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# FINANCIAL RISK MANAGEMENT PRACTICES AND PERFORMANCE OF INSURANCE COMPANIES IN KISII COUNTY, KENYA

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# ABSTRACT

Risk management should be at the core of an organization's operations by integrating risk management practices into processes, methods and culture of the organization. This involves four major strategies which are risk mitigation, risk assessment, risk identification, and risk communication. The aim of the research was to identify the financial risk management practices enforced by Kenyan insurance companies on the performance of these companies. The study adopted a descriptive research design. The target population was the ten registered insurance companies in Kisii county, Kenya. Primary data was used for the purposes of the study, and primary data was collected through questionnaires with ten insurance companies giving a response. Content analysis was used to analyze qualitative data. Regression analysis was used in the fulfillment of this study. The results were presented by use of tables and charts. The study established that a majority of insurance companies in Kisii county, Kenya had adopted risk management practices in their operations and that this had a strong effect on their financial performance. Risk mitigation was found to be the most significant in influencing financial performance, followed by risk assessment, risk management program implementation & identification respectively. This study concluded and indicated that a positive relationship between the adoption of risk management strategies and the financial performance of insurance companies in Kisii County, Kenya is evident. The study recommends that insurance company management implement effective risk mitigation strategies to maintain consistent financial performance. Consequently, risk reduction is a crucial element in maintaining the stability of a company's financial performance. The study advises that the management of insurance businesses should consistently assess the applicability of their risk management techniques in light of an ever-evolving operational landscape. Information technology should be enhanced in risk management by implementing information systems pertinent to risk assessment and measurement to evaluate the efficacy of risk management programs.

Key Words: Risk Mitigation, Risk Assessment, Risk Identification, Risk Communication

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# INTRODUCTION

Insurance businesses serve as crucial financial middlemen in economic development. Insurance companies distinguish themselves from other financial intermediaries in their roles (Saunders & Insurance facilitates growth by Cornett, 2008). adeptly managing risks and channeling resources into investments through its risk indemnification and financial intermediary roles (Ward, 2000). Insurance fosters economic growth through many mechanisms, including as enhancing certainty to bolster investment, facilitating access to capital, ensuring liquidity, and mobilizing savings, so contributing to sustainable and responsible development (Feyen, Lester, & Rocha, 2011).

Key decision makers have long ignored risk, but new developments in the banking industryprimarily brought on by the recent financial crisishave made risk management a priority. Igbal and Mirakhor (2007) contend that an effective risk management system significantly aids enterprises in mitigating risk exposure and improving firm profitability. Consequently, selecting a risk management tool is linked to the quantifiable disposition and the analytical culture exhibited by decision-makers in their utilization of risk management models. There is a contention that the emphasis of risk function should be on riskperformance management based and comprehensive risk measurement, while others contend that the focus should be on gathering expert opinions regarding emerging risk management issues and engaging in qualitative discourse (Mikes & Kaplan, 2014).

Globally, the primary function of insurance businesses is risk management, necessitating enhanced integration of risk management systems, procedures, and corporate culture. Imane (2013) conducted a study on the management of risk and performance concerning financial aspects in insurance companies in Jordan. The study identified credit risk (debt and risk), operational risk (efficiency, income, and price), liquidity risk (liquidity and capital), and market risk (inflation,

interest rates, and financial crises) as explanatory variables, while return on equity and return on assets were employed as dependent variables over a fifteen-year period from 1998 to 2012. The research disclosed that the management practices of credit, liquidity, and operational risk have a detrimental statistical impact on the performance of Islamic banks, and these institutions have simultaneously failed to effectively manage these risks. Secondly, demonstrating enhancements in risk management has a significant and favorable empirical impact on performance, indicating that these institutions do not experience operational risk during the research period, nor do they struggle with managing this type of risk. This study illustrates that the variables analyzed, including credit risk, operational risk, liquidity risk, and market risk, are highly significant to risk management techniques.

The research was carried out among insurance companies in Nigeria. The target demographic comprised 25 firms, all of which were included. The research utilized secondary data derived from the annual reports of publicly traded insurance companies in Nigeria. Simple regression analysis was utilized to assess the influence of solvency risk on performance. Solvency risk was determined to have a substantial beneficial impact on profitability. The background of the study diverged from the present research, which will concentrate on the insurance sector in Kenya. The present study utilized panel multiple regression analysis, facilitating the detection of interactions among various variables and the moderating influence.

Kenyan insurance companies and majorly a census survey was done on 49 licenced insurance companies. A census methodology facilitates the acquisition of more precise and dependable data. The research included both primary and secondary data. This study utilized descriptive statistics for data analysis. The research identified risk identification as the most influential factor affecting the financial performance of Kenyan insurance enterprises, followed by risk mitigation, the management of risk program execution and monitoring, and risk assessment and measurement, respectively. Notwithstanding the prevailing circumstances, insurance businesses can enhance their status by optimizing efficiency, reducing expenditures, managing risk, and augmenting profit margins. This can be achieved by using wellresearched risk management solutions.

Financial performance is an efficacy tool and it assess how a company utilizes assets from the main operations to generate income, while financial evaluation aims to provide a good understanding of a company's financial status (Easwaran et al. 2021). It can also be characterized as an evaluation of an institution's comprehensive financial condition or the effectiveness of its policies and operations in fiscal terms over a certain duration (Wood, 2018). Financial performance statistics are recorded in an institution's annual, quarterly, or monthly financial statements, comprising the income statement, balance sheet, and cash flow statement (Weygandtet al., 2018). Financial viability, total cash generated, sales turnover, capitalization, and other quantitative metrics can be utilized to evaluate financial performance. Financial metrics such as market value, liquidity, performance, cash flow, profitability, and debt ratios can also be utilized for measurement (Procházka, 2017).

A risk is defined as the likelihood of harm, injury, loss, liability, or an unfavorable event resulting from internal or external exposures, which can be mitigated through preventive measures. Risk is defined as the uncertainty associated with a future outcome or event (Banks, 2004). Moreover, risk denotes a potential adverse impact on an asset or a valued attribute that may result from current processes or future events (Douglas and Wildavsky, 2000). Rejda (2008) defines risk management as the process by which an organization recognizes potential loss exposures and picks the most suitable ways for addressing them. Dowd et al. (2007) delineates that risk management techniques in the financial sector should encompass well-defined risk strategies, an autonomous risk management function led by a Principal Risk Officer, risk modeling, and prompt communication of riskrelated concerns. The risk management role was accountable for the formulation and execution of risk control systems. Risk modeling entails employing models that assess risk metrics and maybe conduct stress testing.

The primary factors influencing a firm's financial success are its profitability, liquidity, and solvency. A firm's profitability indicates the extent to which it can manage to make good profit from all the factors of production. The productivity of a firm can be used in assessing financial performance of the institution. The ratios of return on assets and return on equity are good indicators on how the profitability of an organization is. The financial performance of a corporation can be assessed by evaluating its profitability levels. Quach (2005) posits that liquidity can be examined both structurally and operationally. Moreover, operational liquidity quantifies cash flow, while structural liquidity pertains to the makeup of the balance sheet. Solvency metrics indicate a company's capacity to fulfill its total liabilities through the liquidation of its assets. It provides insights about a firm's ability to remain operational following a significant financial catastrophe.

The inception of insurance in Kenya occurred in the early 20th century, around 1922. Royal Exchange Assurance established a branch office in Kenya, subsequently followed by Commercial Union in 1929 (Wachira 2008). In addition to insurance firms, the market includes agents, insurance brokers, insurance surveyors, risk managers, investigators, loss adjusters, and reinsurance companies. There are two principal associations: the Association of Kenya Insurers (AKI) and the Association of Kenya Insurance Brokers (AIBK). The IRA is the regulatory authority responsible for overseeing and governing participants in the insurance sector. The sector has implemented selfregulation under the Association of Kenya Insurers (AKI). In 2011, the Insurance Regulatory Authority established the Insurance Investigation Unit to investigate fraud within the insurance sector, in collaboration with the Commissioner of Police. The apex of the insurance business in Kenya comprises two reinsurance entities: Kenya Reinsurance Corporation (Kenya Re) and East African Reinsurance Company. By 2010, there were 44 companies offering both short-term and long-term services, of which 21 were medical insurance providers. The insurance industry confronts numerous challenges, including structural deficiencies, fraud perpetrated by clients and employees, elevated claims, protracted claim settlements, deferred premium collection, liquidity shortages resulting in the collapse of certain firms, sluggish economic growth, inadequate governance, low insurance service penetration, and market saturation. In the last ten years, a minimum of nine insurance businesses have experienced failure and collapse as a result of the aforementioned dangers. The numerous risks and problems confronting the insurance industry in Kenya have compelled the IRA to formulate a comprehensive risk management guideline for the sector.

The notion of risk has been defined variably, reflecting the numerous characteristics of corporate entities that encounter such hazards (Holton, 2004). Consequently, experts have typically defined risks based on the characteristics of the industry; insurance companies are categorized inside the financial services sector. Consequently, insurance risks will emerge from the financial activities of the insurance enterprise. Insurance risks denote the potential for investors to incur losses if they allocate resources to a company with inadequate cash flows to meet obligations (Selvaraj & Karan, 2012). Wani and Ahmad (2015) characterized insurance risks as a comprehensive category encompassing numerous associated with financial transactions. risks Adegoke and Olatunji (2018) characterized these risks as the heightened unpredictability in the net cash flows of equity holders resulting from fixed financial commitments.

# **Statement of the Problem**

The primary function of insurance firms is risk management. This serves to mitigate both their clients' risks and their own. This necessitates enhanced integration of risk management into the systems, procedures, and culture of organizations. New and developing hazards are arising, while more 'known' risks are intensifying. This indicates an increased necessity for insurance companies to prioritize risk management. The Kenyan insurance sector demonstrates а deficiency in а comprehensive risk management approach, which was the primary focus of this study. A multitude of experts have conducted comprehensive research on the Insurance Industry, both globally and within Kenya. Nonetheless, these research have concentrated on various circumstances. Hameeda and Al Ajmi (2012) conducted a study on conventional and Islamic banks in Bahrain. The aim of this study was to determine the risk management methods of banks. The survey revealed that banks in Bahrain possessed a strong comprehension of risk and risk management. The investigation revealed that the banks possessed effective processes for risk identification, risk assessment, monitoring, and credit risk analysis. Pagach and Warr (2010) examined the impact of implementing ERM principles on the long-term performance of organizations by analyzing financial, asset, and market factors during the period of ERM implementation. Their analysis revealed that the effects of ERM adoption are experienced over time, as it encompasses all critical facets of the organization. A 2009 survey by Everis classified the diverse risks encountered in the insurance sector into underwriting risks, credit risks, market risks, operational risks, and liquidity concerns, among Lengopito (2004) conducted others. an investigation of strategy reactions to heightened competition within the healthcare sector. This study aimed to ascertain whether the need for health insurance will increase or decrease, hence identifying the necessity for enhanced services from health insurance providers. Ogolla (2005) conducted a study on the implementation of generic strategies by insurance companies in Kenya. Ndeda (2014) also investigated underwriting risk management solutions for motor vehicle insurance. Her investigation revealed the necessity of emphasizing risk management within the motor vehicle insurance sector, which was encountering significant claims experience. Previous studies indicate that the relationship between risk management and financial success has not been adequately explored. To the researcher's knowledge, this study has not been conducted. A knowledge gap exists; this study aims to address it by exploring the following research question:What are the financial risk management practices adopted by Kenyan insurance companies, on their performance?

# **Objectives of the Study**

The study mainly sought to investigate financial risk management strategies adopted by insurance companies in Kisii county, Kenya on their performance.The study was based on the following specific objectives; -

- To evaluate the impact of financial risk identification on performance of insurance companies in Kisii County, Kenya.
- To establish the influence of financial risk assessment on performance of insurance companies in Kisii County, Kenya.
- To find out the influence of financial risk mitigation on performance of insurance companies in Kisii County, Kenya.
- To determine the influence of financial risk communication on performance of insurance companies in Kisii County, Kenya.

# LITERATURE REVIEW

# **Theoretical Review**

# **Agency Theory**

Agency theory encompasses the analysis of firms, focusing on the separation of ownership and control, along with managerial incentives. In corporate risk management, agency issues have been shown to affect managerial perspectives on

risk-taking and hedging (Smith and Stulz, 1995). The agency hypothesis elucidates a potential conflict of interest among debt holders. shareholders, and management due to inconsistencies in revenue distribution. Agency theory posits that established hedging policies can substantially impact corporate value (Fite and Pfleiderer, 2001). Stulz (1995) posited a rationale for managers of a corporation to engage in risk He emphasizes that company management. executives, or more specifically managers, are expected to operate on behalf of the primary stakeholders of the company, thereby playing a significant influence in the firm's profitability and resource allocation. This indicates a propensity to minimize risk in order to decrease the variability of returns for the organization and to attain the firm's objectives. By undertaking this action, managers are considered to be optimizing wealth, aligning with the shareholders' objective of wealth maximization.

# The Stakeholder Theory

This theory emphasizes the equilibrium of stakeholders' interests as the main determinant of corporate policy. The most significant advancement in risk management is the application of implicit theory beyond contracts employment to encompass other agreements, such as sales and finance (Cornell and Shapiro, 2000). The worth of a firm is derived from customers' belief in its ability to provide services in the future. The value of implicit claims, however, may be contingent upon the projected consequences of financial distress and insolvency. Corporate risk management strategies diminish anticipated costs, hence enhancing firm value (Klimczak, 2005). Consequently, stakeholder theory provides insight into the potential basis for risk management. Surveys of the financial distress theory (Smith and Stulz, 1995) yield only indirect evidence (Judge, 2006). Therefore, this theory is pertinent to our research, as it emphasizes the significance of client trust and the associated costs for insurance businesses. Stakeholder theory posits that smaller organizations are more prone to

financial challenges, which should prompt them to enhance their focus on adopting risk management techniques. This idea underscores the necessity for insurance businesses to adopt more effective risk management practices to enhance corporate value. This hypothesis, however, does not delineate the impact of risk management on the company's financial performance or the following relationship between these variables, except from suggesting that risk management fosters an increase in the company's value.

# **Theory of Optimal Capital Structure**

Standard & Poor's (2013) note that the failure of an insurance company may be revealed when regulators intervene, in contrast to a bank's failure, which typically occurs owing to delayed debt payments. The optimal capital structure hypothesis posits the existence of an ideal, finite debt-equity ratio, derived from a trade-off between anticipated bankruptcy costs and the tax advantages associated with interest payment deductibility (Kim, 1976). Bankruptcy ensues when set obligations cannot be fulfilled. There are eleven direct and indirect costs associated with bankruptcy. The immediate costs include legal fees, accounting fees, trustee fees, and potential forfeiture of income tax carryovers and carrybacks. Indirect expenses pertain to disruptions between the firm and the supplier. Barker, 1988. Warner (1999) and Weiss (2000) provide evidence of financial difficulty and emphasize the importance of bankruptcy costs to a corporation.

Allen and Santo Mero (2006) assert that the cost of bankruptcy is particularly significant in regulated industries, where substantial losses may result in the revocation of licenses or charters, as well as the potential forfeiture of monopoly status. The financial repercussions of bankruptcy are significant for the Kenyan insurance sector. If a company cannot resolve its outstanding claims to customers, the regulator has the authority to declare it bankrupt and place it under receivership. Blue Shield Insurance and Concord Insurance were recently placed under receivership due to bankruptcy. This indicates that bankruptcy expenses must be carefully considered in the risk management strategies of insurance companies in Kenya.



#### **Conceptual Framework**

## **Empirical Review**

Georges (2013) provided a concise history of risk management, highlighting the emergence of pure risk management as an alternative to market insurance in the mid-1950s. The 1970s and 1980s witnessed the proliferation and utilization of derivative instruments, which were subsequently rejected due to their perilous and unclear characteristics. Georges further demonstrates that, despite the development of financial risk models and capital calculation formulae by financial institutions, the financial crises of 2002 and 2007 were unavoidable. He anticipates that this may inadequate from execution of stem risk management measures. Dionne (2009) identifies the principal challenges in risk management as insufficient incentive stemming from informational asymmetry, inadequate product valuation by agencies, subpar ratings of composite financial products, and ineffective regulation of structured finance. Georges (2013) asserts that risk management involves both the reduction of the company's risk and the enhancement of the firm's value. A 2009 survey conducted by Everis on risk management across the insurance sector in Europe and South America yielded several conclusions. In Spain, 73% of the examined enterprises had allocated reserves for risk management, 18% had no reserves, and the other 9% showed no indication of establishing such reserves. The recognized risks encompass deviation risks, reinsurance risk, inadequate premium risk, technical reserve risk, significant loss risk, general business risk, liquidity risk, and operational risk, among others. Portugal was regarded as more advanced in its risk management practices. Ninety percent of the Portuguese enterprises under examination managed their risk as an independent unit inside the company, while the remaining ten percent designated specific persons to oversee risk management within the organization. Brazilian companies were deemed more innovative in risk management due to their effective responsiveness to all existing threats. They identified that the primary obstacles to effective risk management

were insufficient systems development and challenges in implementing methodologies within the organizations, a conclusion corroborated by Blanchard and Dionne (2003, 2004) about the 2002 New York Stock Exchange financial crisis. The risk calculation methodologies employed by Brazilian corporations encompassed stress testing, the mix method, parametric approaches, and deterministic methods. Jason Thacker (2011) states that the European insurance sector adopted the Solvency II risk management framework. It was derived from the Basel II and Basel III frameworks of the banking sector. The risk-based stipulations of the Solvency II framework encompass technical prerequisites in the balance sheet and minimum capital requirements, among others. The Solvency II model has been scrutinized for its potential to diminish foreign insurance and long-tailed business exposure, hence prompting a migration of foreign business to the United States (US). As of 2011, insurers in the United States had not yet implemented regulations on stochastic reserving and capital adequacy requirements. Financial risk management has garnered significant attention throughout the years. Actuaries have been criticized for their dependence on deterministic risk assessments instead of adopting stochastic methodologies. Actuaries have prioritized quantitative and recurrent risk events, which need the measurement of operational risk. Financial performance is a measure of an organization's income, returns, and value appreciation, evidenced by an increase in the firm's share price. Insurance firms often report net premiums, underwriting profits, annual turnover, return on equity, and return on investment. These measurements are regarded as performance indicators for profit and Underwriting risk is a significant investment. determinant of an insurance company's financial performance. Robust underwriting procedures are essential to an insurer's financial performance. The risk in underwriting depends on the insurer's risk appetite. The ratio of benefits incurred to net premium serves as an indicator of underwriting risk (Adams and Buckle, 2000). Elevated retention

ratios coupled with diminished claim ratios frequently enhance the performance of insurers. Consequently, a more efficient insurance firm in underwriting decisions, along with increased retention, should exhibit greater profitability (Charumathi, 2012).

Profit performance is the disparity between revenues and expenses, influenced by firm-specific attributes, industry variables, and macroeconomic fluctuations. Investment performance may manifest in two distinct forms. The return on assets utilized in the firm, excluding cash, and the return on investment processes for surplus cash at various levels generated from operations (Chen and Wong, 2004; Asimakopoulos, Samitas, and Papadogonas, 2009). Liquidity is an additional factor influencing financial performance. Liquidity refers to the extent to which debt obligations due within one year can be settled with cash or other readily convertible assets. The cash and bank balances must be sufficient to fulfill urgent liabilities for claims that are due for payment but not yet resolved (Chaharbaghi and Lynch, 1999). The firm's scale also constrains the financial success of an insurance company. It influences its financial success in multiple ways. Larger organizations can leverage economies of scale more effectively than smaller firms, enhancing their competitiveness. The size of a corporation can be assessed by its earnings after deducting reinsurance ceded. The insurer's premium base determines the extent of their policy responsibilities (Ahmed, Ahmed, and Ahmed, 2010; Teece, 2009). Ownership is a significant component that affects the financial performance of an insurance firm. The ownership structure influences the company's management decisions on dividend or interest payments and the retention of profits for reinvestment (Agiobenebo and Ezirim, 2002).

# METHODOLOGY

This study employed a descriptive research design. Descriptive research allows the researcher to delineate the existing relationship through observation and interpretation. Mugenda & Mugenda (2003) define research design as the framework or blueprint for an inquiry intended to provide answers to research questions, encompassing a detailed explanation of the research process to facilitate the presenting of results in an accessible format. This research design provides the researcher with a suitable approach to depict the properties of the variables being examined. Causal research establishes causal relationships between studied variables by examining existing events and analyzing available data to uncover viable causal connections. The research methodology facilitated a thorough examination by respondents regarding risk management techniques that Kenyan insurance companies may implement to mitigate risk and enhance performance.

The study targeted 58 operation managers, branch managers, supervisors, system auditors and risk managers. The study adopted census to get a sample size of 95 respondents. The target population was chosen because it has all the characteristics that can be used to answer the research questions under study.

The study used primary data that was collected through self-administered questionnaires containing closed questions. The questionnaire was designed on a six-point type scale and administered through a drop and pick method. A questionnaire, as the data collection instrument of choice because it was easy to formulate and administer and also provides a relatively simple and straightforward approach to the study of attitudes, values, beliefs and motives. The questionnaire contained three sections in which section A contained the demographic information; and the other sections were present as by the study variables.

For purposes of this research, all components of the questionnaires were checked and coded to ensure clarity of words and the accuracy of the statements, then pretested in 10 respondents from one Insurance company, 10 respondents were used for the pilot study (10% of 95).

The questionnaires that were used to collect data was edited for accuracy, consistency and completeness. However, before final analysis was performed, data was cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated. The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variance). Data was analyzed using statistical package for social sciences based on the questionnaires. In particular percentages and frequency distribution was used to summarize the responses and to show the magnitude of similarities and differences. Results were presented in tables and charts.

# **FINDINGS & DISCUSSION**

#### **Descriptive Statistics of Study Variables**

# Descriptive Financial Risk Identification and Financial Performance

The analysis in this section is in line with the study's first objective, which sought to determine the influence of financial risk identification and financial performance. The descriptive results are shown in Table 1.

Statement	SD	D	Ν	Α	SA	Mean	Std.	
							Dev.	
Insurance policies impact the business's	4.9%	8.5%	6.9%	52.8	26.9%	3.88	1.05	
day to day operations and strategic				%				
direction.								
Indicators signaling that there is	3.3%	4.6%	6.9%	57.7	27.5%	4.01	.90	
necessity of reassessing the risk				%				
adjusted return on capital on my								
Incentives and reward systems are	7.5%	10.2%	20.0%	45.9	16.4%	3.53	1.11	
aligned to encourage responsible risk				%				
The board can signal red flags from	6.9%	7.9%	11.5%	56.1	17.7%	3.69	1.06	
potential default from creditors.				%				
The optimal board size for achieving	13.8%	20.3%	9.8%	44.9	11.1%	3.19	1.27	
strong financial performance varies				%				
depending on the industry and								
organizational complexity.								

Tab	le 1	: Des	criptiv	e Stati	stics f	or F	inanci	al	Ris	k lo	lentif	icat	ion	and	Finan	cia	Per	forman	ce
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The findings in Table 1 revealed that majority of the respondents concurred that Insurance policies impact the business's frequent operations and strategic direction as evidenced by a mean of 3.88 and a standard deviation of 1.05. It was further established that Indicators signaling that there is necessity of reassessing the risk as shown by a mean of 4.01 and a standard deviation of 0.90. In addition, the respondents concurred that Incentives and reward systems are aligned to encourage responsible risk as shown with a mean of 3.69 and a standard deviation of 1.06. The respondents also concurred to the statements that board can signal

red flags from potential default from creditors with means of 3.19 and 4.22 respectively. This indicates that financial risk identification influenced financial performance in Insurance Companies operating in Kisii Town.

# Descriptive Analysis of Financial Risk Assessment and Financial Performance

The study's second objective was to establish the influence of financial risk assessment and financial performance. The descriptive statistics for the objective are shown in Table 2.

Statement	SD	D	Ν	Α	SA	Mean	Std.
							Dev.
In the face of a product failure,	7.5%	16.4%	12.5%	51.8%	11.8%	3.43	1.12
scandal or damaging industry							
speculation the board can accurately							
assess the potential impact on my							
brand's reputation.							
The board has set realistic and	5.2%	9.2%	13.4%	57.0%	15.1%	3.67	1.01
comprehensive credit limits for it's							
customers that align with their							
financial ratios.							
Regular board turnover ensures fresh	4.3%	11.1%	12.5%	49.5%	22.6%	3.75	1.05
perspectives and ideas that positively							
impact financial performance.							
Implementing term limits for board	9.8%	18.4%	41.5%	20.5%	9.8%	2.32	1.17
members ensures a regular infusion of							
new ideas and improves financial							
performance.							
Incase on international expansion the	11.1%	19.7%	32.8%	27.5%	8.9%	3.23	1.19
board is able to adhere to new legal							
and compliance landscapes.							

As the findings in Table 2 portray, respondents were indifferent on the statement that In the face of a product failure, scandal or damaging industry speculation the board can accurately assess the potential impact on my brand's reputation (Mean = 3.43, SD = 1.12). However, the respondents agreed to the statement that board has set realistic and comprehensive credit limits for its customers that align with their financial ratios which was indicated by a Mean of 3.67, SD = 1.01) and the Regular board turnover ensures fresh perspectives and ideas that positively impact financial performance indicated by a Mean of 3.75, SD = 1.17. Moreover, they agreed to the statement that Implementing term limits for board members ensures a regular infusion of new ideas and improves financial performance indicated by a Mean 3.23, SD = 1.19). Generally, the respondents seemed to agree that financial risk assessment affects financial performance.

# Descriptive Analysis of Financial Risk Mitigation and Financial Performance

The third objective of the study was to establish the effect of financial risk mitigation and financial performance. The descriptive statistics for the objective are shown in Table 5 below.

Statement	SD	D	Ν	Α	SA	Mean	Std.
	(%)	(%)	(%)	()%	(%)		Dev.
The board has systems in place to monitor and manage	7.2	12.5	14.4	53.1	12.8	3.51	1.09
employee related risks such as fraud or key person							
dependency.							
Contingency lines of credit are available when needed	36.4	26.6	15.7	16.7	4.6	2.86	1.21
and lines can be tested under different scenarios.							
Key indicators are in place that warn of a pending market	12.8	23.9	48.0	8.7	6.6	3.02	1.18
downturn.							
Directors with many years of experience bring valuable	10.8	12.8	16.1	49.8	10.5%	3.36	1.16
insights that improve financial performance.							
The board is able to standardize operating procedures to	13.4	14.1	7.4	46.2	18.9	3.98	1.01
reduce errors and eliminate potential risks.							

As the findings in Table 3 portray, most of the respondents concur that board has systems in place to monitor and manage employee related risks such as fraud or key person dependency as revealed by a mean of 3.51 and a standard deviation of 1.09. The respondents suggested that Contingency lines of credit are available when needed and lines can be tested under different scenarios as shown by a mean of 2.86 and a standard deviation of 1.21 (Strongly disagree = 36.4%; disagree = 26.6%). The respondents were mainly neutral on the statement that Key indicators are in place that warn of a pending market downturn as shown by 48.0% neutral cases and a mean of 3.02. On the statement that Directors with many years of experience bring

valuable insights that improve financial performance was indicated by a mean of 3.36 and lastly, the board is able to standardize operating procedures to reduce errors and eliminate potential risks by a mean of 3.98. This implies that financial risk mitigation determines financial performance of insurance companies operating in Kisii County.

# Descriptive Analysis of Financial Risk Communication and Financial Performance

The fourth objective of the study was to establish the effect of financial risk communication and financial performance. The descriptive statistics for the objective are shown in Table 4 below.

Statement	SD	D (%)	N (%)	A ()%	SA	Mean	Std.
	(%)				(%)		Dev.
Board has a communication crisis plan and once	13.4	15.4%	20.3%	43.6%	7.2%	3.15	1.18
invoked its effective both internally and externally.	%						
Critical components of a reputable and trusted	20.0	20.3%	26.6%	28.9%	4.3%	2.77	1.18
business are effectively communicated and	%						
maintained across the organization. Impact of risk management on overall return on	9.2	7.2%	22.3%	44.9%	16.4%	3.52	1.12
investment to stakeholders is properly	%						
communicated. Ethnic diversity on boards improves the ability to understand and serve diverse markets, enhancing financial performance.	25.2 %	21.6%	20.3%	26.6%	6.2%	2.66	1.27
Financial impacts of reputational losses are	12.5	18.0%	16.7%	43.3%	9.5%	3.19	1.20
handled and recovery plans communicated to stakeholders.	%						
The board has a communication crisis plan and							
once invoked it's effective both internally and							
externally.							

# Table 4: Descriptive Results on Financial Risk Communication and Financial Performance

Findings in Table 4 reveal that 50.8% of the respondents agreed that the board has a communication crisis plan and once invoked its effective both internally and externally while 50.3% of the respondents agreed that Critical components of a reputable and trusted business are effectively communicated and maintained across the organization. The respondents, however, agreed that Impact of risk management on overall return on investment to stakeholders is properly communicated as evidenced by a mean of 3.52 and standard deviation of 1.12. The findings imply that financial impacts of reputational losses are handled and recovery plans communicated to stakeholders with a mean Of 2.66 and a standard deviation of 1.27. On board has a communication crisis plan and once invoked it's effective both internally and

externally was indicated with a mean of 3.19. There was a general agreement that financial risk communication affects financial performance.

# **Inferential Results**

# **Correlation Results**

The present study utilized correlation analysis to explore the relationship between variables, as Pallant (2010) recommended. A correlation value +1 signifies a strong positive linear association between two variables, whereas a correlation coefficient -1 suggests a strong negative linear association. Conversely, a correlation value of zero indicates the lack of a linear association between the two variables. The results of the correlation study are presented in Table 5.

		•			
	Y	<b>X</b> <sub>1</sub>	X2	X <sub>3</sub>	X4
Y	1				
<b>X</b> <sub>1</sub>	.746***	1			
X <sub>2</sub>	.794 <sup>***</sup>	.136	1		
X <sub>3</sub>	.872***	.124	.056	1	
<b>X</b> <sub>4</sub>	.612***	.032	.001	.065	1
<b>1</b> 4	.012	.052	.001	.005	1

Table 5: Correlation between Study Variables

Note: \* p < 0.10, <sup>\*\*</sup> p < 0.05, <sup>\*\*\*</sup> p < 0.01

A variety of interpretations can be drawn from the facts presented in Table 7. In the beginning, it can be observed that the correlation coefficients among the independent variables (X1, X2, X3, and X4) frequently exhibit values that are less than 0.50, which indicates that there are no substantial multicollinearity problems among these variables. According to Gujarati and Porter (2019), multicollinearity is defined as a phenomenon that is characterized by a correlation coefficient that is more than 0.80. Due to the presence of this circumstance, the conclusions may be incorrect. In addition, the findings suggest that there is a significant and positive correlation between financial risk identification (X1) and financial performance. As evidence for this argument, the researcher established that there is a statistically significant correlation coefficient of 0.746 (p less than 0.01) between the two variables. The study reveals that at the existence of a beneficial connection between the financial risk identification and financial performance.

A correlation coefficient of 0.794 suggests that there is a positive and substantial association between financial risk assessment and financial

**Table 6: Model Summary** 

performance. This shows that if the degree of financial risk assessment is increased financial performance is affected by 0.794 units. A noteworthy correlation coefficient of 0.872 was found between financial risk mitigation and financial performance. In addition, a correlation between financial risk communication and financial performance was determined to be statistically significant at 0.612, according to the researchers. This leads one to believe that an increase of one unit in financial risk communication corresponds to a corresponding increase of 0.612 in financial performance.

#### **Regression Analysis**

The following subsections contain reports on the outcomes of the regression analysis that was performed on the data that was collected. The statistical method known as regression analysis is utilized to determine the extent to which a certain correlation exists between a number of different variables. According to Young (2014), making use of regression analysis makes it easier to clarify the statistical association between variables. This, in turn, improves the ability of the study to draw meaningful findings and provide recommendations.

Model	R	R Square	Adjusted R Square	Sig	
1	.856ª	.732	.728	.000	

The figure presented above provides a summary of the model, demonstrating a robust and positive overall link between the identified parameters and financial performance. This is supported by the model's correlation coefficient of 0.856. Moreover, the efficacy of the model is evidenced by its capacity to accurately forecast on financial performance, as denoted by the coefficient of determination (R^2) value of 0.728. This suggests that risk management strategies for about 72.8% of the observed variation in financial performance, leaving the remaining 27.2% to be influenced by additional practices that were not considered in the model. The adequacy of the model is evidenced by the robust correlation between the variables, as illustrated in Table 8.

#### **Table 6: ANOVA**

Mode	I	Sum of Squares	df	Mean Square	F	Sig.
1	Regression Regional	60.425 6.773	5 90	15.11 .154	98.117	.000ª
	Total	67.198	95			
a.	Predictors: (Constant), X <sub>1</sub> ,	X <sub>2,</sub> X <sub>3</sub> , X <sub>4</sub>				
b.	Dependent Variable: Y					

The ANOVA table presented in Table 6. demonstrates the statistical significance of the predictive model used to analyse financial performance. This model incorporates various elements, financial risk identification, financial risk assessment, financial risk mitigation and financial risk communication which have been recognized as influential in determining the financial performance. The analysis demonstrates a noteworthy F-value of 98.117, indicating statistical significance. This suggests that the model functions as a substantial indicator of financial performance.

				Standardized		
		Unstandardiz	ed Coefficients	Coefficients		
Mo	del	Beta	Std. Error	Beta	t-stat	Sig.
1	(Constant)	0.376	0.286		1.315	.002
	X1	0.391	0.165	0.308	2.370	.038
	X <sub>2</sub>	0.401	0.154	0.421	2.600	.021
	X <sub>3</sub>	0.296	0.106	0.207	2.792	.010
	X4	0.372	0.162	0.291	2.300	.000

# **Table 7: Regression Coefficients**

Dependent Variable: Y

Fitted Model:  $Y = 0.376 X_1 + 0.391X_2 + 0.401X_3 + 0.372X_4$ 

#### Y= β1X1+ β2 X2+ β3X3+ β4X4 + ε

The information that is provided in Table 7 enables researchers to arrive at a number of different conclusions. The constant variable in the regression equation has a value of 0.376. This was done so as to better understand the relationship between these two concepts. Table 4.13 demonstrates that financial risk identification have a statistically significant and positive influence (**B** = 0.391, p = 0.002) on financial performance. The results of the regression analysis that are provided in Table 4.12 show that financial risk assessment has a statistically significant beneficial influence (8 = 0.401, p = 0.038) on financial performance. This suggests that when all other parameters remain the same, a one-unit increase in financial risk assessment leads to a significant 40.1% rise in financial performance.

The findings of the regression analysis indicated a statistically significant positive effect of ( $\boldsymbol{\theta}$  = 0.296, p = 0.010) between financial risk mitigation and

financial performance. This suggests that, all other things being equal, an increase of one unit in the financial risk mitigation is associated with a large rise of 29.6% in financial performance. According to the findings of the regression analysis, there is a statistically significant and positive association ( $\boldsymbol{B} =$ 0.372, p = 0.000) between financial risk communication and financial performance. This means that, under the premise that all other factors remain same, a marginal increase of one unit in financial risk communication is related with a statistically significant 37.2% effect on financial performance.

# CONCLUSIONS AND RECOMMENDATIONS

The study concluded that financial risk identification had a statistically significant and positive influence on financial performance. This implies that when all other parameters remain the same, a one-unit increase in financial risk assessment leads to a significant rise in financial performance.

The findings of the regression analysis indicated a statistically significant positive effect between financial risk mitigation and financial performance. This suggests that, all other things being equal, an

increase of one unit in the financial risk mitigation is associated with a large rise in financial performance.

According to the findings of the regression analysis, there is a statistically significant and positive association between financial risk communication and financial performance. This means that, under the premise that all other factors remain same, a marginal increase of one unit in financial risk communication is related with a statistically significant effect on financial performance.

The study recommends that insurance company management implement effective risk mitigation strategies to maintain consistent financial performance. Consequently, risk reduction is a critical element in maintaining the stability of a company's financial performance. The report advises that the management of insurance businesses should consistently assess the applicability of their risk management techniques in light of an ever-evolving operational environment. Information technology should be strengthened in risk management through the implementation of pertinent information systems for risk assessment and measurement, facilitating the monitoring of risk management programs for efficacy.

# **Suggestion for Further Study**

The current study focused on establishing the relationship between financial risk management strategies and financial performance of insurance companies in Kisii Town. Other similar studies can be conducted in other insurance companies operating in other Counties for generalization of the study findings.

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