
More than 10000					

9. How many clients recruited in a year do you retain on average in that year?

a) Less than 1000 []

b) 1000 to 3000 []

c) 3000 to 5000 []

d) 5000 to 10000 []

e) More than 10000 []

10. How many clients on average does your firm lose to competitors per year?

a) Less than 1000 []

b) 1000 to 3000 []

c) 3000 to 5000 []

d) 5000 to 10000 []

e) More than 10000 []

11. In the table below, please indicate the average amount of money that your company collected in total in terms of new premiums in the following years:

AMOUNT(Ksh.)/ YEAR	2010	2011	2012	2013	2014
Less than one billion					
One to three billion					
Three to five billion					
Five to ten billion					
More than ten billion					

12. How much on average does your firm collect in total in terms of renewal premiums per year?

- a) Less than one billion []
- b) One to three billion []
- c) Three to five billion []
- d) Five to ten billion []
- e) More than ten billion []

13. How much on average does your firm lose in total in terms of renewal premiums per year?

- a) Less than one billion []
- b) One to three billion []
- c) Three to five billion []
- d) Five to ten billion []
- e) More than ten billion []

PART C: RISK MITIGATION PRACTICE

14. Does risk mitigation practice affect financial performance of non-life insurance firms in Kenya?

- a) Yes []
- b) No []

15. If yes in question 13 above, how in your opinion does risk mitigation practice affect financial performance of non-life insurance firms?

- a) Increases financial performance []
- b) Decreases financial performance []

16. In your opinion, which of the following risk mitigation practices affect financial performance of non-life insurance firms most?

- a) Risk control []
- b) Appropriateness of risk standards set []
- c) Appropriateness of risk limits assigned []

17. In the table below, please indicate the average amount of money that your firm paid in total in terms of claims received in the following years:

AMOUNT(Ksh.)/ YEAR	2010	2011	2012	2013	2014
Less than one billion					
One to three billion					
Three to five billion					
Five to ten billion					
More than ten billion					

18. How much on average does your firm pay in total towards reinsurance as premiums ceded per year?

- a) Less than 100 million []
- b) 100 to 300 million []
- c) 300 to 500 million []
- d) More than 500 million []

19. How much on average does your firm receive in total from reinsurance for claims launched per year?

- a) Less than 100 million []
- b) 100 to 300 million []
- c) 300 to 500 million []
- d) More than 500 million []

PART D: RISK MONITORING PRACTICE

20. Does risk monitoring practice affect financial performance of non-life insurance firms in Kenya?

- a) Yes []
- b) No []

21. If yes in question 18 above, how in your opinion does risk monitoring practices affect financial performance of non-life insurance firms?

- a) Increases financial performance []
- b) Decreases financial performance []

22. In your opinion, which of the following risk monitoring practices affect financial performance of non-life insurance firms most?

- a) Product pricing []
- b) Compliance with risk standards []
- c) Compliance with risk limits []

23. How much on average does your firm pay in total towards commissions per year?

- a) Less than 100 million []
- b) 100 to 300 million []
- c) 300 to 500 million []
- d) More than 500 million []

24. In the table below, please indicate the average amount of money that your firm made in total as profits in the following years:

AMOUNT(Ksh.)/ YEAR	2010	2011	2012	2013	2014
Less than 100 million					
100 to 300 million					
300 to 500 million					
500Million to 1 billion					
More than 1billion					

Thank you for your cooperation

APPENDIX III: ROA per year of the ten Non- life Insurance firms

Name of company	Return on assets (ROA)				
	2010	2011	2012	2013	2014
Cooperative insurance	3.67	4.44	4.72	3.22	5.55
APA Insurance company	1.93	2.55	2.67	3.22	4.56
Blue shield Insurance company	5.34	5.89	7.53	9.22	9.93
British American Insurance company of East Africa (ICEA)	2.11	2.78	3.42	5.66	4.58
Jubilee insurance company Ltd.	4.52	5.01	6.42	7.89	8.51
Invesco Assurance company	2.17	2.44	3.33	5.67	6.92
Kenindia Assurance company	4.04	4.55	5.77	7.63	8.43
Heritage insurance company African Merchant Assurance company (AMACO)	6.12	6.93	8.74	10.61	9.74
TOTAL	33.35	40.39	48.18	62.77	70.75
Mean	3.335	4.039	4.818	6.277	7.075
Standard deviation	1.55859	1.50025	2.08500	2.43870	2.00336