EFFECTS OF BUSINESS RISK ON PERFORMANCE OF INSURANCE: A CASE STUDY OF MADISON INSURANCE.

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RESEARCH PROJECT SUBMITED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELORS OF COMMERCE IN INSURANCE AND RISK MANAGEMENT AT THE MANAGEMENT UNIVERSITY OF AFRICA.

JULY, 2017

DECLARATION

This project is my original work and has not been presented in any other university or institution for academic credit.

Signature:………………………………………Date: ……………………………………

GEORGE NJOROGE

This project has been submited for examination with my approval as the appointed university supervisor.

Signature: .... Date: ....

Dr. John Cheluget

The Management University of Africa

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DEDICATION

With inconceivable love, I dedicated this project to all those who made it a success; my family and all those who selflessly supported this work.

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ACKNOWLEDGEMENT

I wish to thank all the Management University of Africa fraternity; they have in one way or another contributed to make this research project a success. My sincere gratitude goes to all my fellow students, lecturers, special mention to my supervisor Dr. John Cheluget for his continuous support. To all of you, I shall forever remain grateful.

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ABSTRACT

The research study aim was to establish the effects of business risk on performance of insurance with specific objectives being; to determine the effects of financial risk management on performances of Madison Insurance; to establish the effects of operations risk management on performance of Madison Insurance; to establish the effects of risk monitoring on performance of Madison Insurance; to determine if insurance firms liquidity effect on performance of Madison insurance. The study will add to the body of literature and researches shall be able to use this research study as a reference to what they will do in future not forgetting that it was used as a source of literature review to their studies. 47 respondents were chosen through random sampling that was stratified. The researcher used secondary information sources which were obtained through reading relevant literature available in the library, various documents, publications and reports including, journals, and magazines. The research questionnaires were administered by the researcher himself respondents Data was analyzed through frequency and descriptive statistics. Data was presented with aid of graphs and pie charts and graphs. The study had the following recommendations based on study findings management of Madison insurance should embrace the use of risk identification process to assist in business risk management in ensuring that prospects are maximized and increase in financial performance. The study conclusion is that insurance firms that poorly manage their risk are always faced with accumulations of claims which lead to increased losses and hence poor performance. Business risk management actions are affected by managers risk behaviour, a robust business risk management framework can help companies reduce their exposer to risks and enhance organization performance. Organization that select a particular risk tool tends to be associated with the firms calculative culture that measures attitudes that managers displays towards the use of business risk models

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ACRONYMS AND ABBREVIATIONS

AKI	**:**	Association Kenya Insurers
GDP	**:**	Gross Domestic Product
ICR	**:**	Interest Coverage Ratio
FSD	**:**	Financial Sector Deepening
GDP	**:**	Gross Domestic Product
RIA	**:**	Regulatory Impact Assessment
ROA	**:**	Return on Assets

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OPERATIONAL DEFINITION OF TERMS

Profit ratio **:** is a class of monetary metrics that is used to assess the business to generate earning as compared to expenses and other cost that incurred in a specific period of time (Athansasoglou, Brissimis, & Delis, 2008).

Market Share Index **:** A composite of weighted average of annual net properties, deposits, capital and number of deposits account held by a insurance firms (Anderson & Fornell, 2010).

Regulator **:** a body that is legally mandated to supervise and to provide guidelines for operations of profitable insurance firms in Kenya

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter outlines the study background, statement of the problem, objectives of the study, research questions, significance and scope of the study which explores the effects of business risk on performance of insurance.

1.1 Background of the study

Rejda (2008) established that there are many techniques that are available for insurance firms to manage their day to day risks which include risk avoidance, loss financing, loss prevention and control. Therefore business risk management is very important in the insurance industry. When client's risks are by insurance firm that is what is referred to as insurance. Risk management is a vital discipline in the insurance business; organizations are putting more emphasis on business risk management because it determines their survival as well as performance. It's therefore necessary that insurance firms manage their risk exposure and carry proper analysis to avoid losses due to compensation claims made by the insured. According to Kadi (2003) most insurance firms covers insurable risk without conducting a proper analysis of the expected claims without proper mechanism of identifying the appropriate method of risk reduction.

Insurance firms that poorly manage their risk are always faced with accumulations of claims which lead to increased losses and hence poor performance (Magezi, 2003). Business risk management actions are affected by managers risk behaviour, a robust business risk management framework can help companies reduce their exposer to risks and enhance organization performance (Iqbal & Mirakhor, 2007). Organization that select a particular risk tool tends to be associated with the firms calculative culture that measures attitudes that managers displays towards the use of business risk models. According to Mike and Kaplan (2014) they indicated that some risk functions focus on extensive risk measurement and based performance management, while other focus on the mobilization of experts opinion about emerging risk issues and quality disclosure.

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Merton (2005) indicated that the central function of an insurance firm is the ability to distribute its risk across different contributors. This idea is also echoed by Cornett and Saunders (2008) who also stated that insurance firms are in a risky management business and the do discussed that insurance firms undertake risk bearing and management function on behalf of the clients through pooling of risks and sale of their services as risk specialist, therefore management of risks should take the center stage in the operations of insurance firms. Insurance firms borrow heavily from the risk management process which involves four steps process identification of potential losses, evaluation of potential losses, choosing appropriate risk management techniques for treating loss exposures and administering and implementing the risk management program. Kimball (2009) agrees that management of risk integrates recognition of risk assessment and developing strategies to manage it and mitigation of the risk in order to reduce its exposure and prepare for survival after any unexpected crisis.

In the last decade investors and financial institutions have proficient improved unpredictability in financial, technology revolution which has resulted in the way organization operates marketplaces, information access is on increase, investor being provided with market changes and financial distribution changes (Crouhy, 2006). However financial institutions and other organizations are paying much more attention in the ability to manage business risk and have good programmes of risk management as important part of CSR and insurance firms are considered as mirror to financial stability of a nation (Adrian, 2014). Notwithstanding the known advantages of having business risk management to the best of the study there are no know studies that the researcher is aware of on the subject under study in Kenya, therefore there is information gap to be filed by the study.

1.1.2 Profile of Madison Insurance

Madison insurance company limited is a locally owned insurance company in Kenya that was incorporated under Kenya laws in 1988 after it a merger between Kenya commercial Insurance Corporation and Crusader Plc. Madison insurance company limited offers both life and general insurance products, with the head office located in Nairobi; Madison has 23 branches in all

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principles towns in Kenya with the all branches falling into four regions namely central region, coast region, western region and finally Nairobi region.

The company main goal is to provide the top notch insurance products at the most reasonable price and also provide unequalled customer service to its clients, Madison insurance investment strategy focus on superior long time investment through a well-diversified spread of assets. The current asset base is 10 billion and last year (2016) the company achieved a combined premium income of over kshs six billion.

1.2 Statement of the problem

Insurance company's core business is of managing risks. According to Anthony (2007) insurers are in the risk business that involves providing insurance and other financial services which assumes both financial risk and actuarial risk. The business risk arises from funds that are collected from various insurance policies and other liabilities. When insurance firm invest funds in trade securities it always expect to have on average a zero net economic profit on those securities, therefore if the insurance company pays too much for its funds it cannot expect to earn a satisfactory profit at the end of it all. Banks (2008) maintains that some risks should be retained as part of core business operations that are actively managed to create value for shareholders while others should be transferred elsewhere as long as it's cost effective to do so.

Unfortunately insurance firms are faced with numerous challenges associated with management of risks, Madison insurance limited despite the growth in business portfolio, it's not free from difficulties in growth of its profit and some of its branches are faced with closer and this is due to inadequate practices and policies that are major cause of failures and performance of the insurance firm.

Weerakoon and Bandara (2012) assert that business risk management is important in the industry because it's the backbone of success but the available studies don't indicate the relations between performance and business risk management therefore it's unclear the extent in which performance of insurance firms can be linked to business risk management however, the research

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was to fill the knowledge gap by conducting the research in topic in relations to Madison insurance company limited.

1.3 Oobjectives of the study

The underlying objective of this study was to establish the effects of business risk on performance of insurance with reference to Madison Insurance as study case.

1.3.1 Specific objectives

i. To determine the effects of financial risk management on performance of Madison Insurance

ii. To establish the effects of operation risk management on performance of Madison Insurance

iii. To determine the effects of risk monitoring on performance of Madison Insurance

iv. To determine how insurance firms liquidity on performance of Madison Insurance

1.4 Research Questions

i. Does financial risk management affects performance of Madison Insurance

ii. What are the effects of operation risk management on performance of Madison Insurance

iii. Does risk monitoring affects performance of Madison Insurance

iv. To what extent does firms liquidity affects performance of Madison Insurance

1.5 Significance of the study

1.5.1 Management of Madison Insurance

The management of Madison Insurance used the study as a pointer. This is because it would highlight possessions of business risk management on insurance firm's performance. Managers

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will therefore use these results to select the optimal strategies that would optimize growth and performance of insurance firms. Findings from the study would aid managers of prospective firms who they main targets are to improve insurance firm's performance. The study will also provide ample information to those firms already in the market with strategies that are not working for them.

1.5.2 Scholars and Researchers

This study will thus make special contribution to the existing knowledge, address and provide the background information to research organizations, individual researchers and scholars who will want to carry out further research in this area to identify gaps in the current research.

1.5.3 Policy Makers

The study will be of significance to policy makers for it will enable the government to understand and appreciate the importance of organization performance in Kenya and also help those policy makers are able to develop and implement regulations and policies that will promote growth and development of insurance firm's to boost economic growth and job creations.

1.6 Scope of the study

This research was confined at Madison Insurance offices in Nairobi are located in upper hill. The researcher believes that this will give enough ground to generalize the findings. The researcher also believes that this will provide adequate population and sample for the study and therefore give reliable results and findings. However, the study was carried out during the month of May 2017 to July 2017.

1.7 Chapter Summary

This chapter is the principle guide upon which literature was reviewed, it also identifies the necessary empirical and literature aims and methodology to be followed in conducting the study, the chapter has discussed the study background, problem statement highlighted study background, problem statement and it also highlighted study objectives, research questions and the importance. This chapter has laid out the basis in which the research was carried upon.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter outlines the empirical works, research gaps to be filled, summary and the theoretical context of the research. The researcher has also reviewed literature which is related to and consistent with the objectives of the study, is reviewed. Explanation of the existing theories and analysis of the past established knowledge which will outline the organized understanding of the major issues and past studies in the related field of study.

2.1 Theoretical literature review

Theoretical literature establishes the philosophies that already exist, their relationship with study variables and help in development of study questions to be asked and tested (Meyer & Rowan, 2009).

2.1.1 Contingency Planning Theory

Contingency planning also referred to as business continuity planning is theory that is well associated with risk management, the basis of this theory is that since all business risk cannot be fully eliminated in practice. Despite firm's efforts to mitigate, avoid and prevent risk incidents will still definitely occur (Hinson, 2008). With reference to this study contingency theory can be used to mean controls, plans, process and the totality of activities, it's the act of preparing for major catastrophe and occurrences, articulating malleable strategies and rationalizing appropriate assets that will come into play in the event.

In this study contingency planning theory involves the preparing for the unexpected and planning for the unknown. The basic purpose of contingency planning theory is to minimize the adverse consequences of catastrophe and occurrences (James, 2013). Contingency Planning Theory was adopted in this study because it is describes and explains how changes in technological advancement, social values and regulations that affect decision regarding performance of insurance firms.

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2.1.2 Risk Management Theory

Risk management theory applies in the assessment, identification and prioritizing of risks followed by economical and coordinated of resources to monitor; control and minimize the impact of unsuccessful measures. Effective business risk management has beneficial implications to organizations; these benefits include improved innovation, better management of contingent, superior financial performance, and better value for money, waste reduction, minimize fraud, greater competitive advantage among other benefits (Wenk, 2005). This helps the firm to balance the most significant business pressure, responsibility to succeed and risks associated and generated by the firm itself in a commercial achievable way. This action will enable risk managers to be aware of the risks they face and therefore monitor and if need be they was able to change strategy.

The theory is fundamental to this study in logic that insurance firm's functions at an efficient level, then all this institution products to have optimally priced and this in turn reduces discriminating competition in the market.

2.2 Empirical literature review

2.2.1 Financial risk management

Holton (2004) describes financial risk as the unexpected volatility of returns which is measured in terms of market risks, credit risks and liquidity risk. This same view is in agreement with Kithinji (2010) who defined financial risk management as those procedures and activities that managers employ in order to protect the organization from market risks, credit risks and liquidity risk which are the major categories that financial risk management practices into. In provision of insurance and other financial services organizations assume various kind of financial and actuarial risk, insurers product risk contained embedded products that are offered to customers to protect them from the actuarial risk that are not borne by the insurer directly (Holton, 2004).

Organizations will always tend to mitigate the financial and actuarial risk associated with proper business practice transaction through shifting it to other parties in a combination of reinsurance,

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product design and price. The firm only eliminate the risk that they are left to manage this is due to the fact that insurance firms recognises that is what is required (Anthony & David, 2007). The financial risk associated with provision of services that are associated with insurance are risk bound to the financial operations of the organization that includes underwriting, credit, technical provision, liquidity, solvency, market and reinsurance risk. Anthony and David (2007) explain that the risk the borrower will not perform in accordance with obligations may rise from both unwillingness and inability on the lenders to pre-committed contract manner. Insurance firm was subjected to credit risk whenever the change occurs in the economic policy framework that will entail changes in the investments. Organizations when managing credit risk will look into avoidance of risk that are concentrated and strive to achieve diversification in the investments (Gordon, Loeb, & Tseng, 2009).

According to Arif and Showket (2015) insurance firms' main business is that of risk taking. Insurance firms deal with category of risk which have direct impact on their daily performance, based on this risks they proves to be a great setback in the process of achieving performance and growth is restrained in terms of returns. The key risk that hampers the performance of insurance firms are market risk, underwriting risks, credit risks, operational risks, strategic risk and liquidity risks. These risks can be all grouped under financial risk. Financial risk comprehends the risk of insolvency (Arif & Showket, 2015).

Allen and Santomero (2009) describes the importance of financial risk because it's determined by various explanations such as greater deregulation, increased competition, price fluctuations and interest rate fluctuation. However with the initiation spinoffs which act as circumventing mechanisms has left companies to prepare to additional possibility to protect the firms against shudders of financial risks (Bartram, Brown, & Conrad, 2011). In simple terms financial risk management can be explained as aegis term for numerous of classifications associated with financial transactions (Arif & Showket, 2015).

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2.2.2 Operations risk management

Revell (2009) define operation risk as the risk of loss resulting from failed people, internal process and system through which an organization operates. Mainelli (2002) also describe operation risk as slippery and complex. Risk is incurred in an organization by its internal (environmental risk, fraud and legal risk) and external (terrorism attacked, natural disasters) activities. Unlike credit risk and market risk the definition of operation risk is still evolving. According to Lopez (2002) internal process would closely tie the organization business lines and specific products that are more specific than risks due to external occurrence.

Operation risk management in insurance firms has been lately emphasized in the wake of frauds, big financial scandals and information technology system failures that are important drivers in the insurance business. Herring and Calomiris (2009) indicated that organization respond to risk in three different approaches try to reduce the risk, lay off the risk and retain the risk and dealing with it as well as managing it at the same time, this also depends on the individual organization strategy. Lopez (2002) also supports this view by indicating that there is no clear established approach to manage operation risk and each individual firm is responsible to develop and establish their own methods or approaches. Studies have shown that organization adopt a top down approach to calculate their operation risk.

Price Waterhouse Coppers (2009) describes the integrated approach to operational risk management as proactive and representative of best practice compared to dispersed approach. The characteristics include the structure of operation risk management, resource investment, risk culture, and tools and technique. Insurance firms must commit a large budget to setup operation risk system that is able to monitor, measure, identify and control risk. The operational risk management process calls upon organization management to identify and fully understand the nature of risk that is associated with organization commercial activities. Second insurance firm must be able to measure each risk which calls upon putting in place a system that can measure the available risk, and finally the risk must be continuously monitored to ensure that they are at acceptable level (Price Waterhouse Coopers , 2009).

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A good system for operation risk management requires proper infrastructure and the it also depends on the staff in the operation risk management function who must have a clear understanding of the role that operation risk management plays in the financial stability of the firm. In this study operation risk management is related system failures, inadequate controls and procedures, and finally human error. Which are associated with inadequate information system, technology failures, and breaches in the internal control?

2.2.3 Risk Monitoring

The last process of business risk management is referred to as risk monitoring, this is the most important job of risk managers which involves physical and frequent contacts with organization clients who believes that the risk managers are problem solvers and trusted advisors. Risk monitoring helps the organization managers to discover the problems which might have occurred in organisation system. Any organization that adopts appropriate risk monitoring strategy this means that appropriate pricing in the line with estimated risk is achieved which results to profit (Saunders & Allen, 2002).

Soyemi (2014) risk managers are employed for the purpose of managing organization information system in order to help monitor levels of risk and facilitate timely review of risk plus their exceptions. The recognition of the exact approach to adopt for monitoring risk management squarely depend on each individual organization which depends on a variety of features like size, nature of activities and sophistication of the activities. Monitoring risk has several components such as internal control culture, effective internal reporting and contingency planning. George (2010) describes the key success of monitoring risk is proper planning (comprehensive, organizes and iterative approach) and aggressive execution.

However insurance firms should have a systematic way of tracking and monitoring, organizational activities that would provide meaningful information to expose origination business risk management that will help to develop policy to mitigate business risk.

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2.2.4 Insurance firms liquidity

Liargovas and Skandalis (2008) liquidity risk is the degree to which debt obligations are due and can be paid from assets or cash. It's usually measured by current assets to current liabilities. Liquidity shows the ability of organizations to convert its assets in to cash and ability of organization to manage working capitals at normal levels. Organization can use its liquid assets to finance its operations when external finances are too costly or not available, however the higher liquidity allows organization to deal with unanticipated eventualities. Gerald and Ulrike (2001) define liquidity risk as not being in a position to make payments on due date. When organization maintains higher liquidity it definitely reduces management's discipline as regarded both investments operations and underwriting (Liargovas & Skandalis, 2008).

Anthony and David (2007) also define liquidity risk as the risk of funds crisis. Because insurance firms operates in market where clustered claims can appear any moment due to catastrophes that are beyond human control or massive withdrawal and surrenders due to changing interest rates their liabilities are referred to as liquid, organization assets however are sometime liquid less more probably when they investments are in real estate. Liquidity is defined as the ability of insurance firm's s to meet its obligations to investors and shareholders (Ongore & Kusa, 2013). The level of liquidity of insurance firms represents the number of premiums to customer claims to assets ratio. The liquidity ratio indicates what percentage of the insurance firm's s is tied up in the claims. The high the ratio the less liquidly the insurance firms are exposed to.

Liquidity and profitability as performance indicators are vital to the major shareholders and investors. The shareholders have interest in the insurance firm's profitability because it determines their return on investments. Accountholders too are concerned with the liquidity of the insurance firms because it determines the ability for them to paid claims. The tax authorities have interest in the profitability of insurance firms in order to establish and determine appropriate tax obligation (Amer, Moustafa, & Eldomiaty, 2011). The self-contradictory form of profitability and liquidity can be explained by the spontaneous thinking that the insurance firms

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operate with high liquidity that may have low indebtedness risk, but with trade off of low success. Equally, an insurance firms operating on low liquidity level may face high indebtedness risk, but with trade off higher profit margins (Berger, Hasan, & Klapper, 2014).

Literature shows that there is a strong influence of liquidity on profitability that results to better performance, however it is established that total assets my not necessary lead to higher profits due to diseconomies of scale. Liquidity management therefore comprises the calculated supply and withdrawal from the market.

2.3 Summary and Research Gaps

Insurance firm's core business is managing business risk for clients and their own risk which needs an integrated business system for managing risk. Organizations are in so much pressure to effectively manage their risk in a transparent way. Some part of business risk should be retained as core business operations while others should be transferred elsewhere as long as it's cost effective to do so. Several studies have been conducted on risk in Kenya but little has placed focused insurance firms. Mwangi (2010) conducted a case study on effects of risk management and financial performance of banks. Another study by Kinyua (2010) on risk as component of corporate strategy in life insurance firms in Kenya and the study established that insurance firms are faced with regulation and deregulation, competitor and industry economics and recommended that organizations should deploy strategic planning tools and give organization an all-inclusive perspective of strategic planning.

Weerakoon and Bandara (2012) assert that business risk management is important in the industry because it's the backbone of success but the available studies don't indicate the relations between performance and business risk management therefore it's unclear the extent in which performance of insurance firms can be linked to business risk management however, the research was to fill the knowledge gap by conducting the research in topic in relations to Madison insurance company limited.

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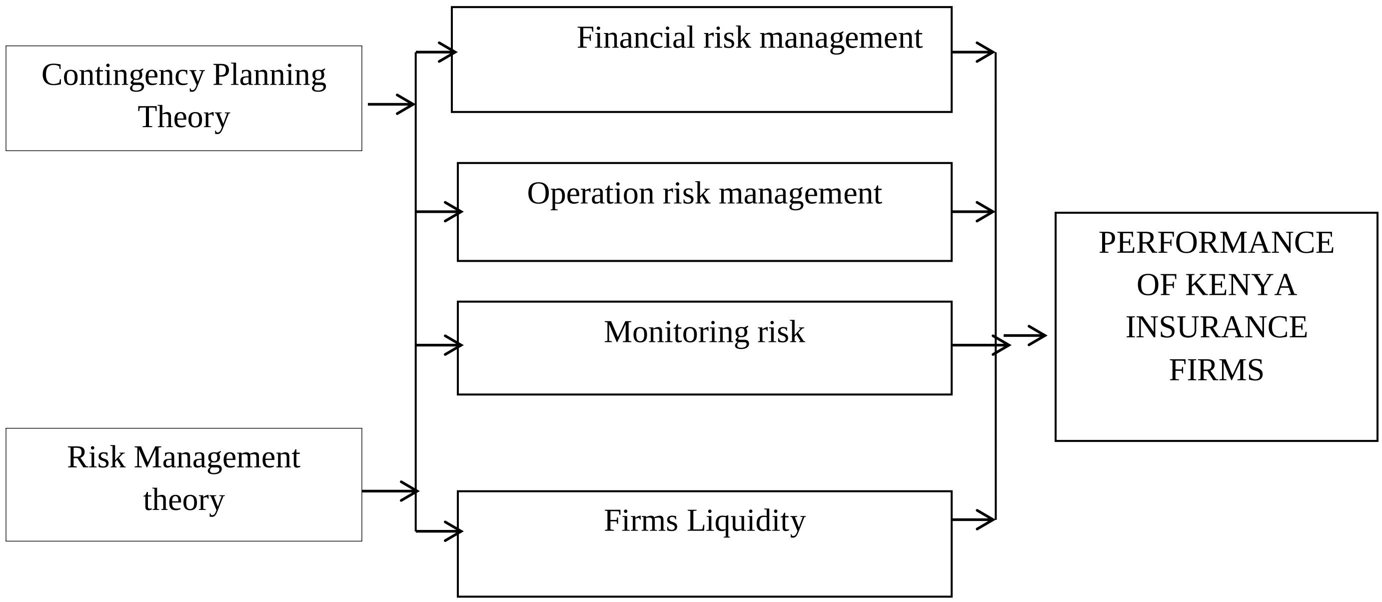
2.4 Conceptual Framework

Figure 2.1: Diagram showing the relationship between theories, independent and dependent variables



2.5 Operationalization of Variables

2.5.1 Financial risk management

Financial risk management in this study was measured using questionnaires that was administered to target population and through reading relevant literature. Financial risk management as those procedures and activities that managers employ in order to protect the organization from market risks, credit risks and liquidity risk which are the major categories that financial risk management practices into. In provision of insurance and other financial services organizations assume various kind of financial and actuarial risk, insurers product risk contained embedded products that are offered to customers to protect them from the actuarial risk that are not borne by the insurer directly.

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2.5.2 Operations risk management

Operations risk management in this study was measured using questionnaires that was administered to target population and through reading relevant literature. Risk is incurred in an organization by its internal (environmental risk, fraud and legal risk) and external (terrorism attacked, natural disasters) activities. Unlike credit risk and market risk the definition of operation risk is still evolving.

2.5.3 Risk monitoring

Financial risk management in this study was measured using questionnaires that was administered to target population and through reading relevant literature. The market performance is greatly affected by exogenous factors related to risk monitoring, explicitly basic demand and supply condition, which affect insurance firm's 'performance in the industry. It is used to test whether higher level of concentration in the marketplace grounds collusive actions among the large insurance firms s thus results in greater performance.

2.5.4 Insurance firms Liquidity

Insurance firms Liquidity in this study was measured using questionnaires that was administered to target population and through reading relevant literature. The liquidity of insurance firms symbolizes organization ability to increase assets and meet obligations as their due data fall.

2.6 Chapter Summary

The study has reviewed study variables firms liquidity, risk monitoring, operation risk management and financial risk management and has established a significant relations in study variables and performance of insurance firms. The study selected the past activities that fall within the objectives of the study; that gave a clear account of all past theoretical undertakings that determined the effects of business risk management and performance of insurance firms and this chapter provides a theoretical and conceptual basing from which a methodology for research is developed, an analytical framework chosen, relevant data collected and consequent analyses carried out towards drawing conclusions on effects of business risk on performance of insurance.

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CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

Research methodology offers and explanation into what type of research this study is all about. It also defines the population of the study and the specific sampling techniques to be used, data analysis and collection methods. The chapter also includes design, pilot study, validity, reliability and ethical consideration.

3.1 Research Design

A general layout that the researcher uses to respond to research questions is referred to as research design. Orodho (2005) defines research design as general layout that is used to answer research questions. This study dilemma was carried out though descriptive research designs. Cooper and Schindler (2008) describe descriptive design as process of finding out, what, where and how an incident occurred.

Descriptive research design is appropriate for studies that have specific issues where problems have been defined (Mugenda and Mugenda, 2003). The issues in the study being the effects of business risk on performance of insurance, are thus geared to address the essential why, who, when, what, and how questions in the research. The study seeks to describe a situation through the study of variable relationships. The study describes and defines the subject matter by profiling issues under study (Cooper & Schindler, 2008). It also helped the researcher to critically analyse the problem in question with a view of drawing more detailed and specific information about the subject that can be useful to the management. Most often than not, it is used as a precursor to more statistical research as it gives some valuable pointers as to what variables are worth testing quantitatively.

3.2 Target Population

Borg and Grall (2009) described target population as common set of study units which the researcher had generalized wishes to generalize results. Target populations are units that have

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observable characteristics that the study uses to generalize the finding. The research study targets was 80 Madison Insurance staff

Table 3.1: Table showing research study population

Category	Target Population	%
Senior Managers	10	11
Middle level Managers	25	26
Non- Management staff	60	63
Total	**95**	**100**

3.3 Sample and Sample Technique

A sample is defined as subject of a population that has been selected to reflect or represent characteristics of a population (Kothari, 2004). A stratified proportion sampling is employed to obtain a suitable unit representative of analysis. This is because of the heterogeneity of the population and respondents all had equal opportunity of participation. Kothari (2004) argues that a stratified proportional sample increases a samples statistical efficiency and provides adequate data for analyzing the various populations. This method is cost effective, fast track data collection, and access to the unit of analysis and elements of the study. Kothari (2004) observed that sample drawn randomly is unbiased in a way that no number of populations has any chance of being selected more than the other. The study used stratified sampling technique which involved dividing the target population of 95 Madison Insurance staff into strata. This method was appropriate since it gave all the respondents from each of the four strata, equal chance to participate. Participants were stratified into the following categories; Senior Managers, middle level managers and Non- Management staff. A sample size was arrived at through proportionate stratified sampling as shown here below:-

Sample size: x/n*z=y

Where x/n= weight over population.

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Z = Sample space

Y = sample size.

Hence a sample size determined in each stratum was achieved as follows:

Table 3.1: Table showing research sample size

Type of trade	Target Population	Sample size	Percentage
Senior Managers	10	5	11
Middle level Managers	25	12	26
Non- Management staff	60	30	63
Total	**95**	**47**	**100**

3.4 Data Collections Techniques

The researcher used questionnaires to collect data especially primary data as outlined by Kothari (2004). A questionnaire is an instrument of research that contains questions on the variables of the study. The researcher used questionnaires which are more efficient and economical tool for descriptive and preventive research for the sample size that is chosen. This way it was easier to identify the level by which the respondent agreed or disagreed (Kothari, 2004).

The study used secondary data for literature review; these materials used included books, journals, reports, journals, magazine and internet literature. The research collected primary data for this study report and used secondary data for literature review.

3.5 Pilot Study

The pilot study aims at establishing the validity and reliability of instruments of research (Cooper & Schindler, 2008). The study adopted content validity to measure the degree to which data was to be collected using questionnaires. The pilot testing was conducted using the questionnaire on

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10 Madison Insurance staff. The pilot group was done through random sampling. According to Cooper and Schindler (2008), a pilot study should be ten percent of the main study.

3.5.1 Validity

The researcher used both content and faces visibility to ascertain strength of the questionnaire. Validity is the correctness and capacity of interpretations founded on the study results. The research conducted the pilot study to validate the study questionnaire. Gillham (2008) explains that understanding and expertise covered by the test items that represent a larger area of same dynamic.

3.5.2 Reliability

According to Denzin and Lincoln (2005) a reliability test of research instruments is one that consistently produces the expected results. Kothari (2004) points out that instrument reliability refer to the level of internal consistency or the stability of the measuring devices. According to Dane (2010) a questionnaire has the same expectation-that is reliably does what it is designed to do every time is used. If the questionnaire is consistent over time and yields similar results each time it is used, it is reliable. They say that because of economy in time and labour, the procedure for extracting an estimate of reliability should be obtained from the administration of a single test. The researcher can use the questionnaire and administer the questionnaire to 10 respondents from the target population randomly. The researcher shall wait 2 weeks and then repeat the questionnaire to the same respondents.

3.6 Data Collection Procedure

Primary data presented the actual information that was collected for the purpose of the study and questionnaires were used for these purpose, that was self-administered and hand delivered to the target respondents with the questionnaire having it picked by the researcher for data analysis. The study used secondary data for literature review; these materials used included books, journals, reports, journals, magazine and internet literature.

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3.6.1 Questionnaires

Questionnaires are a list of standard questions prepared to fit a certain inquiry. The questionnaires will contain both closed ended questions so as to facilitate structured responses for the rating of various attributes whilst open ended questions which will help to provide additional respondents information. According to Arodho (2005) questionnaires measures likelihood of straight, even and blunt answers. This can be superior to an interview because social communion operates strongly in a face of situation that may prevent the person from expressing what he feels to be socially or professionally unacceptable views. The study used likert-type format of questionnaires.

3.7 Data Analysis and Presentation

Descriptive statistics were used for data analysis. Specifically, means, averages and proportions was used in the study. The data analysis tools were simple tabulations and presentations of the report using spread sheets. The data was presented using tables, charts and graphs; Data was first coded then organized into concepts from which generalization was made of entire population. Data will then be tabulated and frequencies calculated on each variable under study and interpretations made from the field findings. Percentages will then calculate and interpretation made.

3.8 Ethical Consideration

The researchers undertake various steps to ensure that the study adheres to research ethical standards. Research introduction letter was obtained from the participating institutions, Management University of Africa and Madison Insurance.

3.8.1 Informed Consent

Borrowing from Oliver (2004) the researcher ensured that through the principle of informed consent, complex as it is, and the respondents avoided of hang-ups that come with lack of clear expectations of the research. As Oliver points out, some respondents may be impressed by the status of the researcher, or even by the word research has used and may agree to participate without having a good idea of what the research is all about.

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3.8.2 Voluntary Participation

The researcher sought consent from the management of the Madison Insurance before administering the questionnaires. Participants were asked to verbally consent to participate in the research, for which they is free to participate or not to. The researcher explained to them that the information that they gave was used only for the study

3.8.3 Privacy

The potential respondents is not be identified by name. Confidentiality respondents are treated as a matter of priority. Further, the researcher used two methods in engaging these respondents before agreeing to answer the questions of this study.

3.8.4 Confidentiality

The researcher explained to the respondents that the data being gathered in this study is treated in confidence and that the findings are meant for a project at the Management University of Africa. The researcher also explained to the respondents that the data was coded and no one, whatsoever, related the data to the respondents for both external and internal audiences of the project.

3.8.5 Anonymity

The researcher accorded the respondents their due respect while at the same time ensuring that they answer the queries as expected by the study, interjecting questions, intelligibly. The researcher picked respondents without any discrimination. This helped the researcher to receive truly anonymized respondents even to the researcher himself. This was achieved through self-administered questionnaires with an anonymous method of return.

3.9 Chapter Summary

The chapter outlines the methodology adopted for this study by offers and explanation into what type of research this study is all about. It also defines the population of the study and the specific sampling techniques to be used data analysis and collection methods, study design, pilot study, validity, reliability and ethical consideration.

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CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSIONS

4.0 Introduction

Research findings are presented in this chapter. The chapter has been sectioned into; response rate, respondent's background, and effects of business risk on performance of insurance a case study of Madison Insurance.

4.1 Presentations of Research Findings

4.1.1 Response Rate

This refers to response by the respondents which was administered through questionnaires from each strata, as per the sample size as shown in the below. The response rate determination was important because it clearly enabled the researcher to know the exact number of questionnaires that would be valid for analysis.

Table 4.1: Table showing response rate

Category	Frequency	Percentage
Response	42	89%
Non Response	5	11%
Total	**47**	**100**

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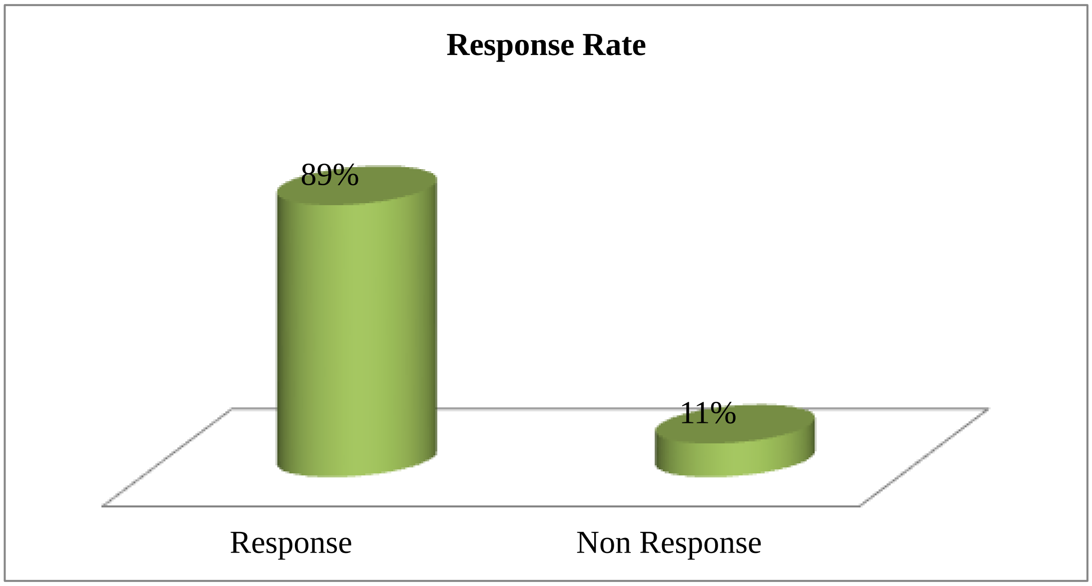
Figure 4.1: Figure showing response rate



The researcher distributed questionnaires to 47 respondents which were computed as shown in chapter three section four 3 and 4; sampling design and sampling technique. 89% response rate was achieved which was favorable for the study as shown table 4.1 and figure 4.1. The response rate for this study was 89%. and Mugenda (2003) explain 50% reaction is satisfactory and 60% is good awhile any response above 70% is perfect for the research.

Table 4.2: Table showing gender of the respondents

Category	Frequency	Percentage
Male	19	45%
Female	23	55%
Total	**42**	**100**

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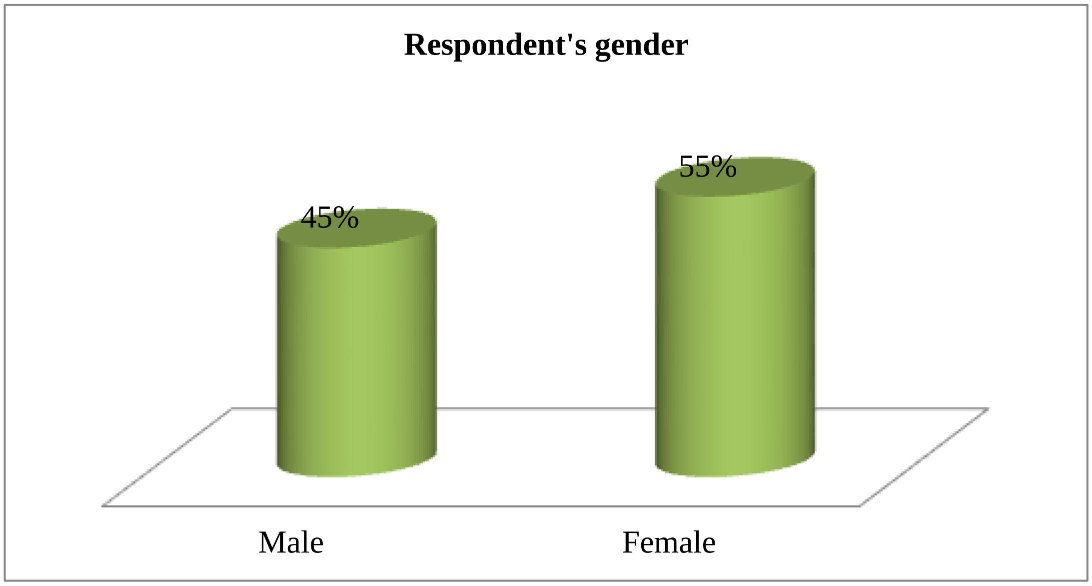
Figure 4.2: Figure showing gender of the respondents



The gender characteristics of respondents is dominated by females 55 % as shown in figure 4.2 and table 4.2 above by against males who are 45%. The gender representation of the respondents indicates that, views under the study were represented by all gender, and no single opinion can be attributed to a particular gender.

Table 4.3: Table Showing Respondents Age Brackets

Variable	Frequency	Percentage
18 -23 Years	4	10%
24-29 Years	9	21%
30-35 Years	11	26%
36-40 Years	12	29%
41 Years and Above	6	14%
Total	**42**	**100%**

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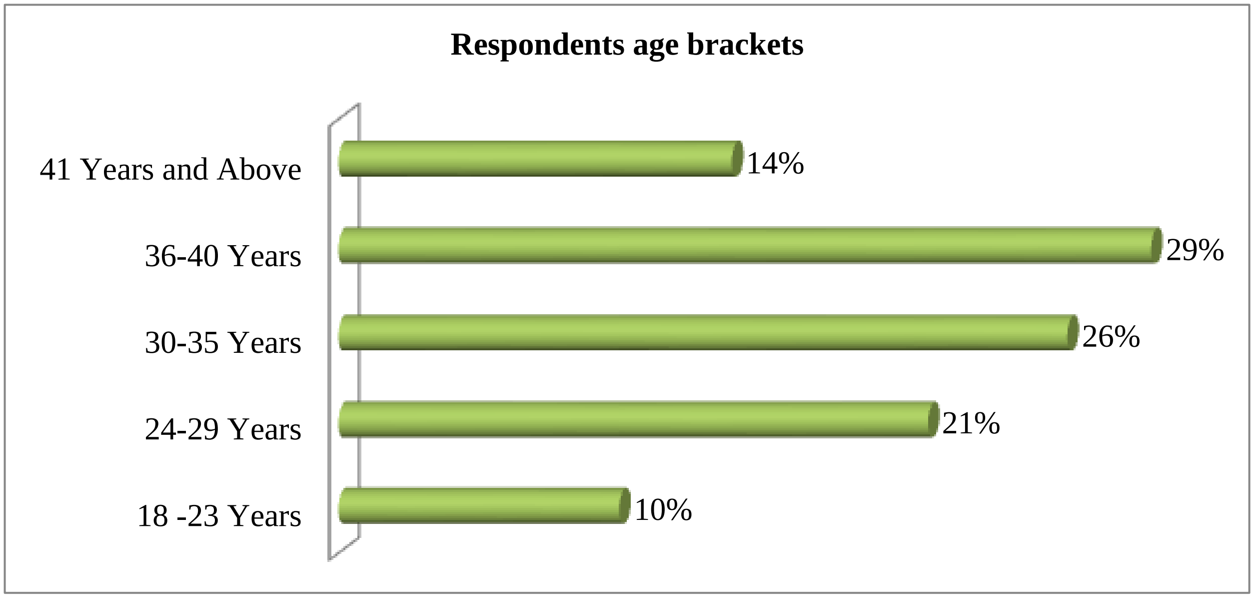
Figure 4.3: Figure showing respondents age brackets



As indicated in table 4.3 and shown in figure 4.3; 10% of the respondents were had their age fall between 18-23 years old, 21% belonged in the ages between 24-29 years old years, 26% were aged between 30-35 years old , 29% are aged between 36-41 years while 14% were aged 42 Years and above. The response represents a good dispersion of the respondents in the age bracket but a majority was aged between 24-29 years.

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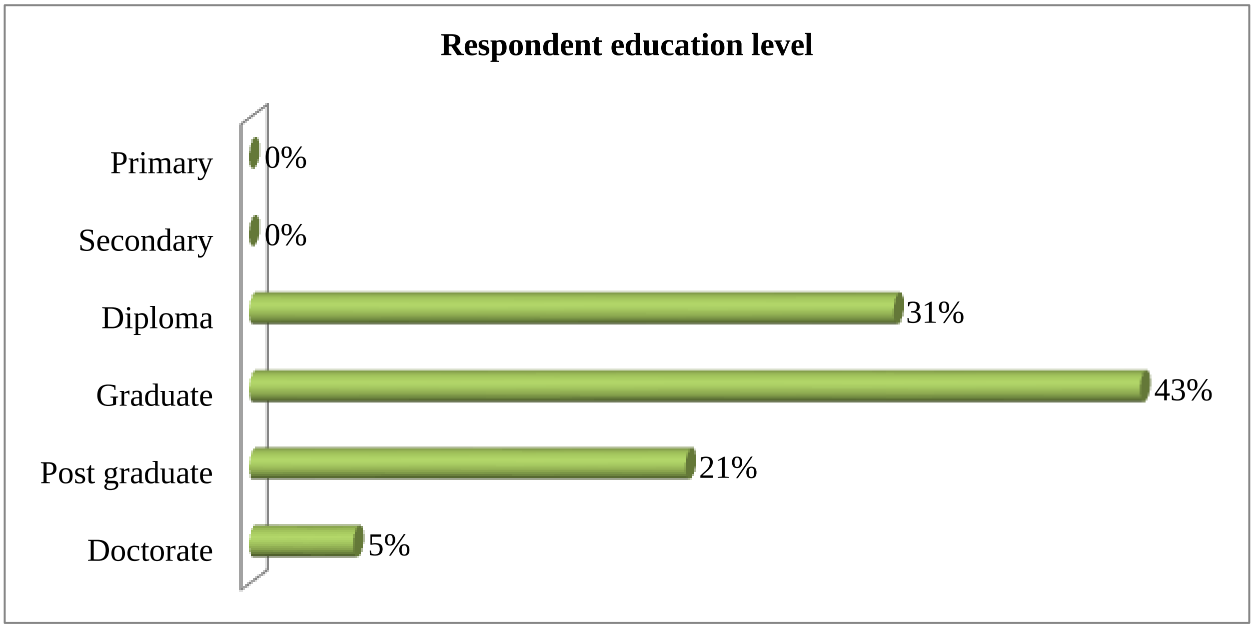
4.1.2 Demographic Information

Table 4.4: Table showing the level of education of the respondents

Variable	F	%
Doctorate	2	5%
Post graduate	9	21%
Graduate	18	43%
Diploma	13	31%
Secondary	0	0%
Primary	0	0%
Totals	**42**	**100**

Figure 4.4: Figure showing the level of education of the respondents



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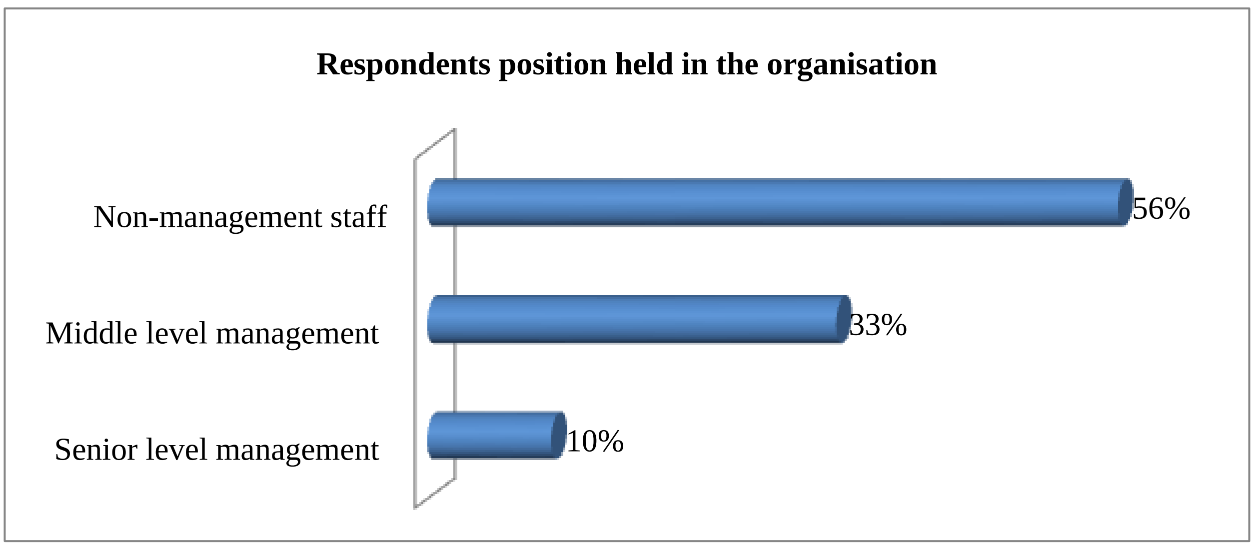
The response as indicated in figure and table 4.4 indicates that most of the respondents had graduate degree at 43%, 21% were post graduates while 5% had doctorate and 31% had diploma and none indicated secondary education and primary education. This can be interpreted to mean that the respond educations level is adequate to answer and interpret research questions.

Table 4.5: Table showing respondents position held in the firm

Variable	Frequency	Percentage
Senior level management	4	10%
Middle level management	13	33%
Non-management staff	22	56%
Total	**42**	**100%**

Figure 4.5: Figure showing respondents position held in the organization



As shown above in table 4.5 and figure 4.5 respondents were asked to indicate their positions held in the organization; 56% of the respondents indicated that they are non-management staff, 33% were in middle level management and 10% were in senior level management. The research

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findings indicated that the respondents are in a better position to understand the variables under study.

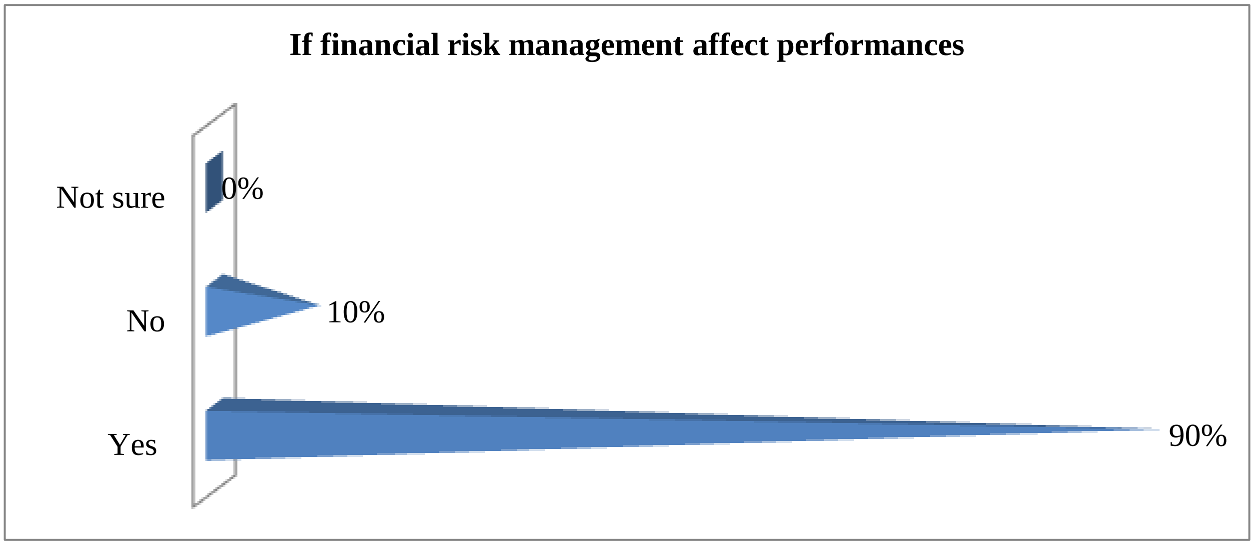
4.2 Main Issues of the Study

4.2.1 Financial risk management

Table 4.6: Table showing if ffinancial risk management affects sales performance

Category	Frequency	Percentage
Yes	38	90%
No	4	10%
Not sure	0	0%
Total	**42**	**100**

Figure 4.6: Figure showing if financial risk management affects sales performance



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Respondents were asked to indicate if financial risk management affects sales performance 90% indicated yes and 10% indicated no while none indicated that were not sure as shown in figure 4.6 and tabulated in table 4.6. This shows that respondents believe that financial risk management affects sales performance.

Table 4.7: Table showing the extent in which financial risk management affects sales performance

Category	Frequency	Percentage
Very great extent	15	36%
Great extent	18	43%
Moderate extent	5	12%
Little extent	3	7%
Very little extent	1	2%
Total	**42**	**100**

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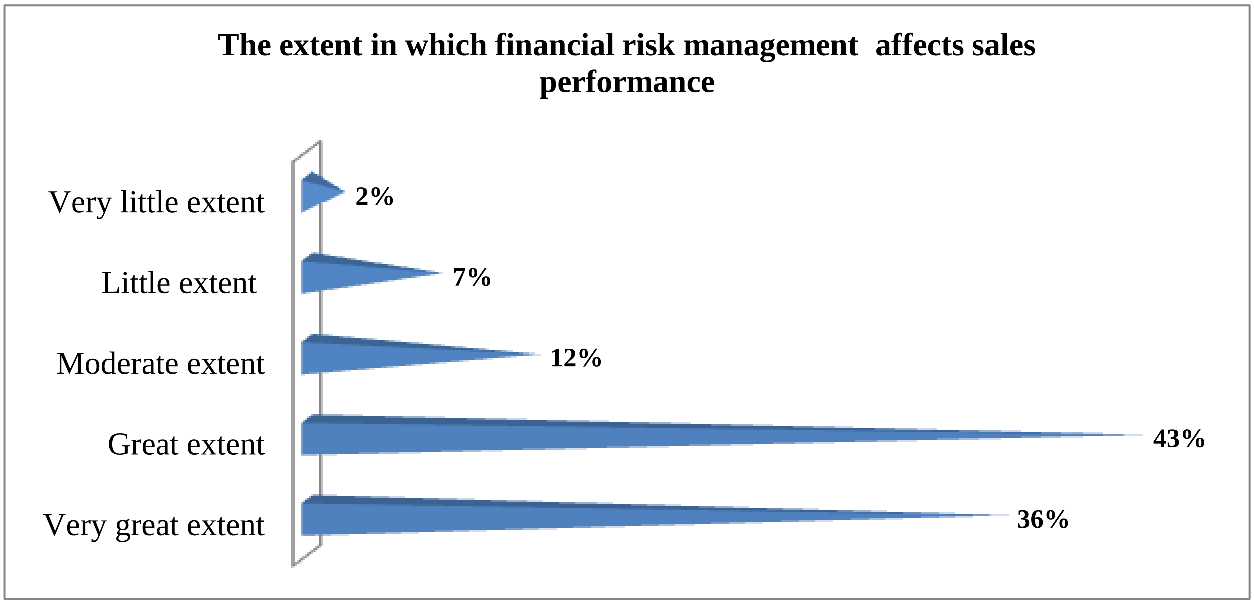
Figure 4.7: Figure showing the extent in which financial risk management affects sales performance



Respondents were asked to indicated the extent in which financial risk management affects sales performance 36% indicated very great extent, 43% indicated great extent, 12% indicated moderate extent and 7% and 2% indicated little and very little extent respectively disagree as shown in figure 4.7 and table 4.7. This shows that the respondent agrees that financial risk management affects performance at Madison insurance.

Table 4.8: Table showing respondents view on the effects of financial risk performance of insurance

	Strongly agree		Agree		Undecided		Disagreed		Strongly Disagreed	
	n	**%**	**n**	**%**	**n**	**%**	**n**	**%**	**n**	**%**
At my organization we have instruments for encountering financial risk.	15	36%	26	62%	1	2%	0	0%	0	0%

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At Madison Insurance issues on financial risk are taken as great consideration by organization management.	26	62%	16	38%	0	0%	0	0%	0	0%
Interest rate is one of the important factor that affect performance of Madison Insurance	14	33%	18	43%	2	5%	5	12%	3	7%
Regulatory reporting requirements affects the performance of Madison Insurance	18	43%	16	38%	3	7%	5	12%	0	0%
At Madison Insurance financial risk are evaluated with assumption and uncertainties	15	36%	26	62%	1	2%	0	0%	0	0%

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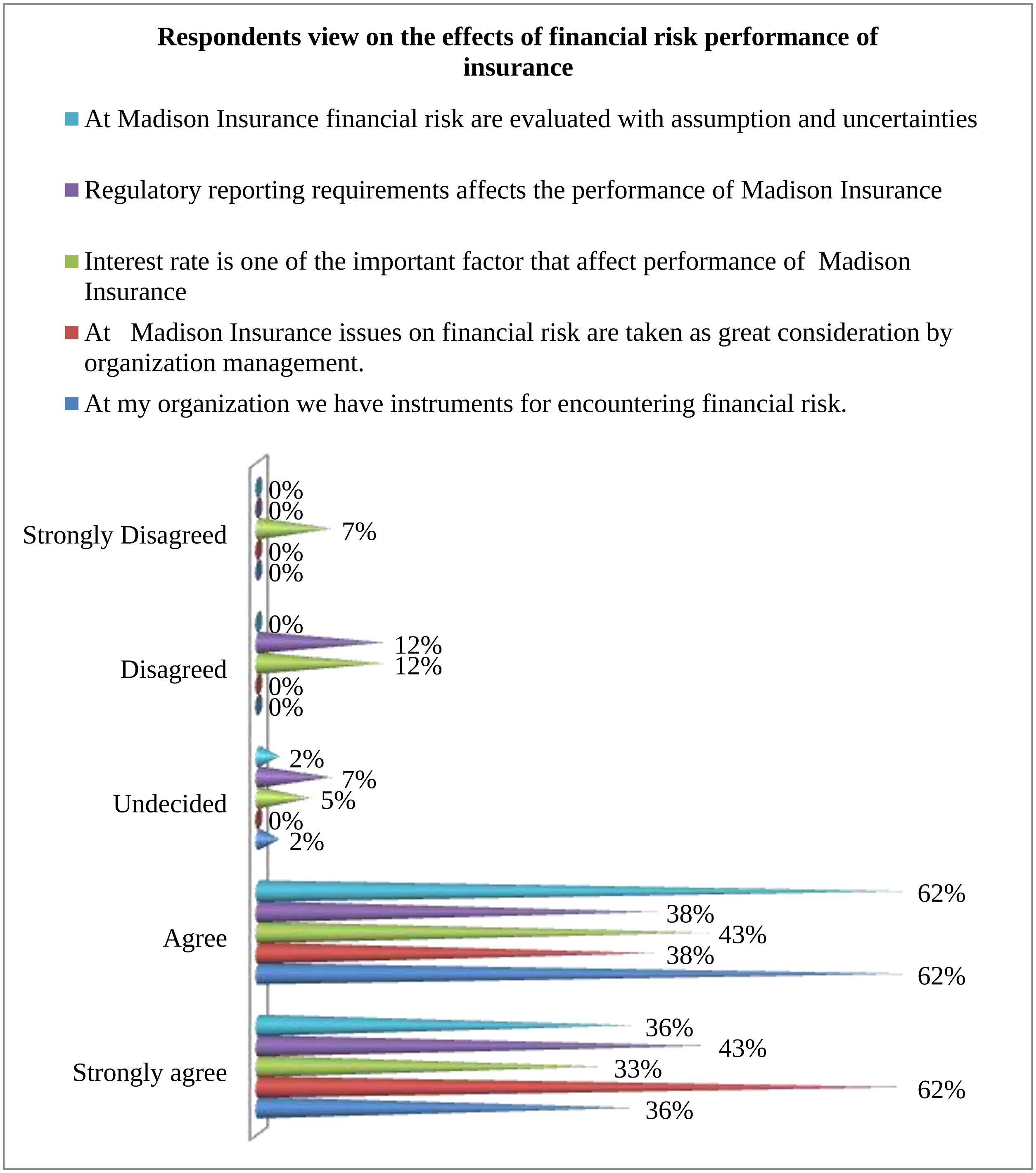
Figure 4.8: Figure showing respondents view on the effects of financial risk performance of insurance



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Respondents were asked to use a five point licket scale to indicate views on the effects of financial risk performance of insurance and the response were as tabulated in table 4.8 and shown in figure 4.8. The first view sought was if the organizations have instruments for encountering financial risk 36% of respondents strongly agreed, 62% agreed and 2% were undecided. Second view sought was if Madison insurance issues on financial risk are taken as great consideration by organization management 62% strongly agreed and 38% agreed. Third view was if Interest rate is one of the important factors that affect performance of Madison insurance 33 % strongly agreed, 43% agreed, 5% were undecided and 12% disagreed while 7% strongly disagreed. The fourth view sought was if regulatory reporting requirements affect the performance of Madison insurance 43% strongly agreed, 38% agreed while 5% were undecided and 12% disagreed and finally if at Madison Insurance financial risk are evaluated with assumption and uncertainties 36% strongly agreed while 62% agreed and 2% were undecided. The findings are in agreement with Allen and Santomero (2009) describes the importance of financial risk because it’s determined by various explanations such as greater deregulation, increased competition, price fluctuations and interest rate fluctuation. According to Arif and Showket (2015) insurance firms’ main business is that of risk taking. Insurance firms deal with category of risk which have direct impact on their daily performance, based on this risks they proves to be a great setback in the process of achieving performance and growth is restrained in terms of returns. The key risk that hampers the performance of insurance firms are market risk, underwriting risks, credit risks, operational risks, strategic risk and liquidity risks. These risks can be all grouped under financial risk. Financial risk comprehends the risk of insolvency.

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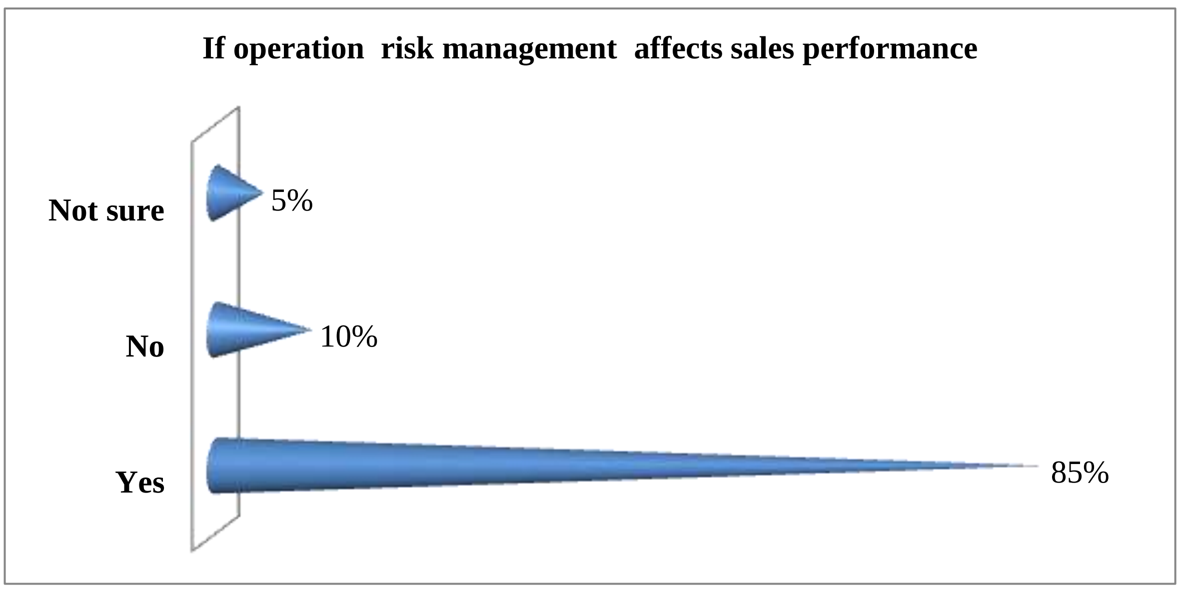
4.2.2 Operations risk management

Table 4.9: Table showing if operation risk management affects sales performance

Category	Frequency	Percentage
Yes	36	85%
No	4	10%
Not sure	2	5%
Total	**42**	**100**

Figure 4.9: Figure showing if operation risk management affects sales performance



Respondents were asked to indicate if operation risk management affects sales performance 85% indicated yes and 10% indicated no while 5% were not sure as shown in figure 4.9 and tabulated in table 4.9. This shows that respondents believe that operation risk management affects sales performance.

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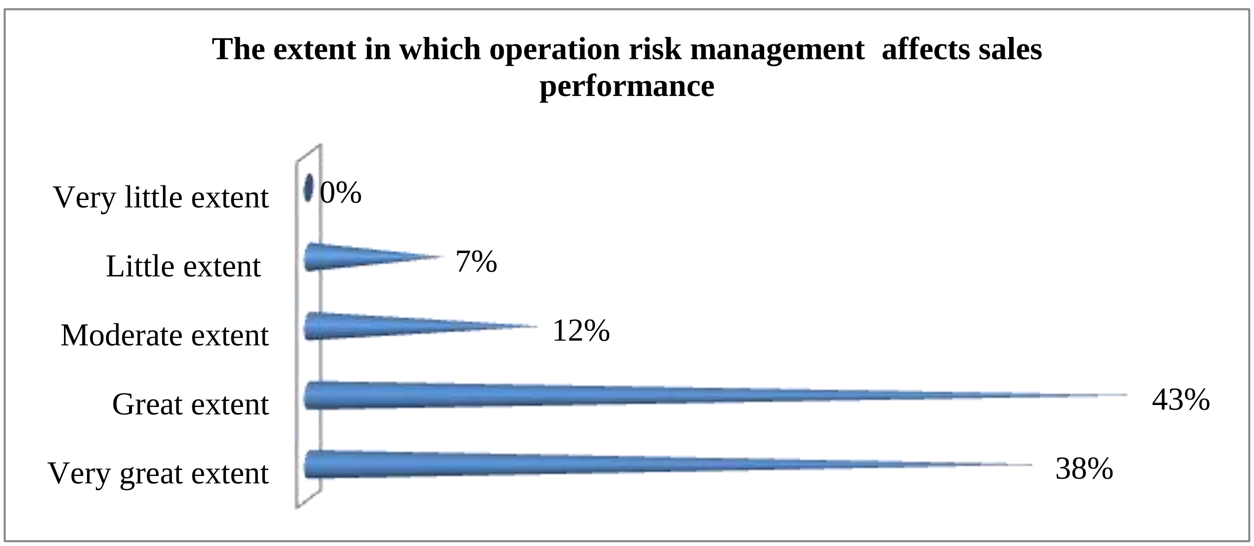
Table 4.10: Table showing the extent in which operation risk management affects sales performance

Category	Frequency	Percentage
Very great extent	16	38%
Great extent	18	43%
Moderate extent	5	12%
Little extent	3	7%
Very little extent	0	0%
Total	**42**	**100**

Figure 4.11: Figure showing the extent in which operation risk management affects sales performance



Respondents were asked to indicated the extent in which financial risk management affects sales

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performance 38% indicated very great extent, 43% indicated great extent, 12% indicated moderate extent and 7% little extent respectively disagree as shown in figure 4.10 and table 4.10. This shows that the respondent agrees that operation risk management affects performance at Madison insurance.

Table 4.12: Table showing respondents view on the effects of operation risk performance of insurance

	Strongly agree		Agree		Undecided		Disagreed		Strongly Disagreed	
	n	**%**	**n**	**%**	**n**	**%**	**n**	**%**	**n**	**%**
The performance of Madison Insurance depends on efficiency levels, but not market power.	15	36%	26	62%	1	2%	0	0%	0	0%
Profitability at Madison Insurance firms is attributed to non-competitive market conditions and price behaviour	14	33%	18	43%	2	5%	5	12%	3	7%
Madison Insurance firms market share has little significance on the insurance firms profitability and performance	3	7%	5	12%	2	5%	18	43%	14	33%
Madison Insurance market power has no influences insurance firms performance	3	7%	5	12%	2	5%	14	33%	18	43%
Madison Insurance's profit ability and stability appear to be moving with NSE share index	15	36%	26	62%	1	2%	0	0%	0	0%

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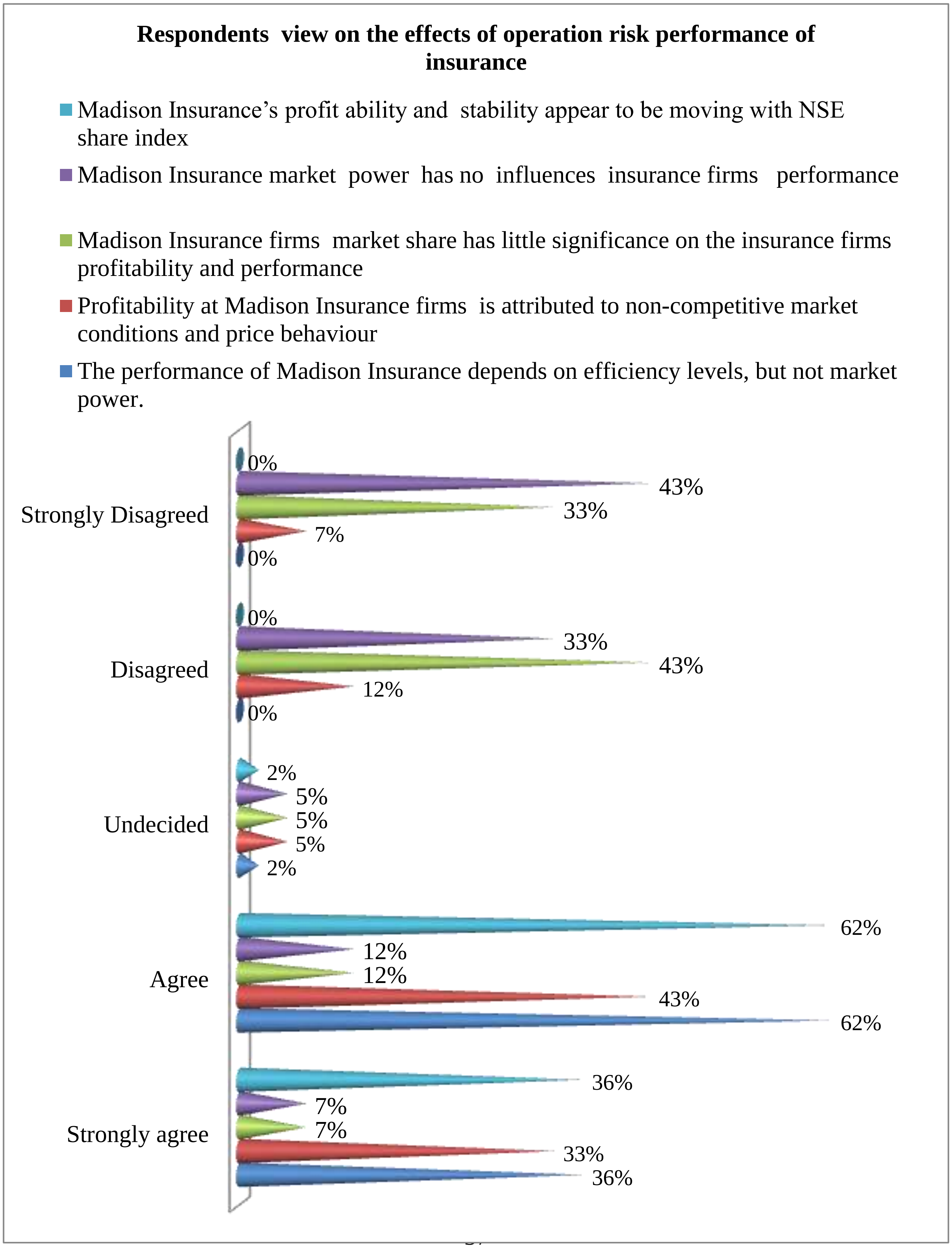
Respondents view on the effects of operation risk performance of insurance
Madison Insurance's profit ability and stability appear to be moving with NSE share index
Madison Insurance market power has no influences insurance firms performance
Madison Insurance firms market share has little significance on the insurance firms profitability and performance
Profitability at Madison Insurance firms is attributed to non-competitive market conditions and price behaviour
The performance of Madison Insurance depends on efficiency levels, but not market power.
Strongly Disagreed
0%
43%
33%
7%
0%
Disagreed
0%
33%
43%
12%
0%
Undecided
2%
5%
5%
5%
2%
Agree
62%
12%
12%
43%
62%
Strongly agree
36%
7%
7%
33%
36%

`

Respondents were asked to use a five point licket scale to indicate views on the effects of operation risk performance of insurance and the response were as tabulated in table 4.12 and shown in figure 4.12. The first view sought was if the performance of Madison Insurance depends on efficiency levels, but not market power 36% of respondents strongly agreed, 62% agreed and 2% were undecided. Second view sought was if profitability at Madison Insurance firms is attributed to non-competitive market conditions and price behaviour 33% strongly agreed, 43% agreed, 5% were undecided and 12% disagreed while 7% strongly disagreed and 12% disagreed while 7% strongly disagreed. Third view was if Madison insurance firm's market share has little significance on the insurance firm's profitability and performance 7 % strongly agreed, 12% agreed, 5% were undecided and 43% disagreed while 38% strongly disagreed. The fourth view sought was if Madison Insurance market power has no influences insurance firms performance 7% strongly agreed, 12% agreed while 5% were undecided and 38% disagreed while 43% agreed and finally if at Madison Insurance's profit ability and stability appear to be moving with NSE share index 36% strongly agreed while 62% agreed and 2% were undecided. The findings are in line with Herring and Calomiris (2009) indicated that organization respond to risk in three different approaches try to reduce the risk, lay off the risk and retain the risk and dealing with it as well as managing it at the same time, this also depends on the individual organization strategy. Lopez (2002) also supports this view by indicating that there is no clear established approach to manage operation risk and each individual firm is responsible to develop and establish their own methods or approaches. Studies have shown that organization adopt a top down approach to calculate their operation risk.

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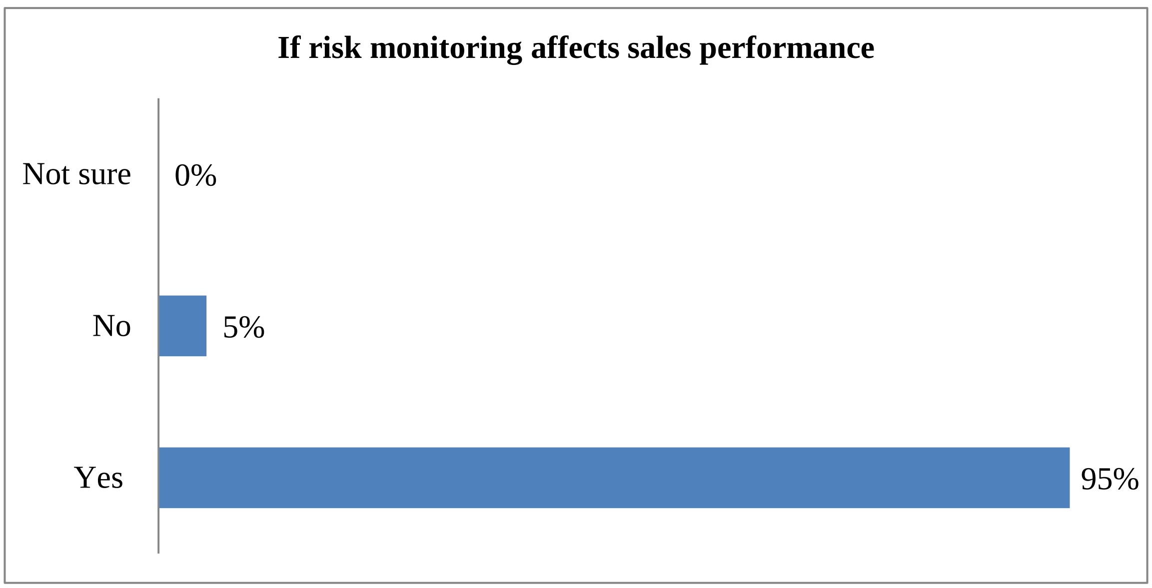
4.2.3 Risk monitoring

Table 4.13: Table showing if risk monitoring affects sales performance

Category	Frequency	Percentage
Yes	40	95%
No	2	5%
Not sure	0	0%
Total	**42**	**100**

Figure 4.13: Figure showing if risk monitoring affects sales performance



Respondents were asked to indicate if risk monitoring affects sales performance 95% indicated yes and 5% indicated no while none indicated that were not sure as shown in figure 4.13 and tabulated in table 4.13. This shows that respondents believe that financial risk management affects sales performance.

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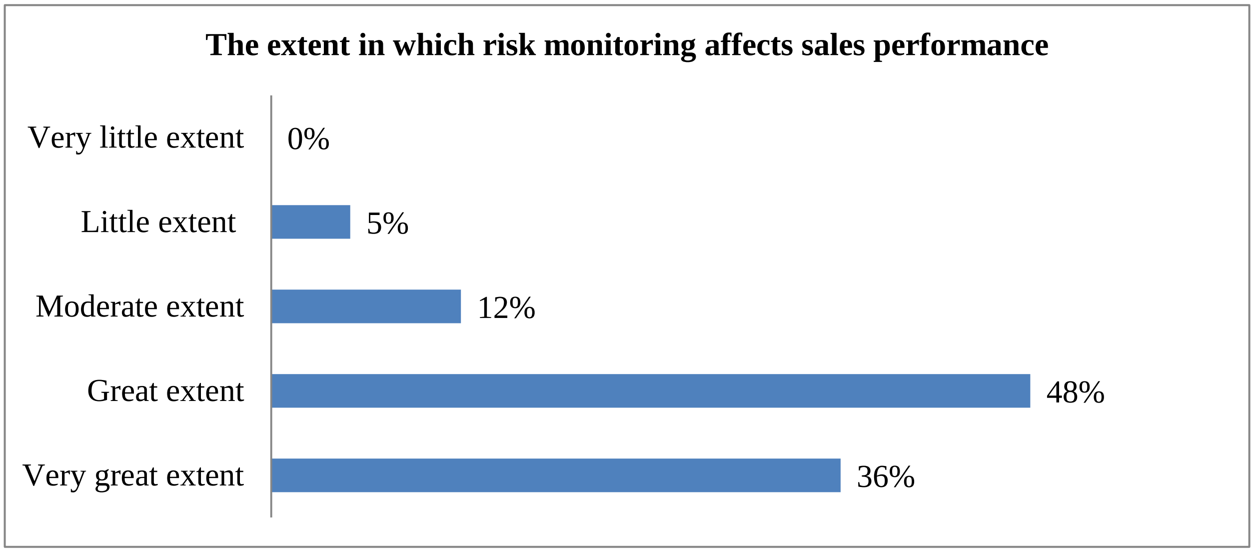
Table 4.14: Table showing the extent in which risk monitoring affects sales performance

Category	Frequency	Percentage
Very great extent	15	36%
Great extent	20	48%
Moderate extent	5	12%
Little extent	2	5%
Very little extent	0	0%
Total	**42**	**100**

Figure 4.14: Figure showing the extent in which risk monitoring affects sales performance



Respondents were asked to indicated the extent in which risk monitoring affects sales

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performance 36% indicated very great extent, 48% indicated great extent, 12% indicated moderate extent and 5% indicated little extent as shown in figure 4.14 and table 4.14. This shows that the respondent agrees that risk monitoring affects performance at Madison insurance.

Table 4.15: Table showing respondents view on the effects of risk monitoring performance of insurance

	Strongly agree		Agree		Undecided		Disagreed		Strongly Disagreed	
	n	**%**	**n**	**%**	**n**	**%**	**n**	**%**	**n**	**%**
At Madison insurance there is monitoring and risk control measures	15	36%	26	62%	1	2%	0	0%	0	0%
At Madison insurance the issue of risk control is taken with great consideration	26	62%	16	38%	0	0%	0	0%	0	0%
At Madison Insurance there are active insurance that covers daily operation	14	33%	18	43%	2	5%	5	12%	3	7%
At Madison controls are in place to evaluate the efficiency of operation risk programs	18	43%	16	38%	3	7%	5	12%	0	0%
At Madison Insurance risks are divided into individual level for further analysis.	15	36%	26	62%	1	2%	0	0%	0	0%

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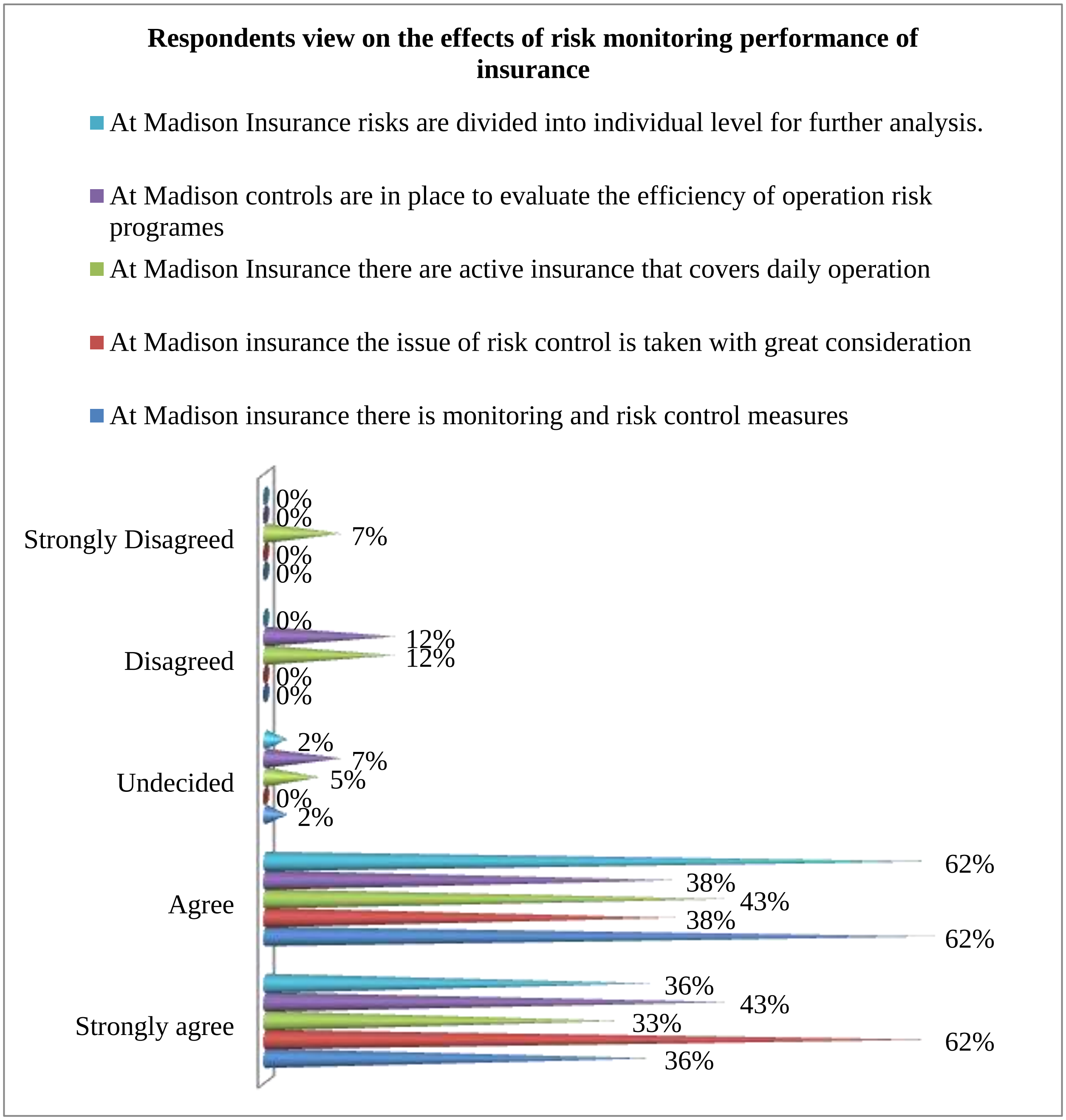
Figure 4.15: Figure showing respondents view on the effects of risk monitoring performance of insurance



Respondents were asked to use a five point licket scale to indicate views on the effects of risk monitoring performance of insurance and the response were as tabulated in table 4.15 and shown

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in figure 4.15. The first view sought was if the organizations have instruments for encountering financial risk 36% of respondents strongly agreed, 62% agreed and 2% were undecided. Second view sought was if Madison insurance issues on financial risk are taken as great consideration by organization management 62% strongly agreed and 38% agreed. Third view was if Interest rate is one of the important factors that affect performance of Madison insurance 33 % strongly agreed, 43% agreed, 5% were undecided and 12% disagreed while 7% strongly disagreed. The fourth view sought was if regulatory reporting requirements affect the performance of Madison insurance 43% strongly agreed, 38% agreed while 5% were undecided and 12% disagreed and finally if at Madison Insurance financial risk are evaluated with assumption and uncertainties 36% strongly agreed while 62% agreed and 2% were undecided. The finding are in line with other scholars such as Soyemi (2014) risk managers are employed for the purpose of managing organization information system in order to help monitor levels of risk and facilitate timely review of risk plus their exceptions. The recognition of the exact approach to adopt for monitoring risk management squarely depend on each individual organization which depends on a variety of features like size, nature of activities and sophistication of the activities. Monitoring risk has serval components such as internal control culture, effective internal reporting and contingency planning. George (2010) describes the key success of monitoring risk is proper planning (comprehensive, organizes and iterative approach) and aggressive execution.

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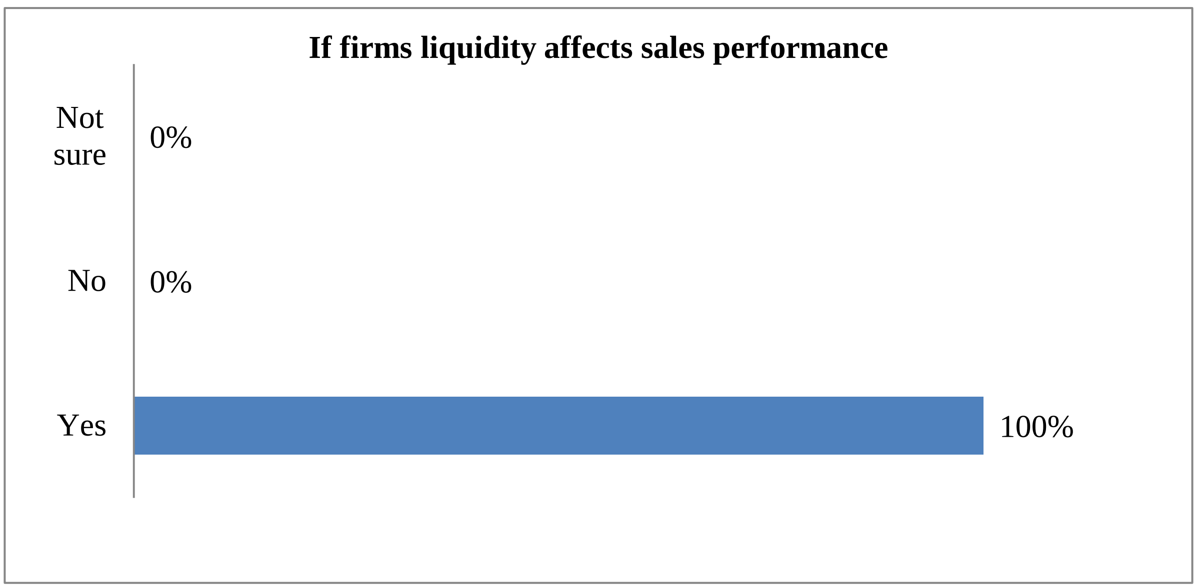
4.2.4 Insurance firms liquidity

Table 4.16: Table showing if firms liquidity affects sales performance

Category	Frequency	Percentage
Yes	42	100%
No	0	0%
Not sure	0	0%
Total	**42**	**100**

Figure 4.16: Figure showing if firms liquidity affects sales performance



Respondents were asked to indicate if firm's liquidity affects sales performance all the respondents agreed at 100% indicated yes as shown in figure 4.16 and tabulated in table 4.16. This shows that respondents believe that financial risk management affects sales performance.

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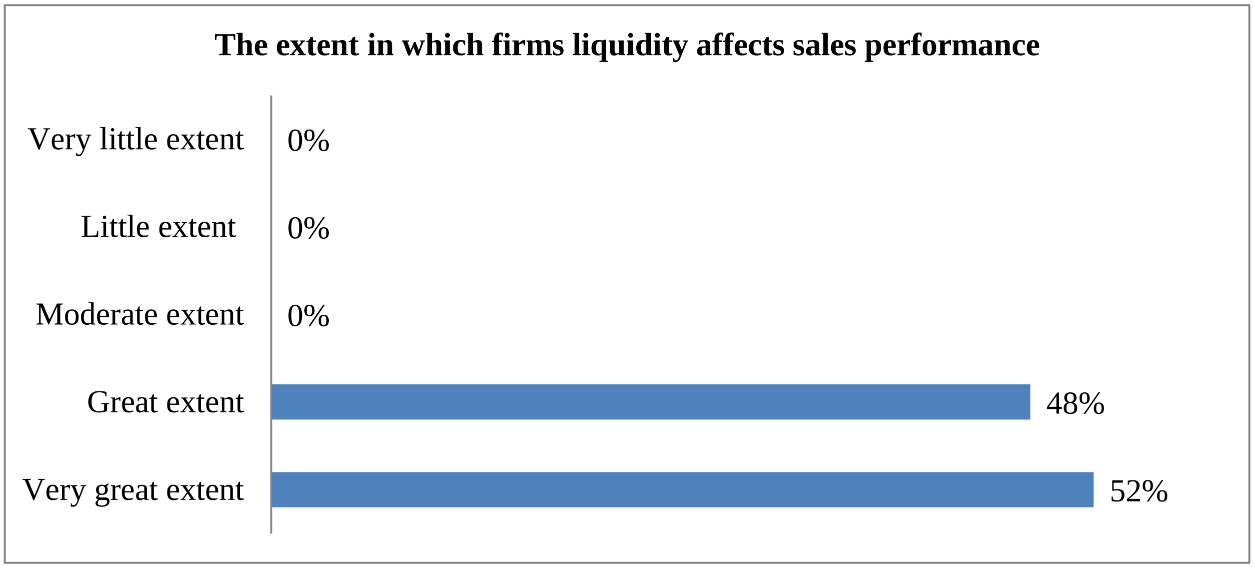
Table 4.17: Table showing the extent in which firms liquidity affects sales performance

Category	Frequency	Percentage
Very great extent	22	52%
Great extent	20	48%
Moderate extent	0	0%
Little extent	0	0%
Very little extent	0	0%
Total	**42**	**100**

Figure 4.17: Figure showing the extent in which firms liquidity affects sales performance



Respondents were asked to indicated the extent in which firms liquidity affects sales

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performance 52% indicated very great extent and 48% indicated great extent as shown in figure 4.17 and table 4.17. This shows that the respondent agrees that firm's liquidity affects performance at Madison insurance.

Table 4.18: Table showing respondents view on the effects of risk monitoring performance of insurance

	Strongly agree		Agree		Undecided		Disagreed		Strongly Disagreed	
	n	**%**	**n**	**%**	**n**	**%**	**n**	**%**	**n**	**%**
The liquidity management variable such as current ratio, cash to deposit ratio and liquid to asset ratio had a negative impact on profitability and profitability of Madison Insurance	15	36%	26	62%	1	2%	0	0%	0	0%
Madison Insurance adopts a tight liquidity approach in which there is more current asset over current liability.	26	62%	16	38%	0	0%	0	0%	0	0%
The liquidity and profitability , tradeoff is a major issue facing Madison Insurance	18	43%	16	38%	3	7%	5	12%	0	0%
Liquidity and profitability as performance indicators are very important to shareholders.	15	36%	26	62%	1	2%	0	0%	0	0%

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Figure 4.18: Figure showing respondents view on the effects of risk monitoring performance of insurance

Respondents were asked to use a five point licket scale to indicate views on the effects of firms liquidity on performance of insurance and the response were as tabulated in table 4.18 and shown in figure 4.18. The first view sought was if the liquidity management variable such as current ratio, cash to deposit ratio and liquid to asset ratio had a negative impact on profitability and profitability of Madison insurance 36% of respondents strongly agreed, 62% agreed and 2% were undecided. Second view sought was Madison insurance adopts a tight liquidity approach in which there is more current asset over current liability 62% strongly agreed and 38% agreed. Third view was if the liquidity and profitability, tradeoff is a major issue facing Madison Insurance 43% strongly agreed, 38% agreed while 5% were undecided and 12% disagreed and finally if liquidity and profitability as performance indicators are very important to shareholders 36% strongly agreed while 62% agreed and 2% were undecided. The findings are in line with Amer, Moustafa and Eldomiaty (2011) who indicate in their findings liquidity and profitability as performance indicators are vital to the major shareholders and investors. The shareholders have interest in the insurance firm's profitability because it determines their return on investments. Accountholders too are concerned with the liquidity of the insurance firms because it determines the ability for them to paid claims. The tax authorities have interest in the profitability of insurance firms in order to establish and determine appropriate tax obligation.

4.3 Limitations of the study

Owing to the nature and characteristics of the target respondents, most of respondents were reluctant to disclosing information with regards to the survey for fear of being reprimanded by the management who are responsible for handling issues related to the matter under study. In this case, the researcher guaranteed the respondents of the privacy of the data that they provided and sought authority from management to undertake research in the firm. The researcher also attached authority research letter from the university to the questionnaire so as give further assurance on the purpose of the study.

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4.4 Chapter Summary

This research report endeavors to ease the predicament of reporting an illustrative study examining and the effects of business risk on performance of insurance a case study of Madison Insurance. The findings were therefore influenced by both males and females. Data analysis was through descriptive method. Data has been presented in form of graphs and tables.

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CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.0 Introductions

In the section contains summary of research outcomes, recommendations and conclusion of the research study are outlined in this section in relation to study variables. Conclusion is made based on the study findings on effects of business risk on performance of insurance: a case study of Madison insurance.

5.1 Summary of Findings

Out of 47 questionnaires that were distributed 89 percent response rate was achieved. The gender characteristics of respondents are dominated by females 55 % against males who are 45%. 10% of the respondents were had their age fall between 18-23 years old, 21% belonged in the ages between 24-29 years old years, 26% were aged between 30-35 years old , 29% are aged between 36-41 years while 14% were aged 42 years and above. Most of the respondents had graduate degree at 43%, 21% were post graduates while 5% had doctorate and 31% had diploma. 56% of the respondents were non-management staff, 33% were in middle level management and 10% were in senior level management.

5.1.1 Financial risk management

Financial risk management affects sales performance with 90% approval from the respondents to what extent in which financial risk management affects sales performance 79% great extent and 12% indicated moderate extent. Respondents were asked if the organizations have instruments for encountering financial risk 98% agreed. If Madison insurance issues on financial risk are taken as great consideration by organization management 98% agreed and interest rate is one of the important factors that affect performance of Madison insurance 74 % agreed while 26 were of a contradictory opinion, if regulatory reporting requirements affect the performance of Madison insurance 81% agreed and finally if at Madison Insurance financial risk are evaluated with assumption and uncertainties 98%. The findings are in agreement with Allen and Santomero (2009) describes the importance of financial risk because it’s determined by various explanations

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such as greater deregulation, increased competition, price fluctuations and interest rate fluctuation. According to Arif and Showket (2015) insurance firms' main business is that of risk taking. Insurance firms deal with category of risk which have direct impact on their daily performance, based on this risks they proves to be a great setback in the process of achieving performance and growth is restrained in terms of returns. The key risk that hampers the performance of insurance firms are market risk, underwriting risks, credit risks, operational risks, strategic risk and liquidity risks. These risks can be all grouped under financial risk. Financial risk comprehends the risk of insolvency.

5.1.2 Operation risk management

Operation risk management affects sales performance with 85% of the respondents agreeing and to indicate the extent in which financial risk management affects sales performance 82% great extent. Respondents view on if the performance of Madison Insurance depends on efficiency levels, but not market power 98% agreed. Second view sought was if profitability at Madison Insurance firms is attributed to non-competitive market conditions and price behaviour 76% agreed and 24% were of contradictory opinion. Third view was if Madison insurance firm's market share has little significance on the insurance firm's profitability and performance 19% agreed and 81% disagreed. The fourth view sought was if Madison Insurance market power has no influences insurance firms performance 19% agreed and 5% were undecided while 76% disagreed and finally if at Madison Insurance's profit ability and stability appear to be moving with NSE share index 36% strongly agreed while 62% agreed and 2% were undecided. The findings are in line with Herring and Calomiris (2009) indicated that organization respond to risk in three different approaches try to reduce the risk, lay off the risk and retain the risk and dealing with it as well as managing it at the same time, this also depends on the individual organization strategy. Lopez (2002) also supports this view by indicating that there is no clear established approach to manage operation risk and each individual firm is responsible to develop and establish their own methods or approaches. Studies have shown that organization adopt a top down approach to calculate their operation risk.

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5.2.3 Risk Monitoring

Respondents were asked to indicate if risk monitoring affects sales performance 95% indicated yes. Respondents were asked to indicated the extent in which risk monitoring affects sales performance 86% great extent, 12% indicated moderate extent and 5% indicated little extent. Respondents were asked to indicate views on the effects of risk monitoring performance of insurance. The first view sought was if the organizations have instruments for encountering financial risk 98% of respondents agreed. Second view sought was if Madison insurance issues on financial risk are taken as great consideration by organization management 62% strongly agreed and 38% agreed. Third view was if Interest rate is one of the important factors that affect performance of Madison insurance 33 % strongly agreed, 43% agreed, 5% were undecided and 12% disagreed while 7% strongly disagreed. The fourth view sought was if regulatory reporting requirements affect the performance of Madison insurance 43% strongly agreed, 38% agreed while 5% were undecided and 12% disagreed and finally if at Madison Insurance financial risk are evaluated with assumption and uncertainties 36% strongly agreed while 62% agreed and 2% were undecided. The finding are in line with other scholars such as Soyemi (2014) risk managers are employed for the purpose of managing organization information system in order to help monitor levels of risk and facilitate timely review of risk plus their exceptions. The recognition of the exact approach to adopt for monitoring risk management squarely depend on each individual organization which depends on a variety of features like size, nature of activities and sophistication of the activities. Monitoring risk has several components such as internal control culture, effective internal reporting and contingency planning. George (2010) describes the key success of monitoring risk is proper planning (comprehensive, organizes and iterative approach) and aggressive execution.

5.1.4 Insurance firm’s liquidity

Respondents were asked to indicate if firm’s liquidity affects sales performance all the respondents agreed at 100%. Respondents were asked to indicated the extent in which firms liquidity affects sales performance 52% indicated very great extent and 48% indicated great extent. Respondents were asked to indicate views on the effects of firms liquidity on

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performance of insurance The first view sought was if the liquidity management variable such as current ratio, cash to deposit ratio and liquid to asset ratio had a negative impact on profitability and profitability of Madison insurance 36% of respondents strongly agreed, 62% agreed and 2% were undecided. Second view sought was Madison insurance adopts a tight liquidity approach in which there is more current asset over current liability 62% strongly agreed and 38% agreed. Third view was if the liquidity and profitability, tradeoff is a major issue facing Madison Insurance 43% strongly agreed, 38% agreed while 5% were undecided and 12% disagreed and finally if liquidity and profitability as performance indicators are very important to shareholders 36% strongly agreed while 62% agreed and 2% were undecided. The findings are in line with Amer, Moustafa and Eldomiaty (2011) who indicate in their findings liquidity and profitability as performance indicators are vital to the major shareholders and investors. The shareholders have interest in the insurance firm's profitability because it determines their return on investments. Accountholders too are concerned with the liquidity of the insurance firms because it determines the ability for them to paid claims. The tax authorities have interest in the profitability of insurance firms in order to establish and determine appropriate tax obligation.

5.2 Recommendations

The study had the following recommendations based on study findings management of Madison insurance should embrace the use of risk identification process to assist in business risk management in ensuring that prospects are maximized and increase in financial performance.

Management of Madison Insurance should ensure that their products are structured in such a way to curb competition from other organizations, Risk mitigation measures should be exercised by transferring risk to other assets that would help them in risk control techniques.

Management of Madison insurance should adopt appropriate pricing of various products in line with the estimated business risk which will eventually increase profit. The risk monitoring strategy would assist managers in discovering problems which have occurred before.

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5.3 Area of Further Study

The study suggest that a comparable research should be done in both public and private firms such as banks, Sacco's, microfinance and other insurance firms hotels to validate the finding of the current study.

5.4 Conclusion

Insurance firm's core business is managing business risk for clients and their own risk which needs an integrated business system for managing risk. Organizations are in so much pressure to effectively manage their risk in a transparent way. Some part of business risk should be retained as core business operations while others should be transferred elsewhere as long as it's cost effective to do so. Several studies have been conducted on risk in Kenya but little has placed focused insurance firms.

Insurance firms that poorly manage their risk are always faced with accumulations of claims which lead to increased losses and hence poor performance. Business risk management actions are affected by managers risk behaviour, a robust business risk management framework can help companies reduce their exposure to risks and enhance organization performance. Organization that select a particular risk tool tends to be associated with the firms calculative culture that measures attitudes that managers displays towards the use of business risk models. According to Mike and Kaplan (2014) they indicated that some risk functions focus on extensive risk measurement and based performance management, while other focus on the mobilization of experts opinion about emerging risk issues and quality disclosure.

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APPENDIX I : LETTER OF INTRODUCTION

Dear Respondent

My names are GEORGE NJOROGE NGOTHO I study at Management University of Africa as part of requirement to graduate with a degree in Management and Leadership I am conducting a study title : **Effects of Business Risk On Performance Of Insurance : A Case Study Of Madison Insurance In Nairobi Kenya.** For this reason I humble request you to assist in filling the attached questionnaire to the best of your knowledge. The information that you will provide is strictly for academic and shall not be used for any other purpose and your names shall not appear in this study. Your input will go a long way to facilitate this research study.

Thank you

Yours Faithfully,

GEORGE NJOROGE

Management University of Africa

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APPENDIX II : QUESTIONNAIRE

Instructions

Tick the appropriate response. Where the question is opened, write in the space provided

1. What is your gender Male {   } Female { }

2. What is your age?

18yrs - 24yrs (   ) 25yrs -29yrs (   )   30yrs -35yrs (   ) 36yrs -40yrs ( ) 41yrs and Above (   )

3. Indicate your education level Primary ( ) Secondary ( )   Collage (   )   Graduate   ( )

Post graduate   ( )   Doctorate   ( )   any other..

4. Your current position in the organization

Senior Management ( ) Middle-Level Management (   ) None Management (   )

5. Please indicate your department?…………………………………………………………..

SECTION B

FINANCIAL MANAGEMENT RISK

5. Do financial risk management affect performances of Madison Insurance?

(   ) Yes (   ) No (   ) Not Sure

2. To what extent does financial risk management affect performances of Madison Insurance?

Very great extent (   ) Great extent (   ) Moderate extent (   ) little extent (   )

Very little extent (   )

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3. Kindly indicate your view on the effects of financial risk performance of insurance and use the scale provided for the best answer possible

		Strongly agree	Agree	Undecided	Disagreed	Strongly Disagreed
1	At my organization we have instruments for encountering financial risk.					
2	At Madison Insurance issues on financial risk are taken as great consideration by organization management.					
3	Interest rate is one of the important factor that affect performance of Madison Insurance					
4	Regulatory reporting requirements affects the performance of Madison Insurance					
5	At Madison Insurance financial risk are evaluated with assumption and uncertainties					

Operations risk management

1. Do operations risk management affect performances of Madison Insurance?

( ) Yes ( ) No ( ) Not Sure

2. To what extent does operations risk management affect performances of Madison Insurance?

Very great extent ( ) Great extent ( ) Moderate extent ( ) little extent ( )

Very little extent ( )

3. Please give view on the effect of operations risk management on performance of insurance firms and use the scale provided for the best answer possible

		Strongly agree	Agree	Undecided	Disagreed	Strongly Disagreed
1	The performance of Madison Insurance depends on efficiency levels, but not market power.					
2	Profitability at Madison Insurance firms is attributed to					

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	non-competitive market conditions and price behaviour					
3	Madison Insurance firms market share has little significance on the insurance firms profitability and performance					
4	Madison Insurance market power has no influences insurance firms performance					
5	Madison Insurance's profit ability and stability appear to be moving with NSE share index .					

Risk monitoring

1. Do risk monitoring affect performances of Madison Insurance?

( ) Yes ( ) No ( ) Not Sure

2. To what extent does risk monitoring affect performances of Madison Insurance?

Very great extent ( ) Great extent ( ) Moderate extent ( ) little extent ( )

Very little extent ( )

3. Please give view on the impact of risk monitoring on performance of insurance firms, use the scale provided for the best answer possible

		Strongly agree	**Agree**	**Undecided**	**Disagreed**	**Strongly Disagreed**
1	At Madison insurance there is monitoring and risk control measures					
2	At Madison insurance the issue of risk control is taken with great consideration					
3	At Madison Insurance there are active insurance that covers daily operation					
4	At Madison controls are in place to evaluate the efficiency of operation risk programes					

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5	At Madison Insurance risks are divided into individual level for further analysis.					

Insurance firms Liquidity

1. Do insurance firm's liquidity affect performances of Madison Insurance?

( ) Yes ( ) No ( ) Not Sure

2. To what extent does insurance firm's liquidity affect performances of Madison Insurance?

Very great extent ( ) Great extent ( ) Moderate extent ( ) little extent ( )

Very little extent ( )

3. Please give view on the impact of insurance firm's liquidity on performance of insurance firms and use the scale provided for the best answer possible

		Strongly agree	**Agree**	**Undecided**	**Disagreed**	**Strongly Disagreed**
1	The liquidity management variable such as current ratio, cash to deposit ratio and liquid to asset ratio had a negative impact on profitability and profitability of Madison Insurance					
2	Madison Insurance adopts a tight liquidity approach in which there is more current asset over current liability.					
3	The liquidity and profitability , tradeoff is a major issue facing Madison Insurance					
4	Liquidity and profitability as performance indicators are very important to shareholders.					

Thank you for participation

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