RISK MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF INSURANCE COMPANIES LISTED IN NAIROBI SECURITIES EXCHANGE, KENYA

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Full Length Research

ABSTRACT

The purpose of the study was to establish the influence of risk management practices on financial performance of insurance companies listed in Nairobi Securities Exchange. The study was guided by the following specific objectives; to determine the influence of risk identification on financial performance of insurance companies listed in NSE; to establish the influence of risk analysis on financial performance of insurance companies listed in NSE; to assess the influence of risk response planning on financial performance of insurance companies listed in NSE; and to evaluate the influence of risk monitoring on financial performance of insurance companies listed in NSE. The study was based on risk management theory, enterprise risk management theory, contingency planning theory and Cognitive Dissonance Theory. The study applied a descriptive research design. The target population of the study comprised of the six (6) insurance companies listed in the NSE. The study's units of analysis constituted the listed insurance companies' top and middle level managers in the key departments concerned with risk management and financial performance. This composition translated to a total number of 72 potential respondents. The study conducted a census study of all the 72 top and middle management staff working in the six insurance companies listed in the NSE. The researcher made use of both primary and secondary data. Primary data was collected by means of self-administered, semi-structured questionnaires whereas secondary data was collected from relevant journals. Data analysis was done by use of Statistical Package for Social Sciences (SPSS Version 25) analysis software. The study found that the insurance companies listed in the NSE have implemented risk management practices to a moderate extent. The insurance companies listed in the NSE adopted risk identification practices to a moderate extent, risk analysis practices to a moderate extent, risk response planning practices in their operations to a moderate extent and risk monitoring practices to a great extent. Risk management practices (risk identification, risk analysis, risk response planning and risk monitoring practices) explain 75.1% of financial performance of the insurance companies listed in the NSE. From the regression analysis, holding constant the predictor variables, the financial performance of the insurance companies listed in the NSE would have a coefficient of 4.778. The beta coefficient for risk identification practices was 0.862. The risk analysis practices had a beta coefficient of 0.879. A unit change in risk response planning practices would result to 0.646 change in financial performance. A unit growth in risk monitoring practices would result to 0.7120 times increase in financial performance. The study concludes that there is a moderate level of implementation of risk management practices. The insurance companies listed in the NSE are exposed to considerable amount of risks which call for them to establish, adopt and implement specific risk management practices in their operations. Risk analysis practices that influence the financial performance of the insurance companies listed at the NSE are exposure assessment, risk assessment, consequence assessment and risk estimation. Risk response planning practices like risk acceptance, risk

avoidance, risk limitation and risk transference have significance influence on the financial performance of the insurance companies listed at the NSE. The study recommends that the management of the listed insurance companies should ensure they have effective risk identification practices in place. The listed insurance companies should also ensure they have risk analysis practices which consider the organizational targets, goals and strategies for ensuring that effectiveness and efficiency in their operations. There is need for aligning the risk responce planning practices to the organizational visions and missions. There is need for adoption of the most supportive risk monitoring structures to foster high returns.

INTRODUCTION

Background of the Study

The present business climate is confronted with uncommon difficulties. Pimchang thong and Boonjing (2017) pointed that organizations are working in quickly changing occasions stood up to with dynamic, unsure and exceptionally aggressive business sectors, globalization and mechanical changes. In present day business atmosphere, compelling financial performance and regard creation are seen as the critical drivers for the establishment of an affiliation. The accomplishment of these objectives is unimaginably influenced by factors some of which are controllable and others wild arising out of monetary, social, legal, advancement and political condition (Abdi, 2017). Accordingly, organizations defy perils, for instance, operational, key, money related risk and their frailty to proactively direct them exhaustively.

Worldwide, organizations have faced a number of other internal challenges in dealing with risks. Associations as a rule are confronting stringent legitimate necessities by the specialists and controllers, who are requesting the execution of progressively more refined hazard administration rehearses (Sleimi, 2020). In addition, as innovation has helped associations to be more productive, it has likewise presented them to various sorts of new huge dangers. According to Gee and Button (2015), financial report over the past decade numerous forms of misconduct by the financial industry have been uncovered in the UK. Since 2009 the banks have had to pay about £30 billion in fines and damages. In India Haque and Wani (2015) pointed that capital risk and insolvency risk exerted a significant positive influence on financial performance, whilst the impact of credit risk was significantly negative. Interest rate risk and liquidity risk showed an insignificant positive relationship with financial performance.

According to Zain-Ul-Abideen (2015), regulators in several African countries have also begun to seriously promote risk management as a way of improving organisational performance and resilience. Many companies in South Africa received Risk Management Practices, however far less have possessed the capacity to install those practices into their associations to make an organized and reasonable business administration process. In Spring

2016 the Risk Management Association of Nigeria (Riman) introduced the first formal Nigerian qualifications for risk managers. Riman designed the exams to cover international standards and local requirements. Early in 2016 Namibia set up a new risk management association, with the launch of the Institute of Risk Management South Africa's (IRMSA) first hub outside of South Africa. According to Institute of Risk Management (2016) the idea was borne out of a meeting she attended in the US, at which IRMSA was the only African institute represented and at which there was an obvious lack of African input.

Financial institutions, like other businesses in Kenya, are faced with a myriad of risks ranging from operations risk, market risk, inherent risk and terrorism risks (Wanjohi, Wanjohi & Ndambiri, 2017). The attack on Westgate Shopping Centre in Nairobi in September 2013 is a clear indicator of how vulnerable shopping Malls in Nairobi are exposed to terrorism risks. Properties worth millions of shillings were destroyed and many people lost their lives during the terrorist attack at Westgate. The attack on the Westgate mall indicates a continuing tendency of terror groups to attack soft targets including hotels, malls, sports events and schools. With complexity of insurance and the vulnerability of the target market, there are inherent risks that insurance companies face in serving the low-end market (Kinyua, Ogollah & Mburu, 2015). According to Mutunga and Ondara (2021), the strategies being used to counter the risks include; use of technology to lower administration costs, control of moral hazard and adverse selection, thorough scrutiny of claims, development of risk measurement models and continuous monitoring of the clients.

According to (IRA, 2016), the insurance companies are faced with various risks which include market risks (interest rates, currency risks, product offering), operational risks (governance, technological, internal processes, people risks), liquidity risks (liquidity ratio, cash reserve ratio, liquidity management policy, contingency fund policies) and reputational risks. The implementation of risk management practices vary across different industries and sectors including; setting the risk appetite and philosophy of the organization, commitment of the top management of the organization; establishment of a risk strategy; developing the risk management structure; appointment of a risk champion with the primary responsibility of overseeing the effective implementation of a risk management system; embedding risk into the culture of the organization; measuring, monitoring and reporting risk management effectiveness by using key performance indicators as well as holding risk workshops with senior management which help in identifying and prioritizing risks faced by the organization. Some of the risk mitigation strategies' adopted by insurers in Kenya are, Risk avoidance where organizations would rather not offer services which they cannot ensure a high degree of safety (IRA, 2016).

Statement of the Problem

Risk management in monetary establishments is a foundation to reasonable and adequate monetary practice. In light to this, risk the board is normal and surprisingly more significant in financial conditions than in some other areas of the economy. Jaber (2020) showed that the undoubted inspiration driving cash related associations is to grow pay as far as benefits and

offer the worth expansion to investors speculations by offering distinctive financial institutions, and especially by managing chances satisfactorily. Insurance agencies work principally in risk, more than others it oversees corporate risks and risks of every one of its clients. As indicated by Maina, Alala, Wabwile and Musiege (2014) the vital piece of the insurance agencies 'work is a shrewd administration of the encompassing risks that may happen to the guaranteed and it turns into the obligation of the organization to repay them for misfortunes or in case of inward risks to the organization because of numerous kinds.

Tuwei and Berege (2018) explored the impact of risk the management practices on the presentation of little miniature endeavors around there and tracked down that not many SME proprietors, supervisors, business people or key assigned workers utilize risk the board instruments and strategies inside their organizations, to accomplish development and maintainability. Wanjohi, Wanjohi and Ndambiri (2017) investigated the impact of monetary risk the executives on the financial performance of business banks in Kenya and uncovered a positive measurably critical connection between risk the board practices and financial performance of banks. Kaliti (2015) did an exploration on the impact of risk the management practices on execution of firms in the accommodation business in Nairobi County and found that risk distinguishing proof, risk evaluation, risk reaction and risk observing fundamentally influence execution of the organizations.

Notwithstanding the apparent positive job of risk the executives on improving financial performance, concentrates in this space have offered conflicting outcomes. The insurance industry has recorded huge losses over the recent past attributed to the risks faced in the operating environment. AKI (2020) showed that during year 2020, Britam Holdings Plc made a loss of KShs.9.1 billion; Madison Life Assurance reported a loss of KShs.692 million, UAP Life Assurance made a loss of KShs.484 million and Occidental insurance reported a loss of KShs.80.9 million. The positive job of risk the executives on firm execution could be found as far as better administration of assets, and diminishing pointless costs like far fetched propels (Kaliti, 2015; Uwalomwa & Ranti, 2015; Jaber, 2020), while the negative relationship could be because of less influence and risk taking, as risk the board practices get fixed and this lessens firm productivity (Juma & Atheru, 2018; Shetty & Yadav, 2019). It was against this backdrop that the study sought to establish the influence of risk management practices on financial performance of insurance companies listed in Nairobi Securities Exchange.

Objectives of the Study

The study sought to establish the influence of risk management practices on financial performance of insurance companies listed in Nairobi Securities Exchange, Kenya.
The study was guided by the following specific objectives;

   i.   To determine the influence of risk identification practices on the financial performance of insurance companies listed in NSE

ii.   To establish the influence of risk analysis practices on the financial performance of insurance companies listed in NSE

iii. To assess the influence of risk response planning practices on the financial performance of insurance companies listed in NSE

iv.   To evaluate the influence of risk monitoring practices on the financial performance of insurance companies listed in NSE.

LITERATURE REVIEW

Theoretical Review

Contingency Theory

Contingency hypothesis created out of open frameworks hypothesis and is connected to crafted by early scholars (Burns & Stalker, 1961; Woodward, 1965, Thomsen, 1967; Lawrence & Lorsch, 1967) who proposed that there is nobody approach to arrange for all circumstances and along these lines the board adequacy is subject to the interchange between the utilization of the executives conduct and explicit circumstances. Possibility arranging otherwise called business progression arranging is a significant component of risk the board. The suspicion basic possibility hypothesis is that no single kind of hierarchical construction is similarly relevant to all associations (Kuchynková, 2016). Gallardo (2015) attests that there is no single ideal plan to fit all associations. This infers that initiative techniques that may be powerful in certain associations might be incapable when applied to another association.

The principal premise of Contingency Planning is that, since all risks can't be completely dispensed with by and by, some degree of risk will consistently remain. Notwithstanding the association's absolute best endeavors to keep away from, forestall or relieve them, episodes will in any case happen (Wanjohi & Ombui, 2013). Possibility arranging includes getting ready for the unforeseen and anticipating the obscure. Furthermore, its essential intention is to limit the unfriendly outcomes or effects of occurrences and catastrophes. Since the risk the board practice isn't without association structure there is need to have the alternate courses of action interlinked with the productivity assumptions in an association. There is need to have an unmistakable explained structure on the most proficient method to oversee liquidity, credit risk and operational risk the executives in order to have full advantages related with great risk the board on benefit levels.

From Furu's (2012) viewpoint, it isn't workable for administrators to decide every one of the variables applicable to the decision- making circumstance. In view of requirements of time, cash and capacity, chiefs can neither gather total data about the climate nor investigate it totally. Furthermore, it is beyond the realm of imagination to expect to build up ideal relationship among these variables. The theory is applicable in this study based on the premise that insurance firms are likely to implement changes if they can effectively embrace or embark on adopting appropriate approaches in dealing with risk. In the world of competition like any business entity have to embrace organizational competence in order to

enhance their financial performance. This theory therefore is significant in determining the influence of risk identification on the financial performance of NSE listed insurance companies.

Agency Theory

Agency hypothesis was created by Stephen Ross and Barry in 1975 (Mitnick, 2011). Under the organization costs speculation, high influence or a low value/resource proportion diminishes the office expenses of outside value and builds firm worth by obliging or urging administrators to act more in light of a legitimate concern for investors (Mitnick, 2011). The office relationship is one in which at least one people (head) connects with someone else (specialist) to play out some assistance for their benefit. By so doing the chief representatives dynamic power to the specialist (Delves and Patrick, 2008). The detachment of proprietorship and control in an expertly overseen firm may bring about the supervisors giving deficient consideration and little work endeavors while seeking after their own personal circumstance. As per Mitnick (2011), insurance administrators may decide on data sources or yields that suit their own inclinations, in any case neglecting to boost the firm worth (Berger, 2003).

The hypothesis attempts to determine the difficult that emerges when the objectives of the head and specialist struggle and it is troublesome or costly for the chief to confirm what the specialist is really doing. The hypothesis likewise attempts to determine the issues that may emerge when the head and the specialist have distinctive risk cravings which affects the activities that might be liked (Landström, 1993). Where market blemishes exist, risk the board at the undertaking level is fitting to build the association's worth to investors by lessening costs related with office clashes, outer financing, monetary pain, and charges (Aretz, Bartram, and Dufey, 2007). Agreeing organization hypothesis, cost of outside proprietorship equivalent the lost worth from proficient directors boosting their own utility, as opposed to the worth of the firm. The utilization of the office hypothesis depends on the acknowledgment that, insurance agencies are confronted with the organization issue where there clashing interests between the administration and the investor. This can anyway be tended to by insurance agencies accepting risk the executives oractices.

Powerful risk the board can bring sweeping advantages to these associations. Guaranteeing that an association utilizes risk the board initially implies making a methodology developed of all around characterized risk the executives and afterward installing them. The theory supports the study by giving insights that in order to make essential decisions regarding risl management in an ever changing environment, organizations must adopt specificrelationships for them to ralize their goals. The organizations make conscious decisions to change actions in response to operational changes. This theory therefore plays a significance role in assessing the influence of risk response planning on the financial performance of insurance companies listed in NSE.

Cognitive Dissonance Theory

The Cognitive dissonance theory proposed by Leon Festinger in 1957 (Festinger, 1957) suggests that people have a motivational drive to diminish disharmony by changing their outlooks, feelings, and practices, or by pushing or legitimizing them. This hypothesis was a push to decide the cause of pressing factors, whereby it was set up that when at least two elements are contradictory with our thoughts, assessments and convictions, pressures emerge subsequently (Schachter, 1994). Festinger suggested that psychological cacophony exists when our intellectual convictions, feelings, and thoughts are tested, hence giving a need to decrease this inconvenience.

As indicated by Margolis (2016), disharmony is perceived as a psychological segment which is frequently affected by significant dynamic. It is likewise perceived as a passionate part dependent on fulfillment got from buys made on items, whereby execution is contrasted with assumptions. Studies by Powers and Jack (2013), Bosco (2016) and Margolis (2016), recommend that irregularity in people's convictions persuade them to look for and create methodologies to reduce their trouble. the hypothesis is firmly founded on the idea of activity, whereby Festinger (1957) clarified that activities are affected by correspondence among midway focused people.

Jones and Jones (2007), Jones (2012) and Bawa and Kansal (2008), clarify that activities taken by people to decrease disharmony are frequently because of the data they are presented to. Their actions, perceptions and attitudes towards insurance firms are greatly influenced by their mutual interaction and the information they are exposed to within the customer feedback platforms. This shall guide this study in describing the role and it's important in the selection and positioning itself in certain target markets in order to define its space and potential risks and the available practices for profitable growth. This makes the theory crucial in playing dual purposes in establishing the influence of risk analysis on the financial performance of insurance companies listed in NSE and evaluating the influence of risk monitoring on the financial performance of insurance companies listed in NSE.

Conceptual Framework

The conceptual framework for this study is based on the relationship between the independent variables and dependent variable. In this study the dependent variable is financial performance while the independent variables are risk identification, risk analysis, risk response planning and risk monitoring and control Practices.
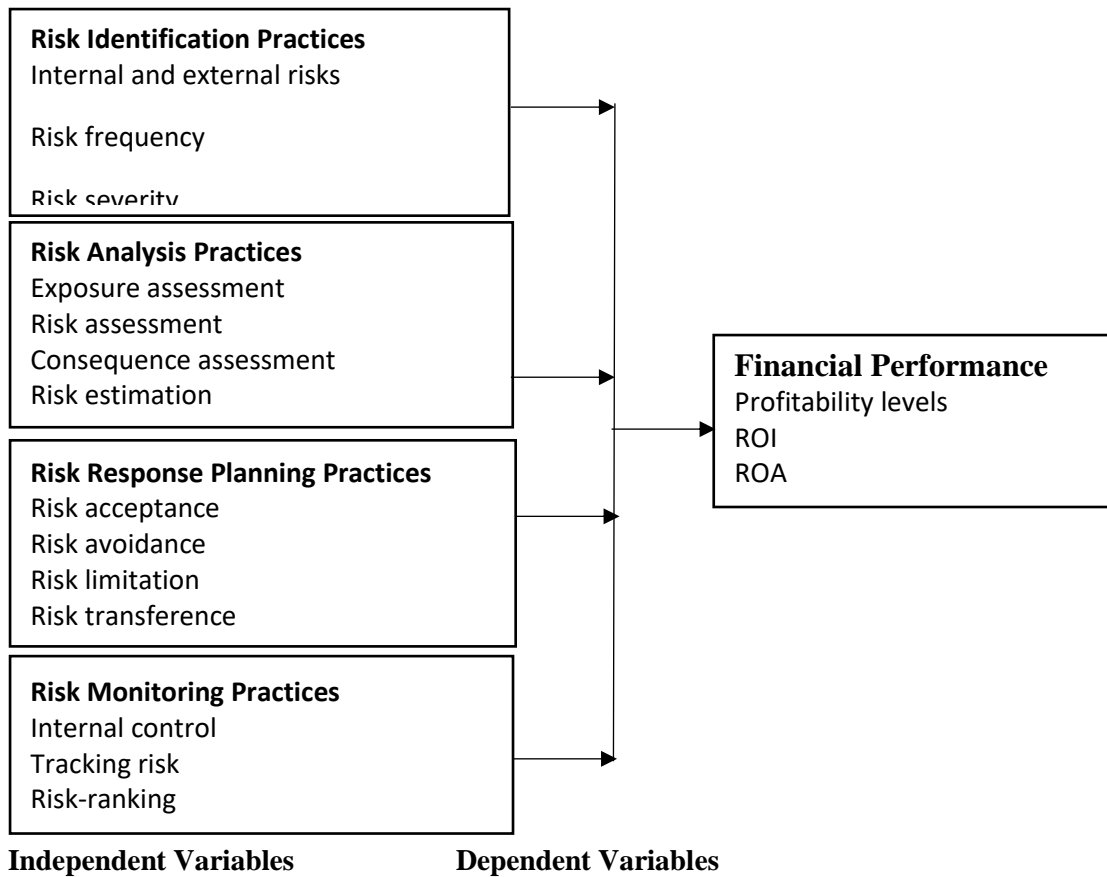
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┌─────────────────────────────────────┐
│ Risk Identification Practices        │
│ Internal and external risks          │
│                                      │
│ Risk frequency                       │
│                                      │
│ Risk severity                        │
├─────────────────────────────────────┤
│ Risk Analysis Practices              │
│ Exposure assessment                  │
│ Risk assessment                      │
│ Consequence assessment               │
│ Risk estimation                      │
├─────────────────────────────────────┤
│ Risk Response Planning Practices     │
│ Risk acceptance                      │
│ Risk avoidance                       │
│ Risk limitation                      │
│ Risk transference                    │
├─────────────────────────────────────┤
│ Risk Monitoring Practices            │
│ Internal control                     │
│ Tracking risk                        │
│ Risk-ranking                         │
└─────────────────────────────────────┘
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Financial Performance
Profitability levels
ROI
ROA

Independent Variables   **Dependent Variables**

Figure 1: Conceptual Framework

Empirical Review

Risk Identification Practices and Financial Performance

Identification of risk is critical to the risk arranging exercise and thusly, the group ought to guarantee that particular risks influencing project achievement are perceived. Khalilzadeh, Katoueizadeh and Zavadskas (2020) considered risk recognizable proof and prioritization in financial tasks of Payment Service Provider (PSP) organizations in Iran. 30 specialists engaged with PSP organizations are utilized as the exploration test. Eleven key risks and Forty-six sub-chances are likewise distinguished. Accordingly, the fluffy dynamic preliminary and assessment research facility method is applied to decide the compelling and influenced chances and the seriousness of their consequences for one another. At long last, all risks are positioned. Because of the inward interrelationships of the principle chances, the heaviness of each risk is determined through the fluffy scientific organization measure. As the second-level risks have no critical interrelationships, they are positioned through the fluffy scientific chain of command measure. In addition, the best-most noticeably terrible technique is utilized to guarantee that the acquired rankings are solid. This investigation distinguishes the risks influencing the deficiency of banking projects and decides the effects of these risks on each. An affectability investigation is then led on the loads of the models, and the outcomes are analyzed.

Lagat and Tenai (2017) led an investigation on the impact of risk distinguishing proof on execution of monetary foundations in Kenya. The investigation utilized logical research plan. The research utilized delineated arbitrary testing to choose respondents from target populace containing directors of 46 business banks, 52 Micro Finance organizations (MFIs) and 200 SACCOs and an example size of 239 respondents acquired. Information was gathered utilizing surveys. Elucidating measurements was introduced, while inferential insights was finished utilizing Pearson item second connection. From the model outcomes, the risk distinguishing proof ($\beta=0.026$) was not fundamentally identified with financial performance. The getting ready for chances is inescapable in project the board and as such ought not be treated with levity.

Otaalo, Muchelule and Asinza (2019) studied the effect of risk identification and risk analysis on performance of road construction projects in Kakamega County, Kenya. The instrument of data collection were structured questionnaires. The target population consisted of 80 project managers, road engineers, project managers, road supervisors, road inspectors, road surveyors and contractors in Kakamega County. The unit of analysis were ongoing and completed road projects implemented by Kakamega county government. Simple random sampling used to select 80 of whom 70 respondents returned the questionnaires representing 87% respondents. The findings showed that risk identification has a positive and significant effect on risk management practices in road construction projects. Risk analysis has positive and significant effect on the risk management practices in road construction projects. There were gaps that were identified that would result in the curtailing of these positives. Issues related to the involvement of the project team during risk identification stage were brought up.

Risk Analysis Practices and Financial Performance

Risk analysis structures the foundation of a viable risk the board plan. Tune and Xiong (2018) characterize risk research as the way toward assessing the probability of the event of an occasion (attractive or unwanted) and its effect. Adwoa and Chileshe (2015) carried out a research of risk the board by and by Ghana's development industry. The investigation was led through an organized poll managed to 103 development experts rehearsing with development customer (private and public), advisor and project worker associations inside the Ghanaian development industry. The investigation showed that albeit most of the respondents know about risk appraisal and the management practices, a few experts discovered the interaction not to be formal. Comparative with the advantages, there was a dissimilarity in the positioning of understanding scores on 2 of the 8 advantages among the respondents corresponding to 'item to the necessary quality' and 'decrease in agreement claims'. Be that as it may, they all conceded to 'improved camaraderie' as the main advantages.

Masár (2019) examined risk in the vehicle business and uncovered that risk investigation is intended to recognize issues that are viewed as venture the board hindrances, however can possibly become distinct risk factors. The intention is to distinguish redressing measures that can consolidated to confine or eliminate the causes that have led to such risks and to

guarantee that these wellbeing estimates become a piece of risk related insightful convention for future reference. Quantitative risk investigation is more centered around the execution of wellbeing estimates that have been set up, to ensure against each characterized risk. By utilizing a quantitative methodology, an association can make an extremely exact logical understanding that can obviously address which risk settling measures have been most appropriate to different task needs. This makes the quantitative methodology supported by numerous supervisory crews since risk evaluations can be unmistakably addressed in the experimental structures like rates or likelihood diagrams, since it accentuates utilizing devices like measurements.

Ahmed, Mukhongo and Datche (2019) studied the effect of financial risk management on financial performance of small and medium enterprises in Hirshabelle State-Somalia. This study was conducted through the use of cross-sectional survey research design. The target population included the 2,657 SMEs in Hirshabelle state-Somalia. Stratified sampling technique was used to ensure that the target population was divided into different homogeneous strata Random sampling technique was used. The study had a sample size of 348 respondents. The study did a pilot of 10% of the respondents who did not take part in the study. The researcher used internal consistency measure known as Cronbach's Alpha (α) where the recommended value of 0.7 and above as a measure of reliability. The study found that risk analysis enables firms to cluster or categorize financial risks based on the field of risk, this for example can be to check if the identifies risk is market or financial risks. The process also identifies the origin of the risk. Clustering allows a company to later analyses whether some of the risks are related and whether some of them offset each other.

Risk Response Planning Practices and Financial Performance

The risk response planning includes deciding approaches to lessen or kill any risks to the venture, and furthermore the chances to build their effect. Mhetre, Konnur and Landage (2016) in an investigation of risk responce arranging in India suggested that eliminating the reason for risk will assist with staying away from the risk by executing the task an alternate way while centering to accomplish the targets of the undertaking. They likewise contended that risk aversion implies the utilization of emergency course of action to dispense with a risk. The investigation additionally uncovers that most organizations dispense with risks by offering at an excessive cost or not offering for the work. risk evasion technique was discovered to be one of the supported strategies for the board of risk in Florida, notwithstanding, the respondents proposed this training can lead inferior quality, low efficiency, and deferral of activities.

As per Cooper (2015), exercises like; activity surveys, more itemized arranging, insurance and wellbeing frameworks, elective methodologies, grant to work, preparing and abilities improvement, procedural changes, customary assessments and preventive upkeep can assist with staying away from possible risks. Ploywarin and Song (2014) examined the impact of risk reaction arranging in the development business in Jamaica. Utilizing a graphic methodology and focusing on the administration staff in the significant development

organizations the investigation uncovered that keeping away from risks involves to showing a drive to reject project that may prompt risk. They additionally contend that development project can't wipe out all risk however by a strategy for risk avoidance is appropriate to lessen its events which can cause harm. The findings from the research uncover that most loved risk system received by workers for hire in Jamaica is risk evasion with the reaction pace of 85%. Different procedures of risk the executives like evasion, transaction, and acknowledgment were just reflected in the structure straightforwardness in correspondence to partners. Wanyonyi (2015) carried a survey on the influence of risk management strategies on the performance of selected international development organization based in Nairobi city. The study findings were that risk avoidance involves changing project plan so as to protect objectives of the project from repercussion of risk by eliminating the condition that causes the risk. The study finding shows the existence of the statistically strong connection between avoidance of risk and the performance of the project. This was clearly shown by utilization of techniques in an effort to avoid risks which include the use of contingency plans, use of work plan in an implementation of projects, implementation of the safety plan and regular inspection to ensure no eventuality occurs that may interfere with the performance of the project.

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An research directed by Bhoola, Hiremath and Mallik (2014) evaluated risk treatment procedures rehearsed in programming improvement projects in India. They included 302 task supervisors from different IT firms. The outcomes from the investigation uncovered that risk

decrease methodology had the main achievement in programming improvement projects. Different procedures of risk the executives like evasion, transaction, and acknowledgment were just reflected in the structure straightforwardness in correspondence to partners. Wanyonyi (2015) carried a survey on the influence of risk management strategies on the performance of selected international development organization based in Nairobi city. The study findings were that risk avoidance involves changing project plan so as to protect objectives of the project from repercussion of risk by eliminating the condition that causes the risk. The study finding shows the existence of the statistically strong connection between avoidance of risk and the performance of the project. This was clearly shown by utilization of techniques in an effort to avoid risks which include the use of contingency plans, use of work plan in an implementation of projects, implementation of the safety plan and regular inspection to ensure no eventuality occurs that may interfere with the performance of the project.

Risk Monitoring Practices and Financial Performance

Risk monitoring phase implies the improvements of the risk positions and measures to control them (Angote, Malenya, and Musiega, 2015). Hamdu and Knapkovaa (2016) examined the effect of absolute risk the board on organization's exhibition. Their exact research explored the connection between absolute risk the executives and friends' exhibition. Their outcome chided that there is a positive connection between all out risk the executives and friends' presentation in organizations which have contributed more significant level of scholarly capital. Since project conditions, and subsequently risks, intrinsically change as an undertaking travels through the advancement interaction, the Risk Management Plan is expected to be an advancing archive (and procedure), changing and adjusting as the venture creates.

Lagat and Yegon (2017) researched the impact of risk checking on execution of monetary foundations in Kenya. The research utilized illustrative exploration plan. The investigation utilized delineated arbitrary examining to choose respondents from target populace involving chiefs of 46 business banks, 52 Micro Finance Institutions (MFIs) and 200 SACCOs and an example size of 239 respondents got. Information was gathered utilizing surveys. Spellbinding insights was introduced, while inferential measurements was finished utilizing Pearson item second connection. Results: Risk checking [r = 0.206, p<.05] had a positive relationship execution of monetary foundations. The more there was risk checking the higher the exhibition of monetary foundations. A legitimate risk checking practices was utilized to guarantee that risks are in accordance with monetary establishment's administration objectives to reveal botches at beginning phases. The risk observing had positive relationship on execution of monetary establishments (P<0.05).

Mburu, Ngugi and Ogollah (2017) researched the connection between risks checking and control the board procedure and store network execution among assembling organizations in Kenya. The investigation embraced a cross-segment overview of distinct nature .The objective populace included the 412 assembling organizations inside Nairobi County that

were enrolled individuals from KAM. The fisher et al recipe for ascertaining the example size was utilized to yield an example size of199. Information was gathered utilizing surveys and broke down utilizing factual bundle of sociologies (SPSS) variant 21 as a device of research. The investigation findings uncovered that the builds of risk recognizable proof administration methodology consolidated together impacted production network execution as upheld by a p worth of 0.000. Further, the majority of the organizations had risk research and assessment the executives methodology set up.

Karanja, Bichanga and Kingoriah (2018) explored the influence of credit risk monitoring on lending performance of commercial banks in Nairobi County, Kenya. The study used descriptive survey research design and the target population for this study was at two levels. The target population was employees of the 42 commercial banks in operation in Kenya as at 1st January, 2018. Primary data was collected using questionnaires that have both structured and unstructured questions. The researcher analyzed the data using descriptive statistics and logistic regression analysis (binary) was used. The results of the study revealed that the combined effect of credit risks monitoring activities influenced bank lending performance positively.

Critique of Literature Review

The literature review in this study comprises of theoretical framework, conceptual framework and empirical review. In the theoretical framework, existing theories on risk management and financial performance of insurance companies. According to Bülbül et al., (2019), intense competition is a strong determinant for RM practices implementation, and weaker RM practices can signal poor control mechanisms. The ultimate goal of risk management is to create an environment that facilitates teamwork within the organization, implements all employees in the decision-making process, and establishes an effective communication system to address risk. Learning from the risk-taking organization's past and showing senior management leadership helps the organization to avoid automatic guilt.

According to the literature, it was discovered that there are different approaches to risk management. All of these practices ensure that the risk management process needs to identify, analyze, assess, and evaluate the risks that the organization faces. The importance of corporate risk management, especially since the 2008 financial crisis, has been increasingly emphasized, indicating whether financial institutions cannot manage risk effectively. Thus, questioning their existence and result in significant investment losses and loss of new investment opportunities and generating more profits. This study was focused on establishing the influence of risk management practices on financial performance of insurance companies listed in the NSE.

Research Gaps

The foregoing studies found that financial institutions have adopted risk management practices to manage risk and as a result the risk management practices comprising of;

understanding risk, risk identification, risk analysis and assessment as well as risk monitoring had a positive correlation to the financial performance. As such, numerous studies have been conducted on various institutions and sectors, which show that there is an effect of risk management on organizational performance of insurance firms; however, studies on the insurance sector are scanty. Furthermore, despite many studies on risk management on financial performance of financial institutions, there is still a notable gap in this research study that has been undertaken to date in the context of risk management practices which will help firm to improve on financial performance of insurance companies. The existing body of research has found mixed results regarding significant effects of risk management practices on financial performance of organizations. It was against this backdrop that the current study sought to investigate the influence of risk management practices on financial performance of insurance companies listed on NSE. This study therefore aimed at investigating and widening their scope on the effects of risk management practices on financial performance of insurance companies listed in NSE Kenya.

RESEARCH METHODOLOGY

The study applied a descriptive research design. The target population of the study comprised of the six (6) insurance companies listed in the NSE which were also licensed to carry out insurance business in Kenya under the Insurance Regulatory Agency. The top management level included; Head of risk and compliance department, Finance manager, credit control managers, Head of Actuarial department and the head of marketing team. While the middle level managers included assistant managers, senior finance officers, assistant risk managers, risk officers, actuarial team leaders and actuarial analysts, assistant credit control managers and credit control team leaders, marketing team leaders and a senior marketing officer. This composition translated to a total number of potential respondents of 72. The sampling frame consisted of all the six insurance companies listed in the NSE. The study sought to conduct a census study of all the 72 top and middle management staff working in the six insurance companies listed in the NSE. A semi-structured questionnaire was used as the tool for collecting data.

Drop and pick later method was used allowing one week for the exercise. Each item had a five-point scale ranging from 1 to 5 where 1=No extent, 2=Little extent, 3= Neutral 4=Great extent, and 5=Very great extent. The study also used secondary data sources. Secondary data was sourced from the six insurance companies' published financial statements, referred journal articles and other relevant materials from the internet and library sources for the period between years 2016 and 2020. Information related to the financial performance of the listed insurance companies was collected from individual companies' websites, CBK supervisory reports, IRA publications, NSE handbooks, and CMA reports. The researcher selected 10% of the population respondents for the pre-test who were based on other Insurance companies. The participants of the pilot study were excluded from the final study to avoid the biasness.

The Cronbach alpha was used to ascertain the reliability of the research instrument. The Cronbach alpha of 0.7 and more is an ideal measure of the reliability of the data collection instrument. The questionnaire was developed based on similar prior studies with modifications aimed at addressing the study objectives. The qualitative and quantitative analysis of data was done to answer the research questions of this study. The researcher used Statistical Package for Social Sciences (SPSS Version 25) analysis software as well as Microsoft Excel (Spreadsheet) to aid in calculation of descriptive statistics. This enabled the researcher generate statistics such as percentages, frequencies, distribution, measure of central tendencies (mean, median, mode) graphs, etc. A linear model shown below was used for purposes of determining whether risk management practices have a significant influence on the financial performance of listed insurance companies. The financial performance of the listed insurance companies was measured by return on assets (ROA). The multiple regression model equation was as follows:

$$Y = \beta o + \beta 1 X1 + \beta 2 X2 + \beta 3 X3 + \beta 4 X4 + \varepsilon \quad \ldots\ldots\ldots\ldots\ldots\ldots\text{equation 1}$$

Where;

Y represents Financial Performance; X1 represents Risk Identification; X2 represents Risk Analysis; X3 represents Risk Response Planning; X4 represents Risk Monitoring and Control; βo represents Constant term/intercept; β1, β2, β3, β4 are regression Co-efficient of variables X1, X2, X3, X4 respectively; and ε represents Error term.

RESEARCH FINDINGS AND DISCUSSION

A census study of 72 respondents was selected in collecting data. The questionnaires that were correctly filled were 64 which translates to response rate of 88.9%. Descriptive and inferential statistics have been used to discuss the findings of the study.

Table 1: Model Summary

Item	Value
Model	1
R	0.872
R Square	0.760
Adjusted R Square	0.751
Std. Error of the Estimate	0.573

a. Predictors: *(Constant), Risk identification, risk analysis, risk response planning and risk monitoring practices*

The findings show that adjusted R-square which is the multiple correlation coefficients that shows extent of the prediction of the dependent variable by the independent variable is 0.751. This result is considered a good indication because it points to a strong correlation. The values of the Adjusted R-Squared show that after a the model is adjusted for inefficiencies the independent variables can explain 75.1% of financial performance of the insurance companies listed in the NSE. These results agree with the findings by Jaber (2020) who found that risk identification, risk assessment analysis, risk monitoring and credit risk analysis have a significant positive contribution to organizational performance.

Table 2: ANOVA (b)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.804	4	3.216	3.436	.015(a)
Residual	0.026	59	6.708		
Total	0.830		0		

a. Predictors: *(Constant), Risk identification, risk analysis, risk response planning and risk monitoring practices*

b. Dependent Variable: Financial performance of the insurance companies listed in the NSE

From the Table 2, The F value which is calculated at 5% significance level was 3.436 with the significance value of 0.015 which is less than the critical value at 5% level derived from a 2-tailed test. The F calculated in this model is greater than the F critical (at 4 59, F critical= 2.41). This is an indication of the overall significance of the model. It is therefore derived that there is a significant relationship between risk management practices and financial performance of the insurance companies listed in the NSE. These findings show the significance of the regression model developed which is found to be statistically significant. Any variation in the variables is insignificant and cannot result to a much difference in case of a change in the study units (population). The model can be therefore relied upon to explain the effect of risk identification practices, risk analysis practices, risk response planning practices, and risk monitoring practices on financial performance of the insurance companies listed in the NSE. Specifically, Owolabi et al., (2017) clarified that risk management practices have a positive impact on the profitability of insurance companies.

Table 3: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.778	0.453		10.5475	0.0429
Risk identification practices	0.862	0.114	0.024	7.5614	0.0150
Risk analysis practices	0.879	0.108	0.029	8.1389	0.0133
Risk response planning practices	0.646	0.173	0.086	3.7341	0.0463
risk monitoring practices	0.712	0.137	0.064	5.1971	0.0264

The coefficients in Table 4.24 answer the regression equation relating the dependent and the independent variables. All the variables resulted in a significance value of less than 0.05 when subjected to a confidence level of 95%. This is an indicator of the significance of the results. Further the positive coefficient was drawn from the variables. This finding indicates a positive relationship between the dependent variable and the independent variables. The regression model established was;

$$Y=4.778 +0.862X_1+0.879X_2+0.646X_3+0.712X_4$$

Holding constant the predictor variables, the financial performance of the insurance companies listed in the NSE would have a coefficient of 4.778 meaning that if all the factos were Zero (0) the financial performance (Y) will be equal to 4.778 units. From the results, the

regression coefficient for risk identification practices is 0.862. This is supported by a significant value of 0.015 which is less than 0.05. This result shows that there is a significant positive relationship between risk identification practices and financial performance of the insurance companies listed in the NSE. Based on these findings, there is therefore a positive and significant relationship between risk identification practices and financial performance of the insurance companies listed in the NSE. A unit change in the risk identification practices would result to 0.862 times change in financial performance of the insurance companies listed in the NSE.

The risk analysis practices was found to have a positive and significant relationship to performance. This is indicated by a regression coefficient of 0.879 and a p-value of 0.0133 less than 0.05 showing the significance of the relationship. Based on the coefficient, it is evident that a unit increase in risk analysis practices would result to 0.879 times increase in financial performance of the insurance companies listed in the NSE. Risk response planning practices is seen to have a positive effect on the financial performance of the insurance companies listed in the NSE. This is shown by the regression coefficient of 0.646 with a significance value of 0.0463 which is less than 0.05 the critical value at 5% level of significance. This therefore shows that a unit change in risk response planning practices would result to 0.646 change in financial performance of the insurance companies listed in the NSE.

The regression model as well shows that risk monitoring practices is positively related to financial performance of the insurance companies listed in the NSE. The regression coefficient for this was obtained to be 0.7120 with a significant value of 0.0264 less than 0.05 indicating a significant effect of risk monitoring practices on performance. Thus, a unit growth in risk monitoring practices would result to 0.7120 times increase in financial performance of the insurance companies listed in the NSE. The findings of this study therefore demonstrate that the risk analysis practices contributes more to the increase of financial performance of the insurance companies listed in the NSE followed by risk identification practices, then risk monitoring practices, while risk response planning practices contributes the least. This concurs with Abdi (2017) that majority of the financial institutions were practicing good financial risk management and as a result the financial risk management practices had a positive correlation to their financial performance.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The study concludes that there is a moderate level of implementation of risk management practices among the insurance companies listed in the NSE. The insurance companies listed in the NSE are exposed to financial risk, operational risk, legal risk, liquidity risk and political risk. The study deduces that the insurance companies listed in the NSE adopted risk identification practices to significant levels with an intention of enhancing their financial performance. The various aspects of risk identification practices influencing the financial

performance include internal and external risks, risk frequency, risk severity, risk characteristics, risk awareness and technical risks. They analyze the business to identify risk exposure, they consider professionalism in the respective business, they consider capacity of the business to mitigate the risk, they look at the long term planning for the companies to identify the impending risk, they look at the conditions before they commit to the insurance policy, they consider the net worth of every business that operates within the insurance industry and they look at project events with respect to various risk categories, and extracting those which could have a negative impact on the business.

The study also concludes that the listed insurance companies have adopted risk analysis practices which influences their financial performance significantly. As such, risk analysis plays a crucial role on the financial performance of the insurance companies listed in the NSE. The various aspects of risk analysis practices influence the financial performance of the insurance companies listed at the NSE are exposure assessment, risk assessment, consequence assessment and risk estimation. The study further deduces that risk response planning practices have been adopted to relatively significant levels in the operations of the insurance companies listed in the NSE. The study study finally concludes that the listed insurance companies have implemented risk monitoring practices to enhance their business operations in the insurance industry. Risk monitoring aspects like tracking risk, risk ranking, risk review, conducting risk audits and formal procedures play a great role in the insurance companies which affects their financial performance.

Recommendations

The study recommends that the management of the listed insurance companies should ensure they have effective risk identification practices in place. This will help to identify internal and external risks which are likely to cause a significant increase in disruption of the scheduled operational problems. By identifying, avoiding and dealing with potential risks in advance, the organizations can respond effectively to the challenges whenever they emerge. The listed insurance companies should also ensure they have risk analysis practices which consider the organizational targets, goals and strategies for ensuring that effectiveness and efficiency in their operations. This would lead to superior financial performance, better basis for strategy setting, improved service delivery, greater competitive advantage, more efficient use of resources, reduced waste and fraud, improved innovation, revenue growth, claims settlement, investment income, return on assets, profitability and cash flows.

The study also recommends that there is need for aligning the risk responce planning practices to the organizational visions and missions. Such practices would ensure that the risk response function is established throughout the organizations, ensuring financial performance and development of risk approach strategies. This would lead to realization of increased financial performance of the companies. The study also suggests that there is need for adoption of the most supportive risk monitoring structures to foster high returns. In this regard, the insurance companies ought to invest in advanced technologies to keep up in pace

with the global changes in the insurance industry hence better performance. There is need for creation of monitoring policies and awareness of the formal risk management techniques in the insurance companies. Educating the risk management personnel will not only help improve financial performance but can lead to innovation of other better ways of handling risks in the organizations.

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