FACTORS AFFECTING PERFORMANCE OF INSURANCE COMPANIES IN NAIROBI COUNTY, KENYA

BY

Stephen Mutuku Wambua

This Dissertation is Submitted in Partial Fulfilment of the Requirement for the Award of a Master of Business Admnistration (MBA) Degree from St.Paul's University

2016

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Supervisors: Dr.John Muhoho

Dr.Hellen Mugambi

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DECLARATION

This dissertation is the product of my own work and is not the result of anything done in collaboration. It has not been previously presented to any other institution. I agree that this dissertation may be available for reference and photocopying, at the discretion of the University.

STUDENT NAME: Stephen M.Wambua STUDENT NUMBER: MBA/NRB/2075/15

SIGNATURE OF STUDENT…… Date: …….

I/we confirm that the work reported in this dissertation was carried out by the student under my/our supervision.

SUPERVISORS

Dr. John Muhoho Signature: ……..... Date: …….....

Dr. Hellen Mugambi Signature: ……..... Date: …….....

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Many thanks go to the entire management of St. Paul's University, especially the department of Business Administration, for their support and guidance through out my training. May God bless you abundantly.

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ABSTRACT

Insurance companies provides employment opportunities through its marketing and distribution chain networks such as direct insurance agents,insurance brokers,loss assessors,loss adjusters and insurance companies besides the general public having a negative perception towards insurance companies; either due to past experience with the insurance copmanies or collapsing of insurance companies.Some of the common past experiences ranges from delays in claims settlement or non payment of claims at all, relying on policy exclusions to decline an idemnity,rigorus investigations and risk assesments,claims repudiations,unnecessary demands for alot of documentation and precedures which a claimant perceives as a delaying tactics to idemnify the customer or to decline a claim.This study sought to determine factors affecting performance of insurance companies in Nairobi county, Kenya with a view to know why some companies are collapsing while others are doing well in the same insurance industry.This study was guided by the following research variables: regulation,claims processing,management and capital resources.This study adopted a census research design.The targeted population for this study consists of 60 senior mostmanagement staff working for the top 10 performing insurance companies in kenya, specifically targeting their head offices situated in Nairobi county.This targeted the top management staff especially the chief excecutive officers (CEO's) and the line managers in various departments due to the significant role they play in management of the insurance companies.This study collected both primay as well as secondary data. This studygenerated both quantitative as well qualitatitive data.Descriptive statistics data analysis method, wasused to analyze both the quantitative and qualitative data.Data collected using the questionnaires was processed through editing ,coding and then entering into a computer for analysis with the use of descriptive statistics using the help of StatisticalPackages for Social Sciences (SPSS) version 21.0.The data was presented using bar charts,frequency distribution tables,graphs and pie charts for ease of interpretation and understanding. The study concluded that the insurance regulator is not effectively regulating the insurance industry in Kenya and they don't take action immediately whenever an insurance firm is unable to meet its financial obligations.In addition, the study concludes that the traffic police, doctors, lawyers and ambulance chasers contribute to lodging of fake claims which affect performance of insurance firms in kenya,on insurance companies management, the study concludes that, good strategic plans, both short term and long term plans contributes to high performance; leading to insurance companies' better performance and sustainability.Finally, the study concludes that lack of enough capital resources in an insurance company have lead to poor performances thus contributing to collapse of insurance firms in Kenya and again,capital provides a foundation for an organization's future growth and protects the organization against unexpected future losses.

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LIST OF ACRONYMS AND ABBREVIATIONS

AKI Association of Kenya Insurers

CEO's Chef Excecutive Officers

RBV Resource Based View

SPSS Statistical Package for Social Sciences

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CHAPTER ONE
INTRODUCTION

This chapter presents the background of the study,the problem statement,the purpose of the study,research objectives,research questions,significance of the study,scope and limitations of the study and finally the explanation of key words.

1.1 Background to the Study

According to Atkins & Alderman (2004), the origin of insurance can be traced back from 2nd and 3rd millenium BC where ways of transfering risks were practised by both the Chineses' and the Babylonians during that early time (Atkins & Alderman,2004). During that time,the Chinese merchants used to travel across treacherous rivers for trade, where they used to redistribute their goods across different ships to spread their risks in bid to control their loss of goods in the event a single vesssel capsizes in the river as they were transporting their goods to the market (Atkins & Alderman,2004). The Babylonians invented their own insurance system which was later recorded in the famous Code of Hammurabi 1750 BC and started being practised in the past by Mediterraneans for transporting their goods to the market places.

According to the Mishra (2004), different insurance agreements such as insurance policies wich were not bundled with loans as other agreements were innovated in Genoa in the 14th century. The first aspect of insurance contracts date back from 1348 in Genoa and subsequently in the following century,maritime insurance services were developed to cater for such risks and varied premiums were charged according to the risks undertaken (Mishra,2004). These new insurance concepts gave rise to a seperation of insurance services from investment services and this separation of responsibility became appropriate in marine insurance.

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According to Edward (2014), the first insurance concept for the underwriting of insurance services became available in the insurance sector for people to secure their goods and properties against risks. At the end of the seventeenth century, London became a centre for trade which in turn demanded for marine insurance to secure their commodities being transported to and from the market in various parts of the world which needed a form of security.

The first form of life insurance policies began to be offered as early as 18th century, where the first insurance company to offer this life insurance was Amicable Society for perpetual Assurance, which was founded in 1706 in london, by William Talbot and Allen.In 1762,Edward started the Society for Equitable Assurances to cater for lives and survivorship insurance services (Were & Njiru, 2007). Equitable society insurance became the world's first mutual insurer and it innovated personal life insurance based on peoples' mortality rate, making use of scientific framework to derive at the applicable insurance premiums chargable for life insurance products innovated (Were & Njiru, 2007). Subsequently,this became the basis of life insurance practices which later began to be practised all over the world.

In the late 19th century,personal accident insurance services began to be offered in the insurance industry to cater for personal injuries at the workplace and in general personal life.This formed the basis of modern insurance practised in the world today.The first insurance company to offer personal accident insurance was the Railway passengers Assurance Company, founded in 1849 in England to underwrite against the increasing rate of death cases arising from injuries in nascent railway system, according to Wedge & Handley (2003). By the late 19th century,governments began to implement national insurance interventions against old age and

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sicknesses. Germany built on a tradition of welfare programs in Prussia and Saxony that began as early as in the 1840s.

1.1.1 Insurance Industry in Kenya

According to Kennedy (2013), the concept of insurance has been in Africa for a long time. Members of the public pulled together funds to create a social insurance fund. The premiums ranged from material to moral support and other payments of this kind. However, the history of the development of commercial insurance in Kenya is closely related to the historical emancipation of Kenya as a nation. With the conquest of Kenya as a British collony, settlers initiated various economic activities, particularly farming and extraction of agricultural products (Rand, 1963).

Some of the risks involved in these good investments needed some form of protection against various risk exposures. British insurers saw chances in this and established agency offices to service the collony's insurance needs (Rand,1963). Prosperity in the colony soon justified expansion of these agencies to branch networks with more autonomy and expertise to service the growing insurance needs. By the year 1963, branches had been transformed to fully-fledged insurance companies. Since then, Kenya's insurance industry has flourished with 44 registered insurers operating in Kenya as up to date.

After independence in 1963, the Government of Kenya relialized the need to have control over the insurance industry by that given time; this was then dominated by the branch offices of foreign companies particularly from Europe and India. By this time, insurance operations were controled by the Companies Act, 1960, which was based on the United Kingdom legislation (Rand, 1963). There was therefore no competent body to supervise the industry. There was a

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great need to localise the branch offices of foreign insurance companies in the country with a plan to benefit the local investors. This resulted to the need for statutory supervision of the insurance industry in Kenya (Association of Kenya Insurers, 2005).

1.2 Statement of the Problem

The problem which this study sought to address was that,some insurance companies seem to be performing well while others were performing poorly to the extent of collapsing, as evident in the past in our insurance industry in kenya.Insurance companies were collapsing in kenya which could be as a result of regulation issues,claims proccessing issues,management issues or capital resources issues. The stakeholders who benefited from the insurance industry were negativelly affected by the poor perfomance or collapse of some insurance companies. Policy holders lose their premiums and assets to be idemnified if an insurance company collapses before settlement of the claims incured by then.

The government of Kenya has also been lossing revenue in terms of withholding taxes and stamp duty among other taxes, whenever an insurance company collapses in kenya; employees lose their jobs, intermediaries lose comissions for businesses taken to such affected insurance companies, investigators loss assessors, loss adjusters, garages and suppliers end up lossing income while shareholders end up lossing their investments whenever insurance firms perform badly or collapses. The current study sought to establish the factors that affect the performance of insurance companies in Nairobi county,Kenya.

According to Mudaki (2012), the experience on average has been that one insurance company goes under or is under receivership after every four years since 1985 in Kenya. But as shown by

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the above research, in the year 2008 and 2013, four insurance companies collapsed which now implies one insurance company collapsing per year, which includes United Insurance Company, Kenya National Assurance Company, Lake Star Assurance Company,Stallion insurance company, Invesco Assurance company, Standard assurance company, Blue Shield insurance company limited and then Concord insurance company limited as per the IRA report (IRA,2013).

Prime Journal, December 9th, 2013-1261. Vol. 3(12) states that at least 8 insurance companies have either collapsed or have been placed under statutory management in the last twenty years. According to the (IRA, 2013) findings, the Invesco Assurance Company which was placed under receivership in 2008, Standard Assurance in 2009 and then Blue shield placed under statutory management in 2011.

According to The United Nations Conference on Trade and Development (2003), it was concluded that the insurance industry in Kenya which is regulated by a department of government, IRA, has not made much progress in enhancing the legal and regulatory framework and this can greatly affect the performance. Besides, the public having negative perceptions of the insurance companies due to some previous experience the insurance company, ranging from delay or nonpayment of claims, relying on policy exclusions to decline a claim, demands for a lot of documentation which a claimant perceives as delaying tactics according to Nderitu (2006).

1.3. The General Objective

The general objective of the study was to establish factors affecting performance of insurance companies in Nairobi county ,Kenya.

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1.3.1 Specific Objectives

This study was guided by the following research objectives:

i. To determine the effects of regulation on the performance of insurance companies in Kenya.

ii. To examine the effects of claims processing on performance of the insurance companies in Kenya.

iii. To assess the effects of management on the performance of insurance companies in Kenya.

iv. To examine the effects of capital resources on performance of insurance companies in Kenya.

1.4 Research Questions

The following research questions were used to guide this study

i. How does regulation by insurance regulatory authority affect the performance of insurance companies in Kenya?

ii. How does claims processing affect the performance of insurance companies in Kenya?

iii. How does management affect the performance of insurance companies in Kenya?

iv. How does the capital resources affect the performance of insurance companies in Kenya.

1.5 Significance of The Study

The study will be of importance to the Government of Kenya, as it will assist the Commissioner of Insurance in coming up with appropriate legislation that will ensure there is congruence

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between policy holders, potential policy holders and the insurance companies. The Association of Kenya Insurers (AKI) will utilize the findings on factors affecting the performance of insurance companies in Nairobi county, Kenya to enhance sustainability and growing concern for the insurance companies in Kenya.

The results of this study are expected to not only help in filling the void that exists in Kenya inregards to research and publications on factors contributing to the performance of insurance companies, but also to stimulate discussion in the academic field and provide a fertile ground on which further research could be based. The study will also be of importance to the Government of Kenya, through the Commissioner of Insurance in coming up with appropriate legislation that will ensure there is congruence between policy holders, potential policy holders and the insurance companies. This study is expected to make a contribution to the existing knowledge and provide valuable information for future researchers who might be carrying their studies in the same field.

1.6 Scope of the Study

According to Mugenda & mugenda (2003), scope of the study is an area of interest where the researcher is interested to carry the study,it is a general outline of where the study will be conducted. This is the area where the study will be conducted and the extend to which it streches. In this case, the scope of this study was Nairobi county, Kenya dealing with the top ten performing insurance companies whose their head offices were situated in Nairobi county,Kenya.

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1.7 Limitation of the Study

The aspect of dealing with the only four factors in the study was a limitation to this study. This was overcomed by recommending further research in this study area in future due to dynamism in the insurance industry where competition is very stiff and the dynamics of the insurance market keep on changing every other day where the current position in the insurance market is subject to with time .

Dealing with only the top ten insurance companies in Nairobi county,Kenya was another limitation to this study. This was overcomed by recommending further research in this area due to rapid changes and the competitive nature of the insurance business environment where the current position may keep on changing depending on the strategy adopted by an insurance company in a competitive insurance business environment as well as social economic changes in Nairobi county,Kenya.

Dealing with the only top management staffs especially the CEO's was another limitation to this study due to the commitment nature of their business schedule. This was overcome by booking for an appointment before meeting them and or droping the questionnares to their secretaries while giving them enough time to go through the questionnaires in order to fill them and collected them after they were through with them up on confirmation over the telephone or emails.

1.8 Definition of key Words

Insurance–A contractual relationship between two parties in which one party, the insurer, is paid a premium by the other party, the insured. In return for the premium, the insurer promises to indemnify the insured in the event of a covered loss (Vaughan, 2007). Insurance is the act of

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taking a risk where the insurer who is the insurance firm, undertakes the risk of a policy holder while the policy holder transfers his or her risk to the insurance firm.

Insurer –This is the party that agrees to pay money on the happening of the contingency. Usually the insurers are the insurance companies(Gregory, 2003). An insurer is the firm undertaking the risk of the client in other words known as the insured. The insurer is the insurance firm which compensates the client or the insured in the event of a loss or accident. The insurer is the insurance company geting in to an insurance contract promising to idemnify the insured or clients in the event of a loss or accident as a result of the insurance contract undertaken between the insurer and the insured.

Insured –This is the person who faces a particular risk. He seeks protection against risk by paying premium. The insured claims and receives money as compensation in the event of loss (Gregory, 2003). The insured is the person transfering his or her risk to the insurance company in other ward known as the insurer. The insured gets compansation from the insurer who in other ward is the insurance company.

Premium –This is the amount, which is paid by the insured or the policy holder to the insurers or insurance company for their policies or the risk undertaken. It is the consideration for which the insurer gives protection to the insured. It is the price for insurance cover (Walker, 2008). Premium is the money charged by the insurance company to the client or insured for the risk undertaken by the insurance company.

Insurance Act –Refers to Chapter 487 of Laws of Kenya which gives guidelines on how the insurance firms will be regulated through the regulator who is the comissioner of insurance industry in Kenya.The Act gives guidance on how insurance companies are expected to

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legitematly practice while observing the laws of the country, Kenya. The insurance Act was formulated to regulate and govern or control the insurance industry in kenya.

Idemnity - This is to pay or to compesate the client for the loss incured (Walker, 2008). The insurance company indemnifies the insured or the policy holders for the risk incurred during the insurance policy period. To indemnify is to pay where the insurer indemnifies the insured during the accident or loss of a property. The insured is indemnified as a way of returning him or her to his or her back to the previous financial position before the accident or loss occurred.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents an empirical and theoretical review of related literature on Factors affecting the performance of insurance companies in Nairobi county, Kenya. The sources of information for this chapter include published journals, books and online resources. This chapter is divided into the following sections: theoretical and conceptual framework, empirical review, Critic of existing literature; Knowledge gap will be provided in last part of the chapter.

2.2 Theoretical Framework

This section presents a review of theories which in one way or the other may relate to perfomance of insurance companies. This study used the following four theories. The main theory for this study is Stewardship Theory which is linked to the researcher's third variable on management. Other theories are Economic theory of regulation, Fraud Scale theory and resource based view theory.

2.2.1 Economic Theory of Regulation

According to the study done by John (2010), this theory has two main considerations where the assumption is that, the regulators do not have adequate information in connection to the cost, demand and other dynamics of the industry operations where in such circumstances the regulators can inefectively promote the interests of the public when discharging his or her functions of regulating the industry. It is assumed that, all economic agents or regulators majorly promote their own vested interests. Further it is assumed that, theyhave prerequisite information

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and enforcement powers to promote the interets of the public while discharging their functions as economic agents or the regulators.

According to Viscusi, Vernon & Harrington (2005), there is a difference between economic and social regulation where two types of economic regulations are structural regulation and conduct regulation according to Key & Vickers (2010). Structural regulation focuses on regulation of the market structures such as imposing restrictions on entry of new firms in the industry or exit of the new firms in a regulated industry. Structural regulations is also concerned with rules controlling firms not to compromise on qualification where professional services are concerned. In this case the regulator must ensure people in the industry have the prerequisite qualifications to offer the needed services in the regulated industry.

According to Harrington (2005), the other type of regulation is conduct regulation which focuses on promoting the right behaviour of the people in the industry such as the producers and consumers in the market. Economic policies are mostly practiced on natural and monopolistic market structures with improper or stiff business competition. The main objective of the regulator in this case is to counter the negative welfare impacts of the giant or dominant company's behaviour with the aim of neutralizing the market activities (Harrington,2005). This theory concurs with the researcher's first variable of regulation in this study on factors affecting the performance of insurance companies in Nairobi county,Kenya where effective regulation in the insurance industry in Kenya promotes healthy competition on service delivery thus enhancing good performance for sustainability.

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2.2.2 Fraud Scale Theory

According to Steve (2006), the nine motivators of fraud includes unrealistic desire for personal gains and close association with clients, living beyond personal income, high rate of personal debts, remunaration which is not within the scale of the job or which does not commensurate with the job, exceeding gabling as well as friends and relatives pressure and strong challenge /wheeler dealing to overcome systems. He came up with a fraud measuring standard of scale such as situational pressures to measure immidiate problems with the environment and debts/ losses poeple incure and expected opportunities as a result of bad control and personal integrity (which is influenced by individual code of behavior). Therefore this theory concurs with the researcher's second variable on claims processing in this study on factors affecting the performance of insurance companies in Nairobi county, Kenya where frauds in claims processing contribute to great losses of company's money which would have gone to good investment to enhance the company's bottom line as well as its sustainability while supporting the insurance firms growth and performance.

2.2.3 Stewardship Theory

According to Donaldson & Preston (2005), the stewardship theory which in other term is known as the stakeholder's theory adopts a different perception from the agency theory. This theory begins from the proposition that organizations serve a bigger social objective other than optimizing the investment of the stockholders. This theory argues that, organizations are social entities that affect the wellbeing of various stakeholders where stakeholders are groups or individuals that interact with a company and affect or are affected by the achievements of the organization's objectives. This theory further argues successful organizations are measured by their capability to add value to the stockholders as well as the stakeholders (stakeholders).

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Davis, Schoorman & Donaldson (2007), explains stewardship theory from a perspective of psychology and sociology where it derives its roots from just as a steward protects and optimizes stockholders' investments through exemplary outcomes. The steward's utility functions are optimized. In this understanding, the stewards are the top management and other employees in general working for the stockholders. The stewards are entrusted with the responsibility of protecting the stockholders' investments in order to maximize profits and be sustainable. Unlike the agency theory, stewardship theory emphasizes not only on the perspective of individualism but rather on the role chief executives being the stewards, who are entrusted with the responsibility of integrating their objectives as part of the firm thus promoting for chief executive's duality as the one who should undertake an integral role of corporate governance according to Donaldson & Davis (2011).

According to Agyris (1973), the stewardship approach argues that, stewards are satisfied and motivated in circumstances where firms achieve their success and maximize their profits. Agyris (1973), further argues that, agency theory views human resource as an economic being which overwhelms an individual's own aspirations while stewardship theory recognizes the significance of structures that empower the steward and provides optimum autonomy based on trust according to Donaldson & Davis (2011). This stewardship theory further emphasizes on the position of human resources as executives to act more autonomously so as to optimize the stockholders' outcomes.

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According to Davis, Schoorman & Donaldson (2007), this theory argues that, in order to safeguard the steward's integrity as the key decision makers in firms, top management and directors are expected to manage the firms well in order to optimize the firm's financial positions as well as stockholders' bottom line. In this case, it is understood that, the firm's performance can directly impact on perceptions of their individual's performance in an organization.

According to Donaldson & Davis (2011), stewardship theory argues that, integrating the role of corporate governance in order to minimize agency costs and to enhance greater role of stewards in the firms and better protect the interest of the stockholders while enhancing the principles of corporate governance such as transparency, accountability and responsiveness in the management of the stockholders business ventures according to Donaldson & Davis (2011). This theory concurs with the researcher's third variable on management in this study on factors affecting the performance of insurance companies in Nairobi county, Kenya the management as good stewards are expected to effectively manage well the insurance companies in order to maximize the shareholders'investments to generate more profits as well as managing the company's resources well for better performance to promote sustainability.

2.2.4 Resource Based View Theory

According to Penrose (2009), the resource based view theory is of the understanding that, organizations have resources which helps them gain a competitive edge and also contributes to exemplary long term performance and be able to meet its financial obligations as and when needed. Empirical studies of company's performance using the resource based view theory have

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realized differences between companies in a similar sector (Hansan & Werner Felt, 2009) and within narrower confines of groups in the same industries (Cool & Schendel, 2008).

According to Penrose (2009), the resource based view theory of the organizations suggests that, organizational intrinsic factors are responsible for maintaining a company's competitive edge as well as achieving exemplary business results. In most cases, the resource based view theory mainly predicts that, deployment of unique and idiosyncratic organizational resources and competencies can contribute to sustainable exemplary business outcomes. The framework starts with chain of the company's objective and outcome expected out of the managerial efforts to yield to sustainable competitive edge as well as allowing companies to gain economic rent.Similarly, the resource based view theory concerns with the challenges on how a firm can gain and sustain those advantages. The resource based view theory provides the solution to the firms' problems by allocating adequate key resources for development and sustainability (Mahoney & Pandian, 2002).

According to Fahy & Smithee (2009), the resource based view theory focuses on sustainability of the firm's competitive edge which can be achieved if the company adequately and effectively deploys these needed resources in its product markets (Fahy & Smithee,2009). The resource based view has evolved considerably as a theory which has been widely, empirically applied to a large extent in various industrial as well as country-setting in setting disciplines of entrepreneurship, marketing and international business as well as human resources (Fahy & Smithee, 2009). This theory concurs with the researcher's fourth variable on capital resources in this study on factors affecting the performance of insurance companies in Nairobi county, Kenya

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where maintaining enough capital resources in an insurance company is very significant for the company to meet its financial obligations as and when needed, thus enabling the company to support its operations for better performance and sustainability.

2.3 Conceptual Framework

The conceptual framework for this study was based on the understanding that, the dependent variable depends upon several other independent variables. In this case, performance of insurance companies was considered as the variable which depends upon several other independent variables such as regulation, fraud in claims, management and capital resources for the purposes of this study on the factors affecting the performance of insurance companies in Nairobi county, Kenya. The relationship was as shown in figure 2.1

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Independent Variables

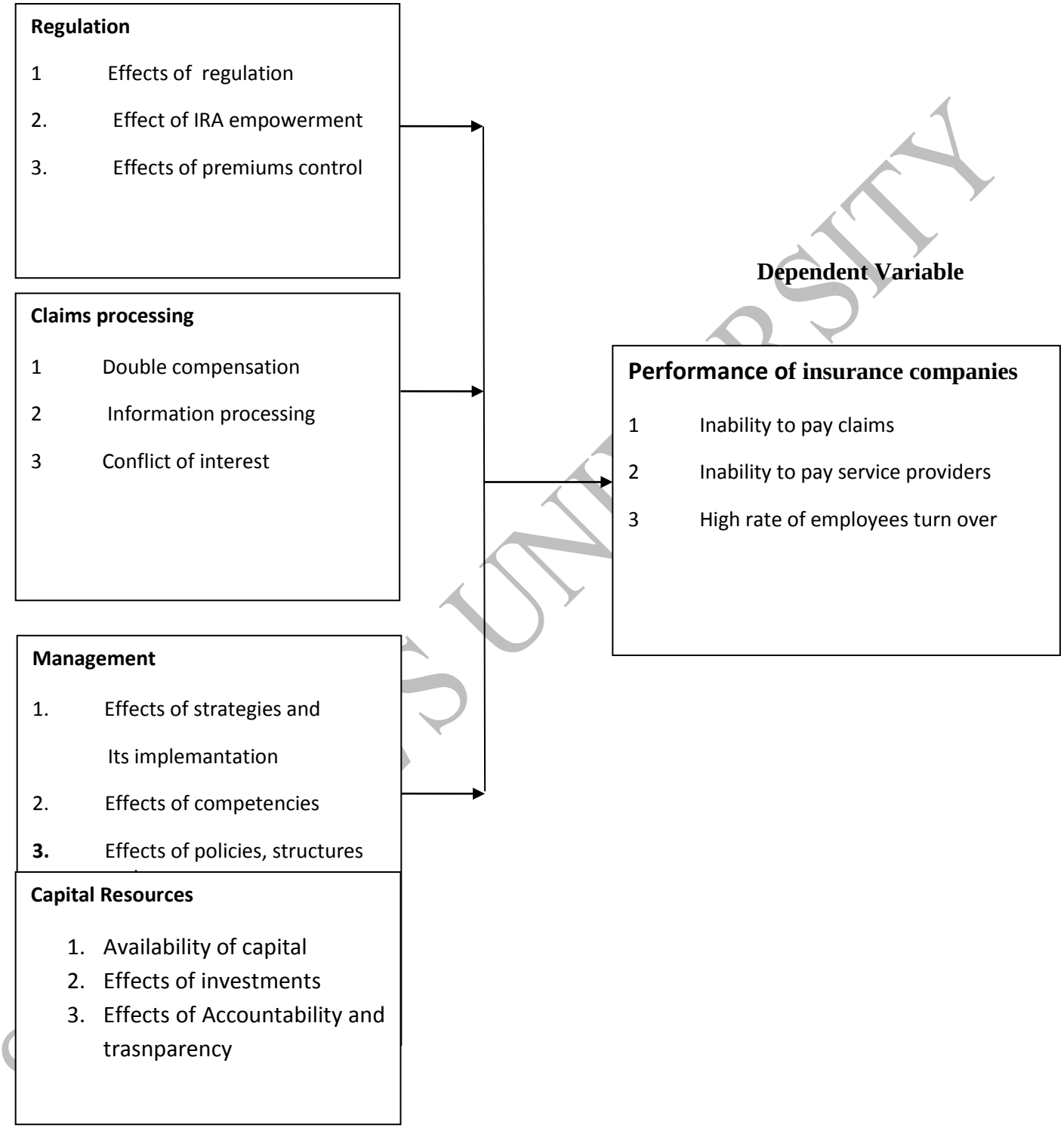


Figure 2.1 Conceptual Framework

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2.3.1 Regulation

According to Zingales (2011), the regulations plays a significant part in postering confidence and trust in the insurance industry which is a significant step towards minimising the risks in this sector. Insurance regulations, rules and laws have evolved over a period of time, bearing in mind the traditional approaches of insurance practices.In order to promote healthy practices in the insurance industry, legal measures should be taken against insurance companies who violate the set rules and standards, errant insurance brokers and agents are also subjected to the same legal action according to morelli,*et al* (2010).

According to Makove (2011), Insurance companies are required to develop an appropriate and effective company's policy framework to grow and develop their business in a competitive insurance business environment. For the insurance companies to succeed, they should do a clear documentation of the existing risk management schemes and practices adopted by insurers not limited to gathering of the necessary information on risk prevalence of areas or clientale demographs (makove,2011).

The Insurance Regulation (IRA) issued new directions in the year 2009 stopping one insurance firm from transacting on both general and life insurance business at the same firm or what in other terms is refered to as composite insurance firm due to the fact that the firm offers both general and life insurance services. This move was made to promote good management in the insurance sector while controling the risks involved. Due to these new regulations by the insurance regulator, composite insurance underwriters were given an option to seperate their operations into two independent firms and relinquish one of it or to place the two under a manegement holding company (Zingales,2009). This seperation of business is made to minimise

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instances where composite insurance firms divert money from life investments to pay claims in general business according to the insurance regulatory authority.

According to Zingales (2009), the life investments are longterm in nature and once used on general insurance business ends up in puting the insurance firm into liquidity problems thus affecting the insurance companies ability to meet its financial obligations on life claims as and when they fall due (Morelli,2010). This split of life from general business is among the regulatory reforms that bars an individual stockholder from holding more than 25 percent ownership of the insurance firm (Association of kenya insurers ,2010).

According to the Association of Kenya insurers (2010), the reforms begun with the insurance Amendment Act 2006 which saw the establishment of IRA as an independent regulator in place of the office of comissioner of insurance rather than just a department in the treasury as it was the case before (Association of kenya insurers,2010). An insurance copmany trading on longterm insurance business shall be required to always maintain total admitted assets of not less than its total admitted liabilities and ten million kenya shillings or five percent of the total admitted liabilities, whichever is greater. In a situation where an insurance firm is trading on longterm insurance business,the level of liabilities in respect of the insurance policies transacted at any time shall be the amount of those liabilities at that particular time as determined by an actuary and this shall not at any particular time, be less than the calculated minimum basis prescribed (Zingales,2009).

2.3.2 Claims processing

According to Wedge & Handley (2003), the claims management is a way of dealing with the whole claims process particulary emphasizing on the closs tracing of risks leading to claims

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costs. The claims management process has to maintain a balance between the customers' expectations and striking a cost efficiency. In this case the client's expectation is to be idemnified at a reasonable time whereas the risk managers will have to ascertain whether the claim is payable or not as well as ascertaing the amount payable. For the claims manager to be efficient and effective in managing claims,he or she should engage service providers such as investigators, loss assessors, garages, hospitals, doctors, lawyers and loss adjusters according to Wedge & Handley (2003).

According to Wedge & Handley (2003), the service providers engaged to deal with claims circumstances like investigation , loss assesment or legal matters may not give the same priority to the client as the insurer puts priorities to its customers.In this case delays from such service providers results to a slow turnaround period in idemnity and complains from clients. Section 2003 of insurance Act,Cap 487 requires an insurance company to settle claims within 90 days after the liability establishment failure to which will attract a penalty of five percent of all unsettled amounts as impossed by Insurance Regulatory Authority (Wedge & Handley,2003).

2.3.2.1 Claims Procedures

The claims process from its inception to the time it is conluded is as follows:

2.3.2.2 Claim Notification

According to Wedge & Handley (2013), most of the policies provided states that, the customer should inform the insurance company in good time about the claims occurence mostly within twenty four hours or immediatly it occures. This can immediatly be reported verbally and later go to the insurance company to fill in the claims form and provide the other needed claims papers like driving licence, police abstract, logbook copy and personal information among

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others. Further, the client is required to avail to the insurance company any claims correspondences from the claimants or from their lawyers for the insurer to effectively handle the claims. It is prudent for the insured to prove beyond reasonable doubt that, the insured indeed has suffered the loss and whether the proximate cause of the peril is within the scope of the insurance cover (Wedge & handley,2003).

According to Roff (2004), the insured must provide enough proof of the loss including providing authenticated receipts if any, valuation reports as well as full material disclosure and utmost good faith for an effective claims idemnity process. In a situation where a claim is not reported appropriately,the insurance company lacks the chance to get actual facts while the incident is fresh thus opening gaps for fraudlent claims as well as bringing other factors in to play hence aggrevating the loss. A good claims management process demands that, an insurer should be able to seperate genuine claims from ungenuine ones and for this reason late reporting makes it imposible to make this separation. Also late investigation is a recipe to fraudlent claims thus the need for claim managers to take appropriate measures when claim circumstances are green to overcome these challenges (Wedge & Hanley,2003).

2.3.2.3 Claims processing precedure

According to Wedge & Hndley (2003), claims review involves clear analysis of the entire claim,it also involves comparing of information provided in the claim form with the details recorded in the project form at inception of the policy as well as the information contained in the claims form and the drivers papers. Further it involves interpretation of the policy in accordance to the claim. Other things to review includes economic considerations among them being, a decision on whether the claim is so little to attract further investigation or the need to get more

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information. However a big claim may justify need for more investigation or taking legitimate measures according to Wedge & Handley (2003).

According to James,Lyn & Rowe (2009), the insurance company needs to ensure that, the insurance policy was in force at the material time of loss, the insurance company also needs to check the details provided in the project form at inception of the policy,the risks insured to ensure that it's within the scope of the policy given to the insured. It is also the responsibility of the insurer to ascertain whether the insured have complied with policy terms and conditions to ensure that the claim lodged does not fall under the exclusion clauses in the policy issued.

Claims review is very significant in the claims handling process since it deters the likelihood of conflicts resulting from policy interpretations,economic considerations, market practices as well as legal requirements, therefore a top management in claims needs to be involved at this critical stage so as to deal with critical matters effectively and efficiently while appropriately investigating the claims in good time if need be.(James, Lyn & Rowe, 2009). The capacity of a claims officer is significant at this critical level (Wedge &Handley,2003).

2.3.2.4 Response to Claimant

According to James,Lyn & Rowe (2009), the initial response is normally the acknowledgement of the claim or a demand for more details concerning the claim.Once the insurance company is fully satisified with the claims details provided, they can either make a decision to idemnify, repudiate or to decline the idemnity.Again, the insurance company may offer to settle a lower amount in circumstances where the liability is admisible but the insurance company is not comfortable with the amount in claim or even end up in further negotiation about the claim.In this situation, the insurance company must effectively communicate with the client their reasons

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for such decisions taken on the claim to make sure the client is comfortable with the decision taken to satisify him or her and avoid resorting to litigations (James,Lyn & Rowe,2009).

2.3.2.5 Claim Investigation

According to Wedge & Handley (2003), an insurance company may not have all the necessary information of the claim which enables them to make the appropriate decision on the claim at hand.they may therefore need to engage a loss assessor to investigate the claims circumstances and to shed more lights on the claim (Wedge & Handley,2003). This action is mostly taken for motor and other liability claims in nature. Investigations are also applicable in claims which are suspected to be fraudulent (Jsmes, Lyn & Rowe,2009). The magnitude and nature of the claims demands for an insurance company to engage a loss adjuster to ascertain the magnitude of the liability and quantum of the claim. This is mostly for property claims such as domestic package, fire, burglary, marine and all risks among other non-motor claims in nature.

In case of vehicle claims,loss assessors or motor assessors are appointed to assess the magnitude of the loss and ascertain the repair estimates to advise on the repair cost or if the vehicle is a constructive total loss and idemnify the insured the pre-accident value of the vehicle (Wedge & Handley,2003). Once the investigations are finnalised, the insurer is required to communicate to the insured on the outcomes of the report and the decision taken on the loss. The loss assessor is required to act with speed while being efficient in providing a complete report capturing all the necessary details of the claim for fairness to the client. All details of the claim should be presented in a clear,orderly and in a coherent manner to justify the idemnity (Wedge & Handley,2003).

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2.3.2.6 Claim Settlement

According to James,Lyn & Rowe (2009), where the liability is not disputed and both the insurance company and the client are in agreement on quantum,idemnity follows soon thereafter. However, in cases where either the liability or the quantum is disputed, the claim is bound to take time to be settled. In many other cases where liability claims are involved with determination of the court, section 203 (1) of insurance Act Cap 487 provides that, once the insured reports a claim and gives all the necessary information or documentation,then the insurer shall admit the liability or decline it,determine the amount to be settled and details of the claimant and then settle the claim within ninety days from the day the claim was reported to the insurer. If the liability is determined by the court, then the insurer must pay the loss within ninety days of the court determination (James,Lyn & Rowe,2009).

2.3.2.7 Claim Recoveries

According to James,Lyn & Rowe (2009), an insurance company may need to recover all or some of their outlay. There are four sources of recoveries such as from a third party who was to blame for causing the accident,from a party where insurance company has subrogationrights against and from a reinsurer where reinsurance protection is in place or from a sale of a salvage in a situation where the insured was idemnified and he or she is not interested with the salvage.

2.3 .2.8 Fraud in Claims

According to Cockerell (2007), fraud is defined as a deliberate move taken with an intention to cheat.Aclaim is said to be fraudulent where the insured provides untrue information of the material facts in his or her claim with full knowledge that such statements are false or believing them to be correct. Fraudulence can occur when such statements are carelessly made without

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considering whether they are correct or not. In this case, the insurance company has a prerogative to deny the claim if proved to be fraudulent and amounting to a breach of one of the key principles of insurance namely: Utmost Good Faith (Bennett,2002).

According to Wedge & Handley (2003), a fraud can appear in many ways, nature and forms not limited to exaggerationof genuine claims, lodging fictitious event and causing deliberate false claimsas opposed to accidental damage to insured asset.The main motive of insurance fraud is personal financial gain.In many instances, insurance firms have undergone very hard times and incurred big losses in claims where some have been proved to be fraudulent. Such frauds have forced insurance firms to rethink the way they deal with claims (Karau,2008).

In the insurance industry,fraud is perpetrated by organised cartels of criminals through non-existent or inflated claims which have been percieved as one of the reasons contributing to poor performance of insurance firms in the last decades according to Wahome (2010). As much as genuine clients require to be idemnified appropriately,they must be separated from the fraudlent claims through investigations which takes alot of time thus leading to customer dissatisfactions.In situations where fraudulent claims are paid,the insurance company losses huge sums of money to the fraudsters.The insurance firms may end up charging higher premiums which in turn affects both the good and bad customers. In addition, if a fraudster escapes without being caught ,he or she may continue to perpetrate the same fraud in future (Roff,2004).

2.3.2.9 Claims Management

According to Wedge & Handley (2003), an insurer relies on assessors, investigators and loss adjusters, to ascertain whether to pay a claim, and if so the amount of compensation. Garages are also appointed to carry out repairs for the purpose of indemnifying an insured whose

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vehiclesustained accidental damage. For the claims which turn legal, the services of a defense advocate are required. Whereas some insurance companies employ full time employees to perform these functions, others outsource the functions to independent service providers (James, Lyn & Rowe, 2009).

Insurers expect their service providers to adhere to the set customer service benchmarks, while at the same time exercising a high level of integrity. In addition, they are expected to assist the insurer reduce claim costs. Usually, this does not happen, either due to lack of the necessary skills to perform the task assigned or due to lack of integrity. The external service provider may also not attach as much importance to customer retention as the insurer. As a result, service to the customer may be compromised (Wedge & Handley, 2005).

2.3.3.1 Management

According to Kloman (2010), management support is a critical part of strategic planning, with the sub-disciplines of finance, safety, public Policy, insurance and security. For many organizations, previously unchallenged by the need to develop a strategic plan for monopolistic service delivery, this represents a significant shift. In any case, strategic planning must become a regular, sustainable component of insurance companies existing planning processes to be an effective instrument for resource allocation decisions (Rothstein & Kiyosaki, 2003). Good management which supports strategic planning and proper goals setting is very key to organizational going concern. Therefore, the success and good performance of an insurance company will depend on the quality of management while on the other hand; the failure or underperformance of an insurance company will depend on the poor quality of the management in place.

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Accordingto Rothstein & Kiyosaki (2003), modern management is required to manage uncertainty, which demands that risks and risk- taking, in a consistent manner, become a part of modern business management including the implementation of strategy. Managers are tasked with the responsibility of managing the stakeholder's investments where good management will yield to better performance in the insurance firms.

2.3.4.1 Capital Resources

According to Milne & Whalley (2009), capital resources provide a foundation for an organization's future performance, growth and protect the organization against unexpected future losses. For instance, adequately capitalized and well-managed financial institutions are better placed to withstand losses and to provide credit to consumers throughout all business cycles. The major challenge has always been to determine how much capital is needed to create a sufficient buffer against future unexpected losses (Milne and Whalley, 2009). Therefore, the ability of an organization to meet its obligations as and when needed is very significant to its performance and success.

2.3.5.1 Performance

According to Kirkpatrick (2009), firms exist in order to maximize returns and profits. This is to be made through the increase of revenue which the profit making entity is making, or decreasing the costs which the company incurs in the process of making the revenue. However, when considering managerial behavior in large organizations, theorists have modified the theory of the firm to include other managerial issues such as corporate social responsibility, corporate governance and issues of management and control. Each of the above factors will contribute to the way the management of any company behaves (Kirkpatrick, 2009). Therefore, good

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management practices are expected to promote better performance while minimizing the indicators for bad performance where one of them is inability to meet the organizations financial obligations among others.

2.4 Empirical Literature

2.4.1 Regulation

According to a study by Njenga (2010), it is an open fact that the path tracing the growth or development of insurance industry in Kenya is surrounded with many challenges. Between the year 1963 to1984, there was no legislation that specifically regulated insurance in Kenya, thus leaving a gap. As a result, the insurance industry was characterized by chaos and confusion from the very onset. The enactment of the Insurance Act in 1984 was expected at streamlining the then ungoverned sector.

Regulation objective was hardly realized where on the contrary, the Act contributed toan increase in the problems facing the sector. This was primarily because it was adopted from the British Insurance Laws of 1948 according to a research done by Njenga (2010), as such it did not fully take into account the local situation in which it was to be applied. For instance, one of the key provisions of the British Insurance laws was a mandatory third party liability system for public service vehicles as per the study by (Njenga,2010).

According to study by Geoffrey (2010), regulation Act as a system opened the floodgates for fraud as various players in the industry sought to unscrupulously capitalize on the provisions to the detriment of insurance companies. The Act also provided for a fault system ; this has worked

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to the disadvantage of insurance companies as they have been forced to operate in an uncertain environment with regard to the levels of risk they are exposed to.

According to Njenga (2009), the challenges that have faced the insurance sector include: the growth of industry wide cartels, a temperamental judicial system, inadequate use of technology, insurance companies formed with a fraudulent intent, run-away road traffic accidents and poor mobilization of investment capital among other challenges (Njenga,2009). The relationship between the above research findings and this study is that, it is evident that there is a regulation problem facing insurance industry in Kenya which prompted the researcher to carry out a study on factorsaffecting the performance of insurance companies in Nairobi County, Kenya. Maybe, regulation is one of these factors according to these research variables.

2.4.2 Claims Processing

According to a research done by Nderitu (2006), and a previous research done by Verma (2013), they proved that researchers have continuously focused on the individual fraud arising in the insurance industry without due consideration of the bigger problem this causes to the perceptions held by people about insurance. Research has not clearly shown the link between the fraudulent activities in the insurance industry and the slow uptake of insurance by the masses (Growth Impeded). This study is set to find out the causes of the fraud associated with insurance and it outlines ways of improving the situation in order to ensure confidence among the people as well as to explore ways of spurring growth in the companies that deal with insurance (Nderitu,2006).

The study by Roff (2006), stated that fraudulent claims account for a significant portion of all claims received by insurers, and cost billions of shillings annually. Types of insurance fraud are

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very diverse, and occur in all areas of insurance. Insurance crimes also range in severity, from slightly exaggerating claims to deliberately causing accidents or damage. Fraudulent activities also affect the lives of innocent people, both directly through accidental or purposeful injury or damage, and indirectly as these crimes cause insurance premiums to be higher.

Acoording to Roff (2006), Insurance fraud poses a very significant problem, and governments and other organizations are making efforts to deter such activities. The relationship between the above research findings on fraudlent claims and this study is that,fraud in claims is a major problem wich can negativelly affect the performance of insurance companies in kenya. The study sought to determine the effects of fraud as a factor affecting the performance of the insurance companies in Nairobi county, kenya.

2.4.3 Management

According to a study by Rothstein & Kiyosaki (2003), the researchers argued that modern management is required to manage uncertainty, which demands that risks and risk- taking, in a consistent manner, become a part of modern business management including the implementation of strategy. The strategic planning processes gives an opportunity to consciously and explicitly evaluate risks and develop risk management strategies that would effectively advance an organization or utility's strategic goals. The researchers further argued that, strategic planning is subsequently in large measure, an exercise in risk management in the pursuit of strategic goals.

Kloman (2010), in his study supported this philosophy and believes that management support is a critical part of strategic planning, with the sub-disciplines of finance, safety, public policy, insurance and security. For many organizations, previously unchallenged by the need to develop

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a strategic plan for monopolistic service delivery, this represents a significant shift. In any case, strategic planning must become a regular, sustainable component of insurance companies existing planning processes to be an effective instrument for resource allocation decisions (Rothstein &Kiyosaki, 2003). The relationship with the above researchers and this study is that, good management which supports strategic planning and proper goals setting is very key to organizational going concern. Both researches and this study confirm that management is an important component for insurance companies going concern and sustainability (Rothstein & Kiyosaki, 2003).

2.4.4 Capital Resources

According to study by Maisel (2010), the use of a portfolio approach enables us to define capital adequacy, the measure of adequate capital resources in a way that could be used by managers, insurers, and regulators is very key for any firm's performance. Modern theories of finance enable us to define and model capital adequacy. The measurement problem, while not easy, does not appear more difficult than those solved elsewhere. Applications of known techniques allow us to clarify many problems and to arrive at preliminary estimates of the magnitudes of some of the key parameters.

According to Milne &Whalley (2009), capital resources provide a foundation for an organization's future growth and protect the organization against unexpected future losses. For instance, adequately capitalized and well-managed financial institutions are better placed to withstand losses and to provide credit to consumers throughout all business cycles. The major challenge has always been to determine how much capital is needed to create a sufficient buffer against future unexpected losses (Milne & Whalley, 2009).

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In a situation where the capital levels are too low, financial institutions may be unable to absorb high levels of losses and thereby increase the risk of financial institution failures, which may put depositors' funds at risk (Milne &Whalley 2009). On the other hand, if capital levels are too high, financial institutions may not be able to make the most efficient use of their resources, which may affect their ability to make credit available. The above researches touching on availability of capital recourses are in agreement with this study on capital resources as one of the factors affecting the performance of insurance companies inNairobi county, Kenya (Milne & Whalley 2009).

2.4.5 Performance of Insurance Companies

According to a research by Kirkpatrick (2009), bad performance of insurance Companies in Kenya has been attributed to poor managerial practices. This means that the stakeholder's funds were not directed in the way in which the same should have been directed. The 2008 financial crisis in the US has also been attributed to some extent to poor managerial practices by the financial institutions. It is claimed that the management boards of many companies did not appreciate the objectives and strategies of the companies, so as to work for their realization. The issue of management is best explained by the theory of the firm (Kirkpatrick, 2009).

The backbone of the theory of the firm is that firms exist in order to maximize returns and profits. This is to be made through the increase of revenue which the profit making entity is making, or decreasing the costs which the company incurs in the process of making the revenue. However, when considering managerial behavior in large organizations, theorists have modified the theory of the firm to include other managerial issues such as corporate social responsibility,

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corporate governance and issues of management and control. Each of the above factors will contribute to the way the management of any company behaves (Kirkpatrick, 2009).

At least 8 insurance companies have either collapsed or have been placed under statutory management in the last twenty years. As per the (IRA, 2013) report, the Invesco Assurance Company which was placed under receivership in 2008, Standard Assurance in 2009 and Blue shield placed under statutory management in 2011.The insurance business by its very nature is susceptible to fraud. This is more so for the general insurance sector, and the general insurance in particular. The insurance business is all about accumulating liquid reserves which is used in turn to settle the claims which are presented by the policy holders (Kirkpatrick, 2009).

The insurance companies also generate considerable amounts of steady cash flows from the premiums of risks undertaken. These premiums can easily be diverted before it even reaches the insurance company, if there is no strong fraud management policy in place. According to the Association of Certified Fraud Examiners (2009), another reason why the companies specializing in PSV insurance have been a major target of fraudulent activities is because of the number of players who are involved in a tortuous liability system like the one being operated in Kenya (Kirkpatrick, 2009).

According to a research done by Boadi, *et al* (2013), much has not been done on the financial performance of insurance firms in Kenya.Studies on profitability of insurance industry have not been widely conducted especially in emerging and developing markets.A research by Cagil & Karabay (2010), asserts that, most of the studies on insurance industry have used Data Envelopment Analysis to assess their financial performance. It is because of this reason that the

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researcher decided to carry out a study on factors affecting the performance of insurance companies in Nairobi county, Kenya since none has been done this area of study.

Other researches done by Koima (2008), state the challenges in the regulation of the insurance industry in Kenya. Ouma (2009), did a research on the relationship between value chain and competitive advantage in the insurance industry in Kenya; Kitua (2009), investigated on the internet as a source of competitive advantage for insurance firms in Kenya . Therefore this study sought to fill in the research gap by looking at factors which affect the performance of insurance companies in Nairobi county,Kenya since none has been done in this area.

2.5 Summary

Insurance professionals remain skeptical about industry efforts to combat fraud, according to Insurance Times research (2014). The survey carried out to mark the launch of the Insurance Times's Fraud Charter initiative showed that, barely 1 in 20 (6%) respondents believe that existing moves will be sufficient to tackle the issue of insurance fraud. They were overwhelmed by 68% respondents who believe that the initiatives established by the industry players, was not enough. The survey also shows that 70% of industry professionals reported an increase in fraud over the past year, while 64% believe many policyholders think it is acceptable to make a fraudulent claim(Insurance Times research,2014).

Insurance fraud occurs when any act is committed with the intent to fraudulently obtain some benefit or advantage to which they are not otherwise entitled or someone knowingly denies some benefit that is due and to which someone is entitled. According to the United States Federal Bureau of Investigation the most common schemes include: Premium Diversion, Fee Churning,

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Asset Diversion and Workers Compensation Fraud. The perpetrators in these schemes can be both insurance company employees and claimants (Insurance Times research,2014).

Fraudulent claims accounts for a significant portion of all claims received by insurers, and cost billions of shillings annually. Types of insurance fraud are very diverse, and occur in all areas of insurance. Insurance crimes also range in severity, from slightly exaggerating claims to deliberately causing accidents or damage. Fraudulent activities also affect the lives of innocent people, both directly through accidental or purposeful injury or damage, and indirectly as these crimes cause insurance premiums to be higher. Insurance fraud poses a very significant problem, and governments and other organizations are making efforts to deter such activities according to the research by Insurance Times research,(2014).

It is because of the persistence of fraud activities and the lack of proper initiatives that have necessitated different studies in different parts of the world. The studies have not conclusively helped sort out the problem. This study focused on the solutions that can benefit the local insurance industry to curb fraud activities in order to improve on performance in the insurance industry (Insurance Times research,2014). Therefore the relationship between the previous research on insurance industry is that,there is an element of fraud and management issues affecting performance of insurance firms leading to challenges faced by the insurance industry. This has a direct relationship with this study on factors affecting the performance of insurance companies in Nairobi county,kenya.

2.6 Research gap

According to research done by Boadi, *et al* (2013), studies on profitability of Insurance industry have been widely conducted especially in emerging and developing markets. Cagil & Karabay

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(2010), assert that most of the studies on insurance industry have used Data Envelopment Analysis to assess their financial performance (Boadi, *et al* (2013). It is because of this reason that this study addressed the gap that nothing has been done on factors affecting the performance of insurance companies in Nairobi county, Kenya.

Locally, studies that have been done include: Koima (2008), who did a study on the challenges in the regulation of the insurance industry in Kenya, Kamanda (2009), also did another study on Insurance firms with the objective of determining the factors that influence its regional growth strategy, Ouma (2009), did a study on the relationship between value chain and competitive advantage in the insurance industry in Kenya; Kitua (2009), investigated on the internet as a source of competitive advantage for insurance firms in Kenya .Therefore, this study sought to fill in the research gap by looking at factors affecting the performance of insurance companies in Nairobi county,Kenya.

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CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter presents the research design and methodology that was used to establish factors affecting the performance of insurance companies in Nairobi county,Kenya. The chapter is organized based on the following outline: Research design, target population, sample size and sampling procedure, data collection instruments and procedures, pilot testing,validity and reliability,data processing and analysis ,ethical consideration and data presentation.

3.2 Research Design

A research design is a plan, a road map and blueprint strategy of investigation conceived so as to obtain answers to research questions (Kothari,2004). This study employed a census research design.Census research design was used for the following reasons: The design is useful in describing the characteristics of a known population, makes use of large samples, thus making the results statistically significant even when analyzing multiple variables, many questions can be asked about a given topic giving considerable flexibility to the analysis. Thus, this design was deemed appropriate in this study since it targeted a known population in Nairobi county,Kenya whose offices are in Nairobicounty and could be located for the purposes of this study. Further, the study consists of a statistically representative sample of respondent (Kothari, 2004).

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3.3 Target Population

A population is referred to as the entire group of people, events, or things of interest that the researcher wishes to investigate. This refers to the entire finite or infinite aggregate of individuals or items from which samples are drawn (Sekaran, 2003). The target population for this study was 60 top management staffworking for the top ten leading insurance companies in Nairobi county,Kenya. These top ten ranked insurance companies were ranked according to the volume of business transacted and their performance, as per the IRA report released in 2015 showing the following insurance companies as the top ten in order of thier ranking: CIC general insurance company limited, Jubilee insurance limited, APA insurance company limited, ICEA Lion insurance company limited, Britam insurance company limited, Heritage insurance company limited, AIG insurance company limited, GA insurance company limited, AAR insurance company limited and First assurance company limited.

3.4 Sample Size and Sampling Procedure

According to Lucas & Samuel (2012), sampling is the selection of a subset of individuals from within a statistical population to estimate characteristics of the whole population. The study employed a census to obtain the sample size of 60 top management staff working for the top ten insurance companies constiting of Chief excecutive officers (CEO's), line mnagers from claims department, undewriting department, finance department, marketing department and human resorce department. Top 6 seniormost management staff were picked as respondents from each of the top ten insurance companies in Nairobi county, Kenya where one person was picked from each of the six departments in the above top ten insurance companies.

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3.5 Data Collection Procedure and Instruments

Upon obtaining clearance from the university post graduate department to proceed for the research, the researcher contacted the National Commission for Science and Technology and Innovation to obtain research permit. The researcher then proceeded to distribute the questionnaires to the selected respodents by dropping them at their offices.Once the questiannaires were dully filled,the researcher picked them for data analysis.The collected data was used to aid in the process of data analysis.

3.5.1 Questionnaires

The questionnaires were used to collect quantitative data. The questionnaires were considered appropriate for this study because of the following reasons : Its potential in reaching out to a large number of respondents within a short time, it is able to give the respondents adequate time to respond to the items, it offers a sense of security (confidentiality) to the respondent and it is an objective method since there is no bias resulting from the personal characteristics (as in an interview) (Owens, 2002).

3.6 Pilot Testing

The researcher conducted a pilot study of 11 individuals consisting of assistant managers from the six departments of the top two insurance companies among the ten top ranked insurance companies in Nairobi county,Kenya, to test the reliability of the research instruments. The reliability of the questionnaire was measured statistically using Cronbach's Alpha. Internal consistency techniques was applied using Cronbach's Alpha. The alpha values range between 0 and 1 with reliability increasing with the increase in value.

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3.7 Validity and Reliability

3.7.1 Validity

Validity refers to the degree to which evidence and theory support the interpretation of test scores entailed by use of tests. The validity of an instrument is the extent to which it does measure what it is supposed to measure (Orodho,2005). According to Mugenda & Mugenda (1999), validity is the accuracy and meaningfulness of inferences, which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represent the variables of the study(Mugenda & Mugenda,2003).

The researcher validated the research instruments in terms of content and face validity. The content related technique was used to measure the degree to which the question items reflect the specific areas covered (Mugenda & Mugenda,2003). The validation of the questionnaires and interview schedule was done through the following ways: the researcher requested research experts, professionals of development studies to review the items on the instrument to determine whether the set of items accurately represent the variables under study.

The respondents were asked to read, judge, make recommendations and give feedback to the researcher.Face validity concerns the extent to which the researcher judges that the instrument is appropriate (Mugenda& Mugenda,2003). The researcher consulted research experts to verify whether the instruments were valid. After the construction of the questionnaires and interview schedule, the researcher reviewed items with the help of supervisors, lecturers and scrutiny of peers. The suggestions given were incorporated to validate the instruments (Mugenda & Mugenda,2003).

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3.7.2 Reliability

The term reliability commonly refers to the ability of a research instrument to consistently measure characteristics of interest over time. It is the degree to which a research instrument yields consistent results or data after repeated trials. The achievement of the same results from a single instrument administered twice may lead to the conclusions of the instrument being considered as reliable (Mugenda & Mugenda,2003). The error may arise at the time of data collection and may be due to inaccuracy by the researcher or inaccuracy by the instrument.

Reliability is concerned with consistency, dependability or stability of a test (Nachmias, 1996). The researcher measured the reliability of the instruments to determine their consistency in testing what they were intended to measure. The test re-test technique, was used to estimate the reliability of the instruments. This involved administering the same test twice to the same group of respondents who were identified for this purpose (Mugenda & Mugenda,2003).

3.8 Data Processing and Analysis

This study was expected to produce quantitative data. Quantitative data was analyzed by employing descriptive statistics and inferential analysis using statistical package for social science (SPSS). This technique gives simple summaries about the sample data and presents quantitative descriptions in a manageable form ,Gupta (2004). Together with simple graphics analysis, descriptive statistics form the basis of virtually every quantitative analysis to data, Kothari (2004). Correlation analysis was used to establish the relationship between the independent and dependent variables. The purpose of doing correlation was to allow the study to make a prediction on how a variable deviates from the normal.

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The data was presented using frequency distribution tables, bar charts,graphs and pie charts for easier understanding. Regression models were used to analyze relationships and predictions among variables under the study. Multiple regression analysis was used to determine the relationship between dependent variable (performance of insurance companies) and independent variables (regulation, claims processing, management and capital resources) the regression model thus becomes $Y= \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$, whereby: β_0 is the regression intercept; β_1-β_4 are the regression coefficients;

Y is the dependent variable (performance of insurance companies);

X_1, X_2, X_3 and X_4 are independent variables where;

X_1 = Regulation,

X_2 = Claims processing

X_3= Management,

X_4=Capital Resources.

ε= Error term

Analysis of variance (ANOVA), was used to test the significance of the overall model at 95% level of significance. According to Mugenda& Mugenda (2008), analysis of variance is used because it makes use of the F test in terms of sums of squares residual. The information obtained was codified and entered into a spreadsheet and analyzed using Statistical Package for Social Sciences (SPSS version 21). SPSS Version 21 has got descriptive statistics features that assist in variable response comparison and gives a clear indication of response frequencies (Mugenda &

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Mugenda,2003). The SPSS version 21 also offers extensive data handling capabilities and numerous statistical routine that can analyze small to very large data statistics (Donald & Tromp, 2006). Chava (1996), adds that the language of SPSS is logical and quite simple.

3.9 Data presentation

The data was presented using frequency distribution tables, bar charts, graphs and pie charts for easier understanding, Kothari (2004).

3.10 Ethical Consideration

In this study, the rights of the research participants was ensured. This was done by ensuring that the principles governing research participants were followed to the latter. The researcher ensured that the principle of voluntary participation which requires that the respondents are not coerced into participating. The informed consent of the participants was ensured by explaining the aim of the study and the procedures involved.

The researcher avoided plagiarism by always acknowledging the source of data or information from other people used in the research.The researcher also guaranteed the participants of their confidentiality. There was an assurance that information provided would not be made available to anyone who is not directly involved in the study. The participant would remain anonymous throughout the study.

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CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The research involvesdoing an assessment of factors affecting the performance of insurance companies in Nairobi county, Kenya. This chapter contains the findings of the study and discussions on the findings. The findings answer research questions. Data collected was analyzed and reports were produced in form of tables, graphs, bars and pie charts for ease of interpretation and understanding.

4.2 Reliability test

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda & Mugenda, 2003). Cronbanch's alpha for each value was established by the SPSS application and gauged against each other at a cut off value of 0.7 which is acceptable according to Cooper and Schindler (2008). According to table 4.1, the data collection instrument was reliable since it was within the accepted rage of 0.7 where insurance regulation was at 0.7146, claims management was at 0.7432, management was at 0.7367 and capital resources was at 0.7276 respectivelly.

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Table 4. 1: Reliability Test

Variable	Cronbach's Alpha	No of Items
Insurance Regulation	.7146	10
Claim management	.7432	10
Management	.7367	10
Capital Resouces	.7276	10

Source (Auther,2016)

4.2 Response Rate

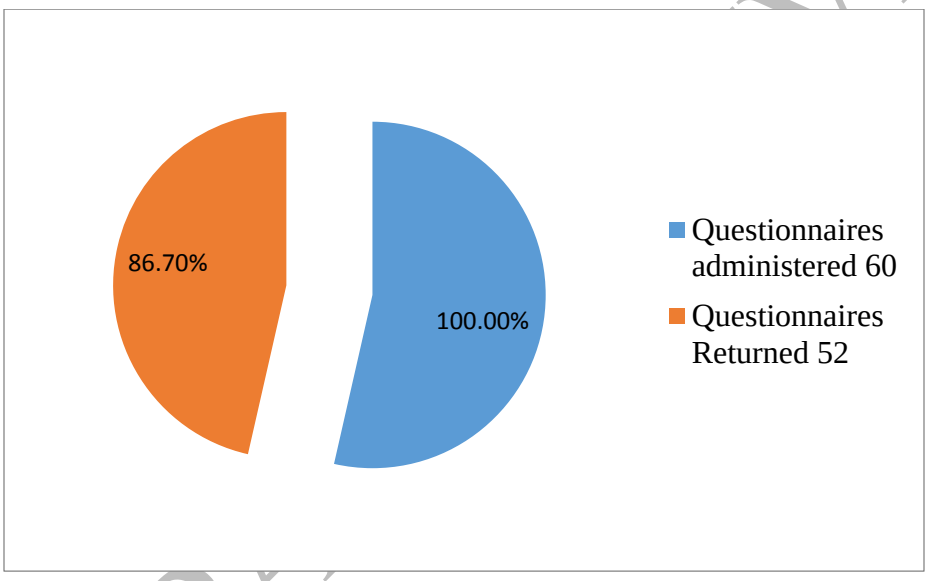


Figure 4.1 Response Rate

Source (Auther,2016)

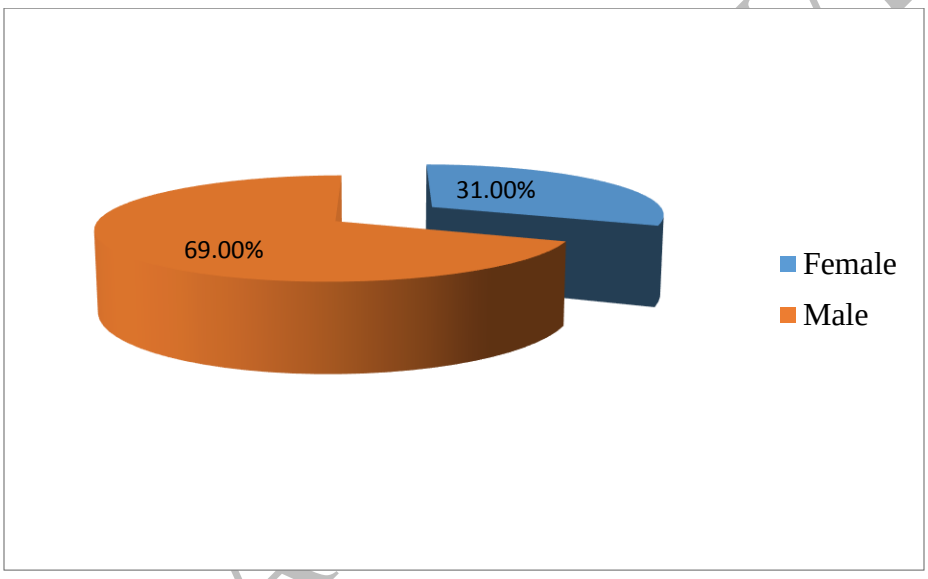
The research targeted 60 respondents to this study. All of them were supplied with questionnaires. Out of 60 questionnaires issued to different respondents, 52 questionnaires were well filled as required. Therefore the response rate was 86.7%. This fair response rate could be attributed to the data collection procedure where the researcher administered questionnaires and

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waited for respondents to fill and picked the filled questionnaires. From the research point of view, the response was a good representation to the target population. According to Babbie (2012), any response of 50% and above is adequate for analysis thus 86.7 % is even better.The unity of analysis for this study was 52 respondents who successefully filled and returned the questionnaires. The response rate of the respondents that participated in the survey is illustrated in figure 4.1

4.3 Personal information

4.3.1 Gender



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Figure 4.2: Gender of respondents

Source- Author 2016

The respondents were requested to indicate their Gender. Majority (69%) of the respondents were male while (31 %) were female. This is well illustrated by figure 4.2 above.

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4.3.2 Work Experience

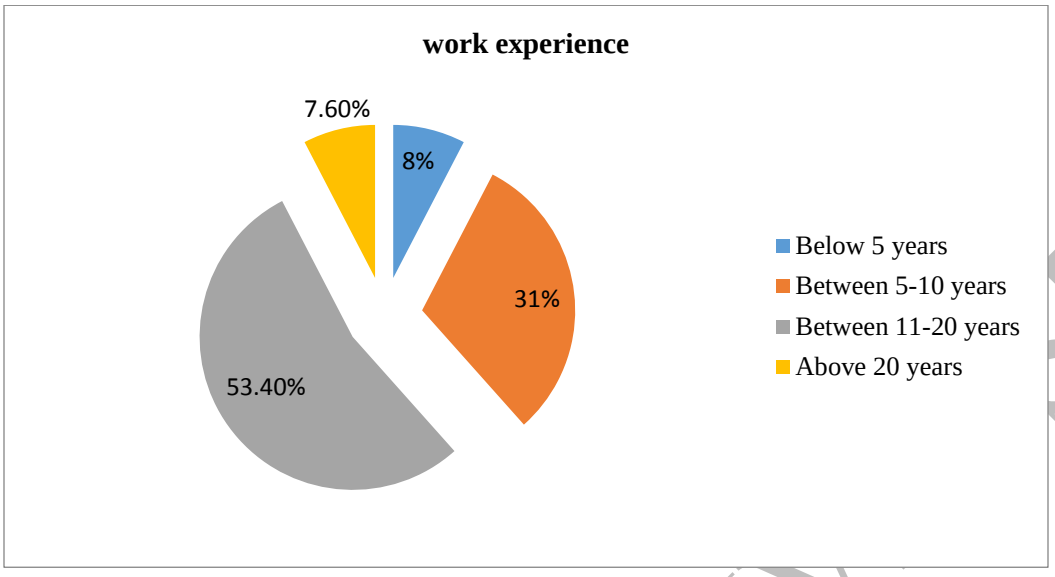


Figure 4.3: Distribution of the work experience

Source (Author,2016)

The respondents were asked to indicate the years of their work experience in the relevant position they occupy in the insurance industry. The work experience were grouped into below 5 years, between 5-10 years, between 11-20 years and above 20 years. As shown by Figure 4.3, 53.4 % of the respondent had a working experience of between 11-20 years. Slightly over a third of them (31%) , had a work experience between 5 to 10 years. Respondents with work experience below 5 years, were 8% while members with work experience of above 20 years were 7.6% . Majority of the respondents had 11 to 20 years work experience ; this indicates that the respondents had enough knowledge,experience and reliable information on the operation of their companies. The findings were as shown in figure 4.3

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4.3.3 Academic Qualifications

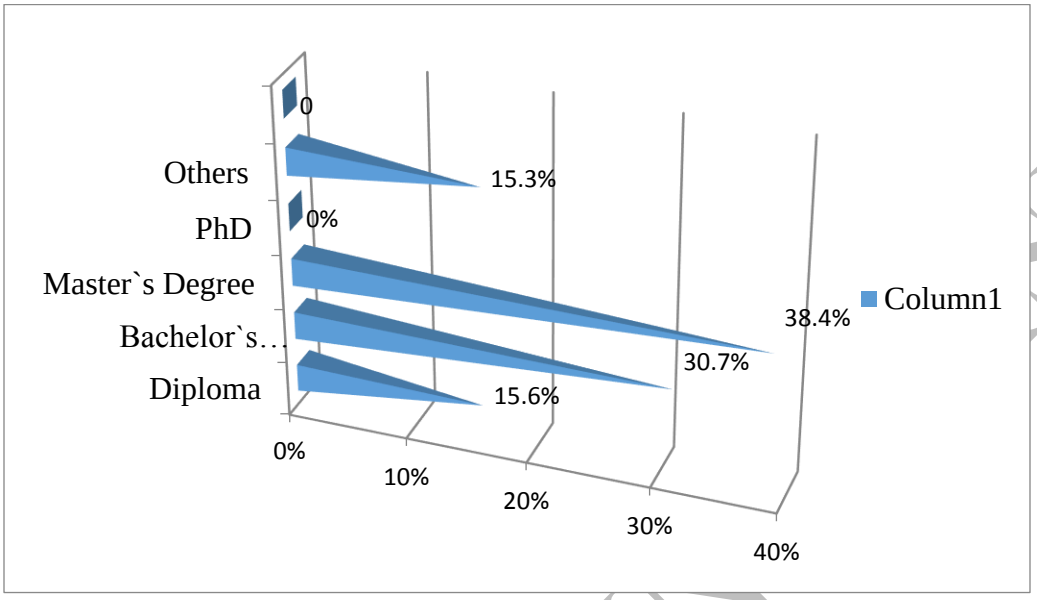


Figure 4.4: Academic qualifications

Source (Author,2016)

On the highest qualification held by the respondents who responded to the researchers questions, it was clear that the majority (38.4%) had a master`s degree as their qualifications, (30.7%) had a Bachelor`s degree, (15.3%) had Diploma certificates and 15.3% had other qualification such as CPA's,ACII among other qualifications.The finding were illustrated by figure 4.4 .

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4.3.4 Profession

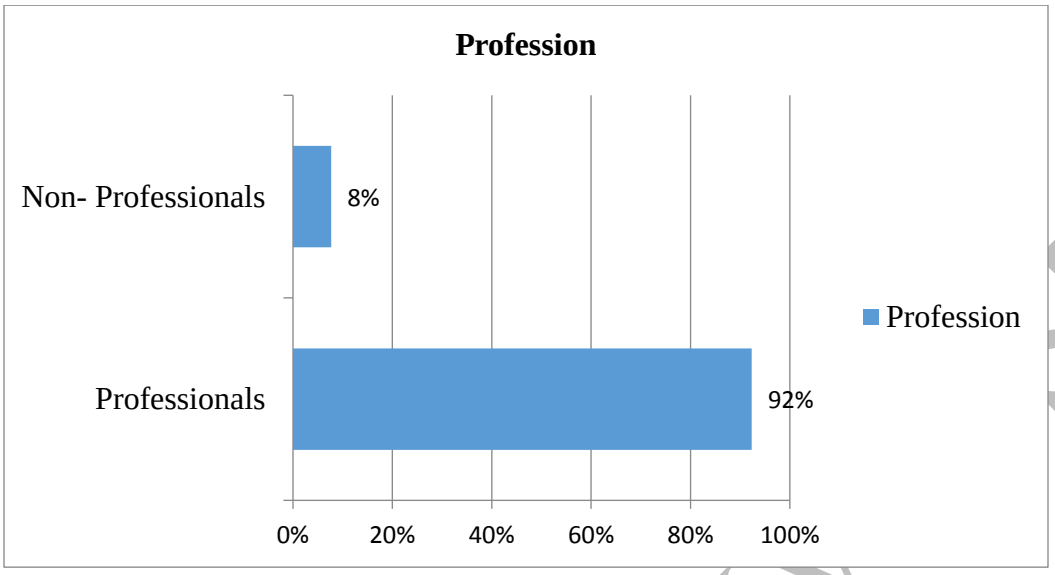


Figure 4.5 professional Training

Source (Author,2016)

The respondents were asked to indicate their professional training on insurance matters. From the findings, 92.3% indicated that they had a training on insurance matters while 7.7 % had no professional training on insurance matters. Given that majority of the respondents had professional training on insurance matters, it means that they had knowledge on insurance operations which was useful to this study. The findings were as shown in figure 4.5.

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4.3.5 Level of management

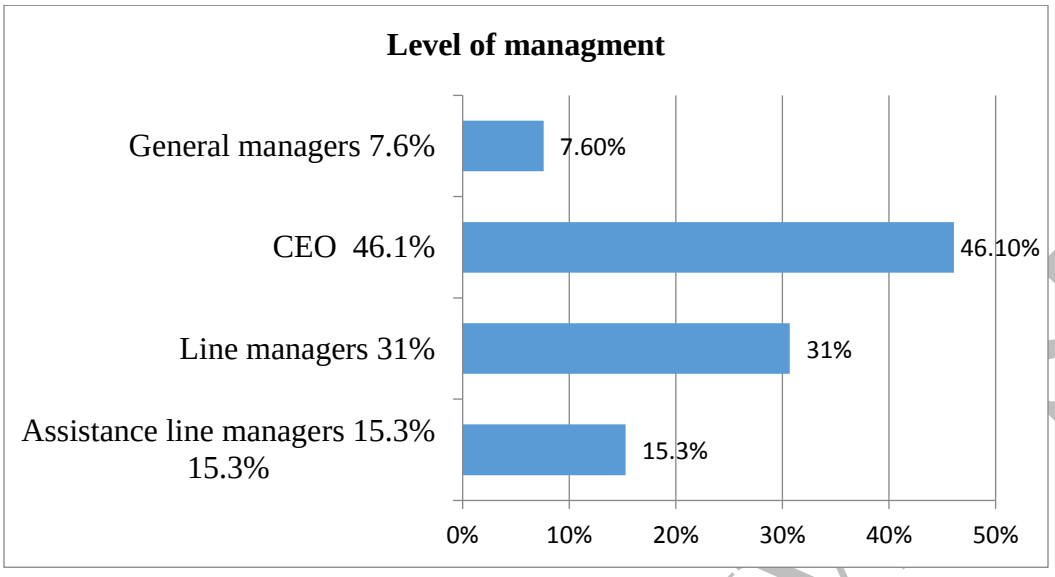


Figure 4.6: Level of management
Source (Auther,2016)

The respondents were asked to indicate their level of management in the organizations they were working for. The levels of management were grouped into assistance line managers, Line managers, CEO's and other senior staff in various departments. As shown by Figure 4.6, 46.1% of the respondents were CEO's, 31% were line managers, 15.3% were assistance line managers while 7.6% of the respondents were general managers. The findings were as shown in fgure 4.6

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4.3.6 Department Leading

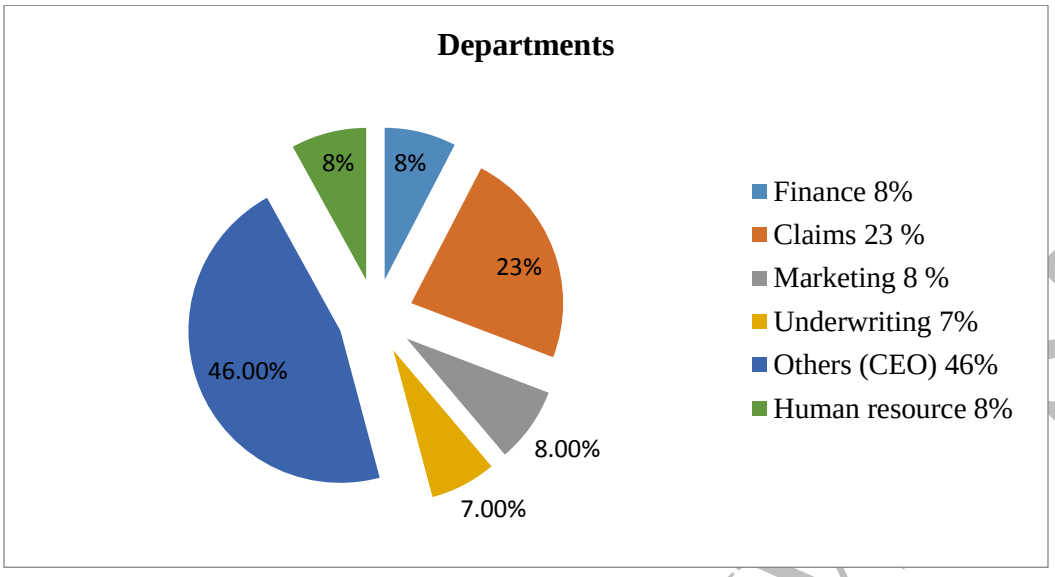


Figure 4.7: Departments

Source (Author,2016)

The respondents were asked to indicate the department they were leading in the insurance organization they were working for. As shown by Figure 4.7, 46% of the respondents were CEO's, slightly over a third of them (23%) were in claims department, 7% were in underwriting, 8% were in marketing department,8% were in finance department and 8% were in human resource department as shown in Figure 4.7 above.

4.4 Insurance Regulation

This study was interested in determining the effects of regulation by insurance regulatory authority on the performance of insurance companies in Nairobi county, Kenya. To answer this objective, the respondents were asked to indicate whether they agreed or disagreed with various statements on insurance regulation. Table 4.2 shows the distribution of their responses.

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Table 4.2 Insurance Regulation

Insurance Regulation	Agree		Disagree		Not sure	
	F	(%)	F	%	F	(%)
The insurance regulator is not effectively regulating the insurance industry in Kenya	24	46.3	12	23.	16	30.7
The insurance regulator don't take action immediately whenever an insurance firm is unable to meet its obligations	44	84.7	8	15.3	0	0
The insurance regulator is not in full control of the insurance industry in Kenya	28	53.8	8	15.5	16	30.7
The insurance regulator is not empowered to take recovery action over a collapsed insurance company in kenya	32	61.5	12	23.2	8	15.3
The insurance regulator should be more independent from government interference to effectively regulate the insurance industry in Kenya	48	92.3	0	0	4	7.7
The insurance regulator needs to be more empowered to effectively regulate the insurance industry in kenya	48	92.3	0	0	4	7.7
The premium undercutting may be a reason for collapse of many insurance companies in Kenya	52	100	0	0	0	0
The insurance regulator does not effectively regulate insurance companies from undercutting premiums in kenya	48	92.3	0	0	4	7.7

Survey date,2016

According to the findings, 46.3%, of the respdents agreed that, the insurance regulator was not effectively regulating the insurance industry in Kenya. Again the respondents whodisagreed with

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the statement were 23% and 30.7% of the respondents were not sure or were neutral with statement. 84.7% of the respodents agreed that, the insurance regulator don't take action immediately whenever an insurance firm was unable to meet its financial obligations. Again, the respondents that disagreed with the statement were 15.3%. 53.8% of the repondents agreed that the insurance regulator was not in full control of the insurance industry in Kenya, again 15.5% of the respondents disagreed with the statement and 30.7% of the respondents were not sure or were neutral with the statement.

Respondents agreed with 53.8% that the insurance regulator was not in full control of the insurance industry in Kenya, again the respondents disagreed with the statement with 15.3% and 30.7% of the respondents were not sure or were neutral with the statement. Respondents agreed with 61.5% that the insurance regulator was not empowered to take recovery action over a collapsed insurance company in kenya, again the respondents disagreed with the statement with 23.2% and 15.3 % of the respondents were not sure or were neutral with the statement.

According to the study, 92.3 % of the respodents agreed that, the insurance regulator should be more independent from government interference to effectively regulate the insurance industry in Kenya, again the 7.7 % of the respondents were not sure or were neutral with the statement. Again 92.3 % of the respodents agreed that, the insurance regulator needs to be more empowered to effectively regulate the insurance industry in kenya. Again, the 7.7 % of the respondents were not sure or were neutral with the statement. Also 100 % of the respodents agreed that, the premium undercutting could be a reason for collapse of many insurance companies in Kenya. 92.3 % of the respodents agreed that, the insurance regulator does not effectively regulate insurance companies from undercutting premiums in kenya, again the 7.7 % of the respondents were not sure or were neutral with the statement.

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The study is in agreement with the study by Geoffrey (2010), who stated that, regulation Act as a system, opened the floodgates for fraud as various players in the industry sought to unscrupulously capitalize on the provisions to the detriment of insurance companies. The Act also provided for a fault system. This has worked to the disadvantage of insurance companies as they have been forced to operate in uncertainity. Due to lack of the proper regulation, this has affected the performance of the insurance companies in Kenya.

4.5 Claims Processing

The study was interested in examining the effects of claims processing on performance of the insurance companies in Nairobi county, Kenya**.** The respondents were asked to indicate whether they agreed with various statements regarding to the effects of claims management. The findings were as shown in table 4.3

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Table 4.3: Distribution of responses on the claims processing

Claim Management	Agree		Disagree		Not sure	
	F	(%)	F	%	F	(%)
Insurance companies experience double payment of claims which may lead to collapse of insurance companies in Kenya	28	53.8	12	23.1	12	23.1
The system of one cheque payment in claims may lead to payment of fake claims which may contribute to collapse of insurance companies in kenya	32	66.5	16	30.7	4	2.8
The payment system of two cheques in injury claims where claimant is paid directly and the lawyers fee is paid separately may safe insurance companies from collapsing	30	57.7	12	23.1	10	19.2
Failing to investigate claims early enough may creat loopholes for fraudlent claims which may contribute to the collapse of insurance companies in Kenya	50	96.2	2	3.8	0	0
Traffic police, doctors, lawyers and ambulance chasers contribute to lodging of fake claims which may affect performance of insurance firms in kenya thus leading to collapse	46	88.5	4	7.7	2	3.8
Failing to process claims in time may creat loopholes for fraudulent claims which may contribute to collapse of insurance companies in kenya	34	65.4	12	23.1	6	11.5
Dishonest service providers such as investigators,garages,loss assessors and loss adjusters may contribute to collapse of insurance companies through colluding with customers or giving wrong reports	48	92.3	0	0	4	7.7
Dishonest employees lodge fake claims which may lead to collapse of insurance companies in Kenya due to poor performance	50	96.2	0	0	2	3.8
Payment of fake claims may affect performance of insurance firms which may lead to collapse of insurance companies in Kenya	50	96.2	2	3.8	0	0

Survey date,2016

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According to the findings in this study, 53.8% of the respodents agreed that, insurance companies experience double payment of claims which may lead to collapse of insurance companies in Kenya. Again, 23.1% of the respondents dissagreed with the statement while 23.5% of the respondents were not sure or were neutral with the statement. Again 66.5 % of the respondents agreed that the system of one cheque payment in claims, may lead to payment of fake claims which may contribute to collapse of insurance companies in kenya .30.7% of the respondents dissagreed with the statement while 2.8% of the respondents were not sure or were neutral with the statement.

Majority of the respondents consisting of 96.2 %, agreed that failing to investigate claims early enough may creat loopholes for fraudlent claims which may contribute to the collapse of insurance companies in Kenya.3.8% of the respondents dissagreed with the statement while none of the respondents were not sure or were neutral with the statement. Majority of the respondents consisting of (88.5%) agree that Traffic police officers, doctors, lawyers and ambulance chasers, contribute to lodging of fake claims which may affect performance of insurance firms in Kenya, thus leading to the collapse of such insurance firms,again 7.7% of the respondents dissagreed with the statement while 3.8% of the respondents were not sure or were neutral with the statement. 65.4% of the respondents felt that failing to process claims in good time could creat loopholes for fraudulent claims, which might have contributed to the collapse of insurance companies in kenya 23.1% dissagreed with the statement while 11.5% were not sure or were neutral with the statement.

Majority of the respondents consisting of 92.3% of the respondents felt that dishonest service providers such as investigators,garages,loss assessors and loss adjusters may contribute to collapse of insurance companies through colluding with customers or giving wrong

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reports.Again none of the respondents disagreed with the statement while 7.7% of the respondents were not sure or were neutral with the statement. Majority of the respondents consisting of (96.2%) agreed with the statement that dishonest employees lodge fake claims which may lead to collapse of insurance companies in Kenya .null percent of the respondents disagreed with the statement while 3.8% of the respondents were not sure of the statement or were neutral with the statement. 96.2% of the respondents agreed with the statement, that payment of fake claims may contribute to collapse of insurance companies in Kenya. Again, 3.8% of the respondents disagreed with the statement while 0% of the respondents were not sure or were nuetral with the statement.

This study is supported by the study by Roff (2013), who stated that fraudulent claims accounts for a significant portion of claims received by insurers, and cost billions of shillings annually. Types of insurance frauds are very diverse, and occur in all areas of insurance. Insurance crimes also range in severity, from slightly exaggerating claims to deliberately causing accidents or damage. Fraudulent activities also affect the lives of innocent people, both directly through accidental or purposeful injury or damage, and indirectly as these crimes cause insurance premiums to be higher while negativelly affecting the performance of insurance companies in Nairobi county,Kenya.

The findings of this study also agree with the study by wedge & handley (2013), who stated that, insurance fraud poses a very significant problem, and governments and other organizations are making efforts to deter such activities. The relationship between the above research findings on fraudlent claims and this study is that, fraud in claims is a major problem which can affect the performance of insurance companies in kenya.

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4.6 Management

The respondents were asked to indicate the extent to which they agreed or disagreed with various statements regarding the research objective onassessing the effects of management on the performance of insurance companies in Kenya. Table 4.4 shows the distribution of the responses.

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Table 4.4: Management of insurance companies

Management	Agree		Disagree		Not sure	
	F	(%)	F	%	F	(%)
Good strategic plans both short term and long term contributes to high performance leading to insurance companies better performance and sustainability	48	92.4	2	3.8	2	3.8
Participatory in planning enhances employees ownership of the plans planned hence promoting going concern of the insurance companies in Kenya	52	100	0	0	0	0
Top management support promotes good performance which may lead to growth and survival in a competitive insurance business environment	50	96.2	0	0	2	3.8
Competent human capital gives an insurance company a competitive advantage thus enhancing going concern of the insurance company	50	96.2	1	1.9	1	1.9
Continuous training and development of the right competencies gives raise to succession plans fit for insurance company's competitive edge hence exemplary performances for company's growth	46	88.5	4	7.7	2	3.8
Incompetent human resources may contribute to poor performance in insurance companies in leading to collapse of such companies	48	92.3	4	7.7	0	0
Good systems, structures and procedures enhance good performances leading to sustainability and going concern of an insurance company	48	92.4	2	3.8	2	3.8
Poor systems,policies,structures and procedures promotes poor performances leading to collapse of insurance companies in kenya	48	96.3	0	0	4	7.7
A flat organizational structure promotes feedbacks which enhances efficiency and effectiveness in decision making for good performances in an insurance company in kenya	42	80.4	2	3.8	8	15.8

Survey date,2016

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Almost more than half of the respondents (92.4%) agreed with the statement that,good strategic plans both short term and long term contribute to high performance leading to an insurance company's better performance and sustainability. However, a third (3.8%) of the respondents disagreed with the statement while 3.8% were not sure or were neutral with the statement. In response to whether participatory in planning enhances employees ownership of the plans planned hence promoting growing concern of the insurance companies in Kenya, 100% of the respondents agreed with the statement with no other respondents objecting to it.

On whether some of the top management support promotes good performance which might lead to good performance and survival in a competitive insurance business environment, the responses were 96.2% of the respondents agreed with the statement. Again, none of the respondents dissagreed with the statement while 3.8% of the respondents were not sure with the statement or were neutral. According to the findings, the respondents agreed with 96.2 % that competent human capital gives an insurance company a competitive advantage thus enhancing growing concern of the insurance company . Again, 1.9% of the respondents disagreed with the statement while 1.9% of the respondents were not sure with the statement or were neutral to the same.

Majority of the respondents consisting of 88.5% of the respondents, agreed that continuous training and development of the right competencies gives raise to succession plans fit for insurance company's competitive edge hence exemplary performances for a company's growth.Again 7.7% of the respondents dissagreed with the statement while 3.8% of the respondents were not sure or were neutral with the statement. Majority of the respondents consisting of 92.3 % agreed with the statement that, incompetent human resources may contribute to poor performance in insurance companies leading to collapse of such

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insurancecompanies in kenya,7.7% of the respondents disagreed with the statement while none of the respondents were not sure with the statement or were neutral with it.

Majority of the respondents consisting of (92.3 %) agreed with the statement that, good systems structures and procedures enhance good performance leading to sustainability and growing concern of an insurance company.Again,3.8% of the respondents disagreed with the statement while 3.8% of the respondens were not sure or were neutral with the statement. On the other hand,96.3% of the respondents felt that poor systems,policies,structures and procedures promote poor performance leading to collapse of insurance companies in Kenya . Again nill percent of the respondents disagreed with the statement while 7.7% of the respondents were either not sure or were neutral with the statement. Other respondents consisting of 80.4% felt that a flat organizational structure promotes feedback which enhances efficiency and effectiveness in decision making for good performances in an insurance company in Kenya . Again,3.5% of the respondents disagreed with the statement while 15.8% were either not sure or were neutral with the statement.

The findings of this study were in line with a study by Kloman (2010), who in his study supported this philosophy and believes that management support is a critical part of strategic planning, with the sub-disciplines of finance, safety, public policy, insurance and security. For many organizations, previously unchallenged by the need to develop a strategic plan for monopolistic service delivery, this representsa significant shift. In any case, strategic planning must become a regular, sustainable component of insurance companies existing planning processes to be an effective instrument for resource allocation decisions.

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This study was also in line with the study by Rothstein & Kiyosaki (2003), who argued that modern management is required to manage uncertainty, which demands that risks and risk-taking, in a consistent manner, become a part of modern business management including the implementation of strategy.

The strategic planning processes gives an opportunity to consciously and explicitly evaluate risks and develop risk management strategies that will effectively advance an organization or utility's strategic goals. The researchers further argued that, strategic planning is subsequently in large measure, an exercise in risk management in the pursuit of strategic goals. The relationship with the above researchers and this study is that, good management which supports strategic planning and proper goals setting is very significant toan organization'sgrowing concern. Both researches inthis study confirm that management is an important component for insurance companies growingconcern and sustainability.

4.7 Capital Resouces

The study was interested to examine the effects of capital resources on performance of insurance companies in Kenya. The respondents were asked to indicate whether they agreed with various statements regarding to the effects of capital resources on the performance of insurance companies in Kenya. The findings were as shown in table 4.5

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Table 4.5: Distribution of responses on the Capital Resouces

Capital Resouces	Agree		Disagree		Not sure	
	F	(%)	F	%	F	%
Taking a lot of money out of the business by the share holders affects business sustainability in insurance companies which may result to poor performance leading to collapsing of the firm	46	88.7	2	3.8	4	7.5
Availability of enough capital resources helps insurance company meet its financial obligations thus leading to good performance and sustainability	52	100	0	0	0	0
Lack of enough capital resources in an insurance company may lead to poor performances thus contributing to collapse of an insurance firm in kenya	46	88.7	2	3.8	4	7.5
Prudent investments by top management promotes good performance in an insurance company leading to going concern of the insurance firm in kenya	52	100	0	0	0	0
Good investment plans by the top management helps insurance company's grow thus overcoming collapse in future	52	100	0	0	0	0
Lack of support from the shareholders and board of directors on investment plans leads to poor performance which may result to collapse of an insurance company in kenya	48	92.3	0	0	4	7.7
Lack of accountability and transparency by the management may result to poor performances leading to collapse of insurance companies in kenya	50	96.2	0	0	2	3.8
Lack of good corporate governance practices can lead to poor performance which may contribute to collapse of an insurance company in kenya	48	92.3	0	0	4	7.7
Cultivating proper trust and good relationship between the top management and shareholders helps in eliminating principle agency conflicts thus promoting good performance in an insurance firm in kenya	46	88.5	2	3.8	4	7.7

Survey date,2016

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The respondents were asked to indicate the extent to which they agreed with the statements on effects of capital resources on performance of insurance companies in Kenya. According to the findings, 88.7 % of the respodents agreed that, taking a lot of money out of the business by the share holders affects business sustainability in insurance companies which may result to poor performance leading to collapsing of the insurance firm in Kenya,again 3.8% of the respondents dissagreed with the statement while 7.5% of the respondents were not sure or were neutral with the statement. Again 100% of the respodents agreed that, Availability of enough capital resources helps insurance company meet its financial obligations thus leading to good performance and sustainability, again nill percent of the respondents dissagreed with the statement while 0% of the respondents were not sure or were neutral with the statement.

According to the study, 88.7 % of the respodents agreed that,Lack of enough capital resources in an insurance company may lead to poor performances thus contributing to collapse of an insurance firm in Kenya,while 3.8% of the respondents disagreed with the statement and 7.5% of the respondents were not sure with the statement or were neutral. Again,100% of the respodents agreed that, Prudent investments by top management promotes good performance in an insurance company leading to growing concern of the insurance firms in Kenya. Again, 0% of the respondents disagreed with the statement while also none of the respondents were not sure or were neutral with the statement. According to the research findings,100% of the respondents agreed with the statement that, good investment plans by the top management helps insurance company's good performance thus overcoming collapse in future.Again,nill percent of the respondents disagreed with the statement while nill percent of the respondents were not sure with the statement or were neutral.

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According to the research findings, the respondents agreed with 92.3% that, lack of support from the shareholders and board of directors on investment plans leads to poor performance which may result to collapse of an insurance company in kenya, 0% of the respondents dissagreed with this statement while 7.7% were not sure or were neutral with the statement. Again the respondents agreed with a 96.2% that, lack of accountability and transparency by the management may result to poor performances leading to collapse of insurance companies in Kenya,0% of the respondents disagreed with this statement while 3.8% of the respondents were not sure or were neutral with the statement.

According to this research also, respondents agreed with 92.3 % that, Lack of good corporate governance practices could lead to poor performance which may contribute to collapse of an insurance company in kenya while 0% of the responents disagreed with this statement and 7.7% of the respondents were either not sure or were neutral with the statement.Again 88.5% of the respondents agreed that, cultivating proper trust and good relationship between the top management and shareholders helps in eliminating principle agency conflicts thus promoting good performance in an insurance firm in Kenya,3.8% of the respondents disagreed with this statement while 7.7% of the respondents were either not sure or were neutral with the statement.The findings were as shown in table 4.5

The finding of this study is in line with Milne & Whalley (2009), who stated that, capital resources provides a foundation for an organization's future growth and protects the organization against unexpected future losses. For instance, adequately capitalized and well-managed financial institutions are better placed to withstand losses and to provide credit to consumers throughout all business cycles. Therefore, both researchers supported the availability of capital resources in insurance companies as a key component for good performance.Again, the study is

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in support of Whalley (2009), who stated that a situation where the capital levels are too low, financial institutions may be unable to absorb high levels of losses and thereby increase the risk of financial institution failures, which may put customers funds at risk.

4.8 Performance of Insurance Companies

The study was interested on seeking out the factors affecting the performance of insurance companies in Kenya**.** The respondents were asked to indicate whether they agreed with various statements regarding to the insurance performance. The findings were as shown in table 4.6

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Table 4.6: Distribution of responses on the performance of insurance companies

Insurance perfomance	Agree		Disagree		Not sure	
	F	(%)	F	%	F	(%)
Inability to pay claims in good time forces customers to run way from an insurance company thus contributing to collapse of insurance companies in Kenya	48	92.4	2	3.8	2	3.8
Mergers and forming strategic alliances can result to better performances saving an insurance company from collapse in kenya	46	88.5	2	3.8	4	7.7
Failing to pay service providers in good time promotes bad customer relationships which gives a company a negative image thus contributing to collapse of insurance companies in kenya	38	73.1	2	3.8	12	23.1
Failing to pay claims at all gives an insurance company a negative image in the insurance market thus forcing customers to switch to competitors services thus contributing to the collapse of an insurance company in kenya	48	92.4	2	3.8	2	3.8
Poor service delivery by an insurance company leads to poor performance which contributes to collapse of an insurance company in kenya	50	96.1	0	0	2	3.8
Delaying payments for intermediaries commissions results to shifting of business to other underwriters thus resulting to poor performance which may lead to poor performance and collapse of such insurance companies in kenya	46	88.5	2	3.8	4	7.7
High rate of employees turn over denies an insurance company good competencies resulting to poor performances thus leading to collapse of such insurance companies in kenya	46	88.5	2	3.8	4	3.7
Poor management leads to high rate of employees turn over resulting to poor performances thus leading to collapse of an insurance company in kenya	48	92.4	2	3.8	2	3.8
Lack of motivation by employee's leads to high rate of turn over's resulting to poor performance which may cause collapse of insurance	44	84.6	4	7.7	4	7.7

Survey date,2016

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The respondents were asked to indicate the extent to which they agreed with the statements on factors affecting the performance of insurance companies in Kenya**.** According to the research findings, 92.4% of the respodents agreed that, inability to pay claims in good time forces customers to run way from an insurance company thus contributing to collapse of insurance companies in Kenya.3.8% of the respondents disagreed with this statement while 3.8% of the respondents were either not sure or were neutral with the this statement.

Again 88.5% of the respodents agreed that, Mergers and formation of strategic alliances could result to better performances saving an insurance company from collapse in Kenya, 3.8% of the respondents disagreed with this statement while 7.7% of the respondents were either not sure or were neutral with this satement.Again,73.1% of the respodents agreed that, failing to pay service providers in good time promotes bad customer relationships which gives an insurance company a negative image which in turn affects its performance negativelly thus contributing to collapse of insurance companies in Kenya,3.8% of the respondents dissagreed with this statement while 23.1% of the respondents were either not sure with the statement or were neutral.

According to the research findings, 92.3% of the respodents agreed that, Failing to pay claims at all gives an insurance company a negative image in the insurance market thus forcing customers to switch to its competitors services thus contributing to the collapse of an insurance company in Kenya,3.8% of the respondents dissagreed with this statement while 3.8% of the respondents were either not sure or were neutral with the statement. Again according to the research findings, 96.1% of the respodents agreed that, poor service delivery by an insurance company leads to poor performance which contributes to collapse of an insurance company in kenya, nill percent of the respondents dissagreed with this statement while 3.9% of the respondents were either not sure or were neutral with the statement.

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According to the research findings, 88.5% of the respodents agreed that, delaying payments for intermediaries commissions results to shifting of business to other underwriters thus resulting to poor performance which may lead to poor performance and collapse of such insurance companies in Kenya,3.8% of the respondents dissagreed with this statement while 7.7% of the respondents were either not sure or were neutral with the statement.Again, 88.5% of the respodents agreed that, High rate of employees turn over denies an insurance company good competencies resulting to poor performances thus leading to collapse of such insurance companies in Kenya, 3.8% of the respondents dissagreed with this statement while 3.7% were either not sure or were neutral with the statement.

According to the research findings, 92.4% of the respondents agreed that, Poor management leads to high rate of employees turn over resulting to poor performances thus leading to collapse of an insurance company in kenya,3.8% of the respondents dissagreed with this statement while 3.8% of the respondents were either not sure or were neutral with the statement. According to this research, 84.6% of the respondents agreed that, Lack of motivation by employee's leads to high rate of turn over's resulting to poor performance which may cause collapse of insurance companies,7.7% of the respondents dissagreed with this statement while 7.7% of the respondents were either not sure or were neutral with the statement. The findings were as shown in table 4.6

The findings of this study were in agreament with a research done by Kirkpatrick (2009), who arguedthat, bad performance of insurance Companies in Kenya was attributed to poor managerial practices. This means that the stakeholder's funds were not directed in the way in which the same should have been directed for the investors to get the needed value for their investments.

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Therefore, for the good performance to be realized then there should be a good management in place and efforts of the company should be aligned to the mission and vision of the company.

4.9 Inferential Test

4.9.1 Regression Analysis

The researcher conducted a multiple linear regression analysis so as to determine the relationship between the insurance companies performance and the four independent variables.where the depended variable was the performance of insurance companies and the four independed variables were regulation,claims processing,management and finally the capital resources. The regression model was;

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

Whereby: β_0 is the regression intercept; β_1-β_4 is the regression coefficients; Y is thedependent variable (insurance companies performance); X_1 is the regulation; X_2 is claims processing; X_3 is management and X_4 is capital resources . The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Coefficient of determination explains the extent to which changes in the dependent variable could be explained by the change in the independent variables or the percentage of variation in the dependent variable. The four independent variables that were studied, explain 86.7% of the insurance performance in Kenya as represented by adjusted R square. This therefore means that other variables not studied in this research contribute 13.3% of the insurance performance in Kenya. Therefore, further research should be conducted to investigate the other variables and factors (13.3%) contributing to insurance performance in Kenya.

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Table 4. 7 Model Summ

Mod	R	R Square	Adjusted R Squar	Std Error of the Estimate
1	0.957[a]	0.812	0.867	0.55499

a. Predictors: **(constant),** Regulation, claim, Management and capital resources

As per the SPSS generated coefficient table 4.16, the equation ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$) becomes:

Y= 0.262X1+ 0.323X2+ 0.171 X3+ 0.223 X4 +5.064

Y is the dependent variable (insurance companies performance); X_1 is the regulation; X_2 is claims; X_3 is management and X_4 is capital resources

Table 4. 8: Regression Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	5.064	3.061	1.652		.106
Regulation	0.262	0.073	0.204	2.221	0.003
Claim	0.323	0.079	0.623	5.344	0.000
Management	0.171	0.058	0.375	3.063	0.004
Capital resource	0.223	0.039	0.472	5.328	.001

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Dependent Variable: Insurance Company Performance

The possible value of Y when all independent variables are equal to zero is 5.064. The data findings analyzed also showed that taking all other independent variables at zero, a unit increase in regulation will lead to a 0.262 increase in insurance company performance; this means that there is a significant relationship between insurance regulation and insurance company performance. The *P*-value was 0.003 and thus the relationship was significant. A unit increase in claim will lead to a 0.323 increase in insurance company performance; this means that, there is a significant relationship between claims and insurance company performance. The *P*-value was 0.000 and thus the relationship was significant.

A unit increase in management leads to a 0.171 increase in insurance company performance.The *P*-value was 0.004 and thus the relationship was significant. Lastly, a unit of capital resource leads lead to a 0.223 increase in insurance company performance; this means there is a significant relationship between capital resource and insurance company performance in Kenya. The *P*-value was 0.001 and thus the relationship was significant. This infers that proper management influences the insurance company performance most at 0.004 (40%) followed by proper regulation at 0.003 (30%), capital resource at 0.001 (10%), and claim processing at 0.000 (nill perecnt)..

According to the study analysis,it is clear that,the management variable would affect the performance of insurance companies to greater extent compared to all other variables in this study. this means if proper management practices were in place, then the performance of insurance companieas would be higher. Again the second variable which would greatly affect the

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performance of insurance companies was the regulation. If proper regulation was in place,then the performance of insurance companies would be better. Also the third variable which greatly affect the performance of insurance companies was capital resources meaning availabilty and prudent management of capital resources in insurance companies would greatly influence performance of insurance companies in Kenya.Finally the forth variable affecting the performance of insurance companies was the claims processing.This means processing of claims would leastly influence performance of insurance companies in Kenya, Inother ward it has a least effect on the performance of insurance companies compared to the other three independent variables in this study.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four, and it also gives conclusions and recommendations of the study based on the objectives of the study. The general objective of the study was factors affecting the performance of insurance companies in Nairobi county, Kenyaand the specific objectives were to determine the effects of regulation on the performance of insurance companies in Kenya, to examine the effects of claims processing on the performance of insurance companies in Kenya, to assess the effects of management on the performance of insurance companies in Kenya and to examine the effects of capital resources on the performance of insurance companies in Kenya.

5.2 Summary of the findings

The study sought to establish factors affecting the performance of insurance companies in Nairobi county, Kenya where some insurance companies have collasped in the past leaving a worrying tred of instances of collapse in future if not checked well.The collapsed insurance companies have negativelly affected the policy holders who ends up lossing their money and assets in terms of premiums paid and idemnity entitled if they had incured losses before the collapsing of the insurance companies,employees working for such collapsed insurance companies ends up lossing jobs,intermediaries ends up lossing comissions for business placedwith the insurance companies before they collapsed this have negativelly affecte the the image of the insurance industry in Kenya, investigators , loss adjusters, garages, suppliers and other service providers ends up lossing income for the services rendered before the collapse of

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such insurance firms in Kenya.The government ends up lossing revenue from the withholding taxes and stamp duty among other revenues, this prompted the researcher to conduct this study. The first objective for this study was to determine the effects of regulation on the performance of insurance companies in Kenya. The second objective for this study was to examine the effects of claims processing on the performance of insurance companies in Kenya. The third objective of this study was to assess the effects of management on the performance of insurance companies in Kenya. The fouth research objective of this study was to to examine the effects of capital resources on performance of insurance companies in Kenya. The study adopted a census research design where questionnaires were used to collect data which was presented through graphs, tables, fingures, and charts after the data was collected and analsed through SPSS.

5.2.1 Insurance Regulation

According to the research findings, the respondents agreed that, the insurance regulator was not effectively regulating the insurance industry in Kenya, again, the respondents indicated that the insurance regulator don't take action immediately whenever an insurance firm was unable to meet its financial obligations. Respondents agreed that,the insurance regulator was not empowered to take recovery action over a collapsed insurance company in Kenya, the respondents indicated that, the insurance regulator needs to be more empowered to effectively regulate the insurance industry in kenya.

5.2.2 Claims processing

According to the finding of the study,the respondents have agreed that,traffic police, doctors, lawyers and ambulance chasers contributes to lodging of fake claims which negativelly affects the performance of insurance firms in Naorobi county,Kenya, the respondents felt that, failing to

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process claims in good time creats loopholes for fraudulent claims which have contributed to the collapse of insurance companies in kenya in the past. Again the respondents felt that, dishonest service providers such as investigators,garages, loss assessors and loss adjusters have contributed to the collapse of insurance companies in Nairobi county, Kenya through colluding with customers or giving wrong reports when taskecked to advise the insurance company on the circumstances leading to claims bening investigated or assessed.

Majority of the respondents agreed that dishonest employees lodge fake claims which negativelly affect the performance of the insurance companies in Nairobi county,Kenya leading to the collapse of insurance companies in Kenya,the respondents agree that Payment of fake claims may contribute to collapse of insurance companies in Kenya since it negativelly affects the performance of insurance companies in Nairobi county,Kenya.

5.2.3 Management

According to the finding of the study, majority of the respondents agreed that, good strategic plans both short term and long term plans contributes to high performance in the insurance companies in Kenya leading to better results and sustainability. However, the respondents agreed that,top management support promotes good performance which may lead to exemplary performance in the insurance industry and survival of insurance companies in a competitive insurance business environment.

Again,the respondents agreed that,Continuous training and development of the right competencies gives raise to succession plans fit for insurance company's competitive edge hence exemplary performances for company's growth.

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Majority of the respondents agreed that, Incompetent human resources may contribute to poor performance in insurance companies leading to collapse of such companies, also the respondents agreed that Good systems, structures and procedures enhance good performances leading to sustainability and going concern of an insurance company in Kenya.Again, the respondents felt that Poor systems,policies,structures and procedures promotes poor performances leading to collapse of insurance companies in Kenya. Therefore insurance companies should embrase use of good systems,structures and procedures in order to achieve better performance and succeed in doing business in Kenya.

5.2.4 Capital resource

According to the findings of this study, the respondents agreed that, taking a lot of money out of the insurance business by the share holders affects business sustainability in insurance companies in Kenya which may result to poor performance leading to collapse of the insurance firm in Kenya. Again the respondents agreed that, Availability of enough capital resources helps insurance companies meet their financial obligations thus leading to good performance and sustainability.

According to this research,the respondents agreed that, Lack of enough capital resources in an insurance company in kenya may lead to poor performances thus contributing to collapse of an insurance firm in kenya. There this study sopprts that, insurance companies in Kenya should maitain a good level of capital resources in business in order to achieve the expected good performance for the insurance companies to succeed in doing business and overcome instances of collapse in Kenya.

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According to the findings of this research, respondents agreed that, lack of support from the shareholders and board of directors on investment plans leads to poor performance which may result to collapse of an insurance company in Kenya. Again the respondents agreed that, lack of accountability and transparency by the management may result to poor performances leading to collapse of insurance companies in Kenya and cultivating proper trust and good relationship between the top management and shareholders helps in eliminating the principle agency conflicts thus promoting good performance in an insurance firms in Kenya.

5.3 Performance of The Insurance Companies

According to the research findings, the respondents agreed that, inability by the insurance company to pay claims in good time makes customers run away from the affected insurance company thus contributing to the collapse of insurance companies in Kenya.Again the respondents agreed that, mergers and formation of strategic alliances could result to better performance thus saving an insurance company in kenya from collapsing. Therefore this study sopports merger and formation of strategic alliances as an option to see insurance companies succeed in doing business in Kenya and overcome instances of collapse of insurance companies since companies are able to have a synergy needed for success.

According to the study findings,the responents agreed that, failing to pay service providers in good time creats a bad customer relationships which gives an insurance company a negative image thus affecting performance of insurance companies in kenya hence resulting to collapse of such insurance firms in Kenya.Again the respondents agreed that,failing to pay in good time or failing to pay at all gives an insurance company a negative image in the insurance market thus

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forcing customers to switch to their competitors hence negatively affecting the performance of the affected insurance company which in turn contributes to the collapse of the affected insurance companies in kenya. The respondents also agreed that,poor service delivery by an insurance company can lead to poor performance which in turn contributes to the collapse of the affected insurance companies in kenya.

According to this study, the respondents agreed that, delaying payments for the intermediaries comissions forces them to shift their busineses to other undewriters who pay comissions promptly which results to poor performance by the affected insurance companies thus contributing to their collapse. Again it came out clearelly from the respondents that, high rate of employees turn over denies an insurance company good competencies thus resulting to poor performance of the affected insurance companies hence leading to collapse. This high rate of the employees turn over could be caused by poor management among other reasons. Again the respondents agreed that, lack of motivation of the the employees could lead to poor performance in an insurance company in Kenya which in turn could lead to collapse of the affected insurance companies.

5.4 Conclusion

5.4.1 Regulation

The study cocludes that, the regulator of the insurance industryin Kenya should be proactive but not reactive to effectively regulate the insurance industry in kenya.The insurance regulator should be able to take action immediatly whenever there are indicators that, an insurance company is unable to meet its financial obligations as and when needed to do so.The study further concludes that, the regulator of the insurance industry in kenya should be able to take full

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control of the insurance industry to avoid instances of collapse in future. it is further conlcuded that, the insurance regulator should be more empowered to take a recovery action over a collapsing insurance company in Kenya in order to safeguard the interest of the policy holders and other stakeholders who benefits from the insurance companies in Kenya.

The insurance regulator in Kenya should be more independent from government interfearence to effectivelly regulate the insurance industry in Kenya and overcome intances of collapse. It is further concluded that, premium undercutting should be effectivelly controlled to avoid puting insurance companies to a liquidity issues which may lead to collapse of such insurance companies in Kenya due to lack of enough levels of operational capital. If the above measures are put in place, then istances of collapse of insurance companies in Kenya will be a thing of the past.

5.4.2 Claims processing

The researcher conlcudes that, frauds in claims reulting to double payment of claims should be controlled through proper claims systems and processing of claims early enough to avoid change of facts. Its further conluded that, the two cheque payment system where the claimant is idemnified seperatly and the legal fee sepatelly will be the ideal way to minimise fraud in claims in kenya. Claims should be investigated aerly when necessary to avoid change of facts and minimise the loopholes of lodging fake claims in Kenya.

Its further concluded that, dishonest service providers contributes to great loss in the insurance industry and as such clear measures should be put in place to minimise such losses. Information sharing among the insurance industry is very significant to controll the losses incured since customers with bad claims history will be known and appropriate premiums will be charged to

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absorb the gaps and mitigate against such losses resulting from those customers with bad claims history in Kenya.

5.4.3 Management

This study concludes that,good strategic plans be put in place and be implemented to enhance better performance of the insurance companies to overcome collapse instances. Further it conlcuded that,employees participation in planning is very significant for the employees to own the planns they were involved in crafting. Top management suppoert is very significant to enhance better performance among the insurance companies in Kenya.recruting the right competencies will give the insurance companies a competitive edge over their competitors thus promoting sustainability.

This study supports contineous training of the human capital as a significant way of enhancing good performance among the insurance companies in Kenya. Succession plans are very key to sustaining better performance among the insurance companies where competence gaps will be bridged. Its further concluded that,proper systems, structures and procedures should be in place to enhance performance among the insurance companies in Kenya. Flat organizational structure is very significant for feedbacks, efficiency and effectiveness in decision making for better results among the insurance companies in Kenya. Corporate governance principles and practices of trasnsparency,accountability and responsiveness is very significant among insurance companies for better performance.

5.4.4 Capital Resources.

The study concludes that,maintaning the right levels of capital resources in an organization is very signficant to enable them meet their financial obligations as and when needed. Shareholders

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should not take alot of money out of the insurance firms to avoid instances of collapse of such insurance companies due to lack of enough operational capitals in place. Shareholders money should be invested prudently to get better returns and enhance going concern among the insurance companies in Kenya. Support from the shareholders is very significant to the success among the insurance companies in Kenya. Principles of good management and good tenets of accountability, trasnparency and responsiveness should be pratcised by the management to enhance good performance among the insurance companies in Kenya.creativity and innovation is significant among the insurance companies in Kenya in order to succeed in doing business in Kenya where insurance industry is very dynamic to changes.

5.4.5 Performance of Insurance Companies

This study concluded that, claims and servise providers should be paid in good time among the insurance companies in Kenya. Strategic alliances and mergers will safe insurance companies from collapse. Comissions for the intermediaries should be paid in good time to motivate them support the insurance companies. Good management practices and motivation of the human resources will give better yields as far as performance among the insurance companies is concerned. Claims should be paid without delays to avoid sending bad indicaters to the public. If all the above measures are put in place, then instances of collapse among the insurance companies will be a thing of the past.

5.4 Recommendations

According to the research findings in this study, it is clear that effective regulation is significant to maintain stability in the insurance industry. The insurance regulaory authority needs to be proactive and be more empowered to take recovery action whenever an insurance firm is unable

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to meet its financial obligations. The regulator needs to take decisive action early enough whenever indicators of collapse are detacted to safeguard insurance firms from getting in to insolvent issues and be able to realize better results in a well regulated insurance business environment.

Claims should be dealet with early enough to avoid room for loopholes which is a respy for fraudlent claims. whenever an investigation is neccessary depending on the claims circumstances, then initiating investigations early is significant when the claims is fresh to avoid change of facts and information as to circumstances of the loss. Claims should be paid without delays since customerswhose claims settlement is delayed tends to change to other insurance firms where claims are settled in a reasonable peroid. The two Cheques payment syastem is recommended as oppossed to one cheque payment system since it will end up reducing instances of fraudlent claims thus saving insurance firms from collapse.

Management should embrace participation while puting strategic plans for the employees to own the strategic plans, use of teams in insurance firms is key to realize exemplary performance since teams bring synergy needed for better results. Management should promote accountability, transparency and responsiveness while acting as good stewards to prudently invest the shareholdrs invstiments for sustainability. Competent human capital should be selected, recruted, trained or developed and be retined through proper renumeration for the organization to have a competitive edge in a competitive insurance business environment.

Accepted tenets of corporate governance should be maintained in order to avoid the principle-agent conflicts in the management of the stockholders investments for exemplary performance to be realized and overcome collapse instances of insurance firms in future. Again on management,

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it is significant that proper systems, structures and procedures should be put in place for insurance firms to achieve better performance for sustinability.

The top management should ensure that, enough capital resources are availabe and properly invested to enable insurance firms meet their financial obligations as and when needed to overcome instances of collapse of insurance firms as it has been witnessed in the past years. On the other hand, shareholders should not be taking alot of resources out of the insurance business since it negativelly impacts on performance of the insurance firms thus leading to collapse hence its important for the investors not to interfere with the operations of their business ventures but should be able to give full needed support while encouraging on creativity and innovation to realize better returns on their investments thus enhancing going concern of their insurance firms. Further the researcher reccomends that, insurance companies should innovate new products rather than recycling of the existing products in the market, products tailormade to changing customer needs should be developed,

5.5 Recommendation for further research

This study is a milestone for future research in this area, particularly in other sectors of Kenya. The findings emphasize that management influences the insurance company performance most followed by proper regulation, capital resource, and claim.Future research will need to be carried in other sectors in order to find out if the same results will be obtained.Based on the findings of this study and its very gaps, another study could be taken to examine the stakeholders role towards addressing the issue of insurance performance in Kenya. This research stimulates a fertile ground for future research to be carried on insurance per

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Appendix

Appendix A: Questionnaire Letter

Dear respondent,

I am a post graduate student at St. Paul University. I am undertaking a research study on an assesment of factors contributing to the performance of insurance companies in Kenya: A case of insurance companies in Nairobi. I am glad to inform you that you have been selected to participate in this study. Your responses will be used for research purpose only and your identity kept confidential and anonymous, participation is on voluntary base and one can withdrawal if need be. You are kindly requested to sincerely respond to the items on the guide. Please read and answer the questions by putting a tick within the provided brackets. Note that some questions require answers to be written down in the spaces provided.

Thank you for your time

Stephen Wambua

St. Paul's University

Mobile: 0722 574 304

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Appendix B: Questionnaire

This questionnaire was set in relation to the objectives of the study.All the questions relate to ***"Factors affecting the performance of Insurance Companies in Nairobi county,Kenya"*** Kindly read the questions carefully and answer them as honestly as possible by ticking **(✓)**, rating, specifying or writing the correct answers precisely on the spaces provided.

Section A: Personal Information

1) Name of the Insurance company you are working for? (optional).....

2) Gender: ( ) Male ( ) Female

3) Work experience in your current capacity?

( ) Below 5 years ( ) between 5-10 years

( ) Between 11-20 years ( ) above 20 years

4) Highest level of education and training attained?

( ) Diploma ( ) Bachelor's degree ( ) Master's Degree ( ) PHD

For any other please specify----------

5) Other than your education background, do you have other professional training especially on insurance matters?

( ) Yes ( ) No

If the yes please specify----------

6) What level of management do you currently occupy at the insurance company?

( ) Assistance line managers ( ) Line managers ( ) CEO

7) Which department are you leading ( ) Finance ( ) Claims ( ) Marketing ( ) Underwriting ( ) Human resource( ) Other

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Section B: Insurance Regulation

Please Indicate the extent to which you agree or disagree with the following statements by ticking in the space provided where 1-strongly disagree,2-dissagree,3-neutral,4-agree and 5-strongly agree

		1	2	3	4	5
8	The insurance regulator is not effectively regulating the insurance industry in Kenya					
9	The insurance regulator don't take action immediately whenever an insurance firm is unable to meet its obligations					
10	The insurance regulator is not in full control of the insurance industry in Kenya					
11	the insurance regulator is not empowered to take recovery action over a collapsed insurance company in kenya					
12	The insurance regulator should be more independent from government interference to effectively regulate the insurance industry in Kenya					
13	The insurance regulator needs to be more empowered to effectively regulate the insurance industry in kenya					
14	The premium undercutting may be a reason for collapse of many insurance companies in Kenya					
15	The insurance regulator does not effectively regulate insurance companies from undercutting premiums in kenya					
16	The insurance regulator do not take action on insurance firms undercuting premiums in the insurance industry which may be a cause of collapse of insurance companies in kenya					

17) Kindly give more suggestions on how the insurance industry in Kenya can be more effectively regulated.

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Section C: Claims Management

Kindly Indicate the extent to which you agree or disagree with the following statements by ticking in the space provided where 1-strongly disagree,2-dissagree,3-neutral,4-agree and 5-strongly agree

		1	2	3	4	5
18	Insurance companies experience double payment of claims which may lead to collapse of insurance companies in Kenya					
19	The system of one cheque payment in claims may lead to payment of fake claims which may contribute to collapse of insurance companies in kenya					
20	The payment system of two cheques in injury claims where claimant is paid directly and the lawyers fee is paid separately may safe insurance companies from collapsing					
21	Failing to investigate claims early enough may creat loopholes for fraudlent claims which may contribute to the collapse of insurance companies in Kenya					
22	Traffic police, doctors, lawyers and ambulance chasers contribute to lodging of fake claims which may affect performance of insurance firms in kenya thus leading to collapse					
23	Failing to process claims in time can creat loopholes for fraudulent claims which may contribute to collapse of insurance companies in kenya					
24	Dishonest service providers such as investigators,garages,loss assessors and loss adjusters may contribute to collapse of insurance companies through colluding with customers or giving wrong reports					
25	Dishonest employees lodge fake claims which may lead to collapse of insurance companies in Kenya					
26	Payment of fake claims may contribute to collapse of insurance companies in Kenya					

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27) Please explain other better ways on how claims can be managed well to overcome losses on fake and fraudlent claims in the insurance industry in Kenya for effective claims management

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Section D: Management

Kindly Indicate the extent to which you agree or disagree with the following statements by ticking in the space provided where 1-strongly disagree,2-dissagree,3-neutral,4-agree and 5-strongly agree

		1	2	3	4	5
28	Good strategic plans both short term and long term contributes to high performance leading to insurance companies better performance and sustainability					
29	Participatory in planning enhances employees ownership of the plans planned hence promoting going concern of the insurance companies in Kenya					
30	Top management support promotes good performance which may lead to growth and survival in a competitive insurance business environment					
31	Competent human capital gives an insurance company a competitive advantage thus enhancing going concern of the insurance company					
32	Continuous training and development of the right competencies gives raise to succession plans fit for insurance company's competitive edge hence exemplary performances for company's growth					
33	Incompetent human resources may contribute to poor performance in insurance companies in leading to collapse of such companies					
34	Good systems, structures and procedures enhance good performances leading to sustainability and going concern of an insurance company					
35	Poor systems,policies,structures and procedures promotes poor performances leading to collapse of insurance companies in kenya					
36	A flat organizational structure promotes feedbacks which enhances efficiency and effectiveness in decision making for good performances in an insurance company in kenya					

37) Please explain further on better ways on how insurance companies in Kenya can be well managed for better performance and sustainability in order to overcome collapse instences in kenya.

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Section E: Capital Resouces

Please Indicate the extent to which you agree or disagree with the following statements by ticking in the space provided where 1-strongly disagree,2-dissagree,3-neutral,4-agree and 5-strongly agree

		1	2	3	4	5
38	Taking a lot of money out of the business by the share holders affects business sustainability in insurance companies which may result to poor performance leading to collapsing of the firm					
39	Availability of enough capital resources helps insurance company meet its financial obligations thus leading to good performance and sustainability					
40	Lack of enough capital resources in an insurance company may lead to poor performances thus contributing to collapse of an insurance firm in kenya					
41	Prudent investments by top management promotes good performance in an insurance company leading to going concern of the insurance firm in kenya					
42	Good investment plans by the top management helps insurance company's grow thus overcoming collapse in future					
43	Lack of support from the shareholders and board of directors on investment plans leads to poor performance which may result to collapse of an insurance company in kenya					
44	Lack of accountability and transparency by the management may result to poor performances leading to collapse of insurance companies in kenya					
45	Lack of good corporate governance practices can lead to poor performance which may contribute to collapse of an insurance company in kenya					
46	Cultivating proper trust and good relationship between the top management and shareholders helps in eliminating principle agency conflicts thus promoting good performance in an insurance firm in kenya					

47) Kindly give more explanation on how capital resources in insurance companies can be well managed and be made available for the insurance firm to be sustainable and be able to meet its financial obligations as and when needed to overcome collapse instances in kenya

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Section F: Performance of Insurance Companies

Kindly Indicate the extent to which you agree or disagree with the following statements by ticking in the space provided where 1-strongly disagree,2-dissagree,3-neutral,4-agree and 5-strongly agree

		1	2	3	4	5
48	Inability to pay claims in good time forces customers to run way from an insurance company thus contributing to collapse of insurance companies in Kenya					
49	Mergers and forming strategic alliances can result to better performances saving an insurance company from collapse in kenya					
50	Failing to pay service providers in good time promotes bad customer relationships which gives a company a negative image thus contributing to collapse of insurance companies in kenya					
51	Failing to pay claims at all gives an insurance company a negative image in the insurance market thus forcing customers to switch to competitors services thus contributing to the collapse of an insurance company in kenya					
52	Poor service delivery by an insurance company leads to poor performance which contributes to collapse of an insurance company in kenya					
53	Delaying payments for intermediaries commissions results to shifting of business to other underwriters thus resulting to poor performance which may lead to poor performance and collapse of such insurance companies in kenya					
54	High rate of employees turn over denies an insurance company good competencies resulting to poor performances thus leading to collapse of such insurance companies in kenya					
55	Poor management leads to high rate of employees turn over resulting to poor performances thus leading to collapse of an insurance company in kenya					
56	Lack of motivation by employee's leads to high rate of turn over's resulting to poor performance which may cause collapse of insurance					

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57) Please suggest better ways on how performance in the insurance companies in Kenya can b e improved.....
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AppendixC:List of all Registered Insurance Firms in Kenya

1. AAR Insurance company kenya Ltd
2. APA Insurance Ltd
3. Africa Merchant Assurance Company Ltd
4. Apollo Life Assurance Company Ltd
5. AIG Kenya Insurance Company Ltd
6. British American Insurance Company Ltd
7. Cannon Assurance Company Ltd
8. Capex Life Assurance Company Ltd
9. CIC General Insurance Company Ltd
10. Corporate Insurance Company Ltd
11. Directline Assurance Company Ltd
12. East Africa Insurance Copmany Ltd
13. Fidelity Shield Insurance Company Ltd
14. First Assurance Company Ltd
15. GA Insurance Company Ltd
16. Geminia Insurance Company Ltd
17. Gate Way Insurance Company Ltd
18. ICEA LION General Insurance Company Ltd
19. ICEA LION Life Assurance Copmany Ltd
20. Intra Africa Assurance Company Ltd
21. Invesco Assurance Company Ltd
22. Kenindia assurance Company Ltd

23. Kenya Orient Insurance Company Ltd

24. Liberty Life Assurance Kenya Ltd

25. Madison Insurance Company Kenya Ltd

26. Mayfair Insurance Company Ltd

27. Mercantile Insurance Company Ltd

28. Metrpolitan Life Insurance Company Ltd

29. Occidental Insurance Company Ltd

30. Old Mutual Life Assurance Company Ltd

31. Pacis Insurance Company Ltd

32. Pan Africa Life Assurance Company Ltd

33. Phoenix of East Africa Assurance Company Ltd

34. Pioneer Assurance Company Ltd

35. Real Insurance Company Ltd

36. Ressolution Insurance Company Ltd

37. Takaful Insurance of Africa Ltd

38. Tausi Insurance Company Ltd

39. Heritage Insurance Company Ltd

40. Jubilee Insurance Company Ltd

41. Monarch Insurance Company Ltd

42. Trident Insurance Company Ltd

43.UAP Insurance Company

44.Xplico Insurance Company Ltd

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(0) 728- 062420
(0) 736- 424440

BOARD OF POSTGRADUATE STUDIES

30th May 2016
National Commission for Science and Technology,
P.O. BOX 30623-00100,
Nairobi.

Dear Sir/Madam,

Re: Recommendation for Stephen Mutuku Wambua to conduct a Masters of Business Administration (MBA) research.

This letter confirms the above named person is a second (final) year student of the MBA Programme at St. Paul's University.

The final year consists of a major research work leading to a dissertation comprising 20,000 words. The student's selected topic is '*Assessment Factors contributing to the performance of insurance companies in Kenya: A case of insurance companies in Nairobi*'

The research will take place in Nairobi County from June 2016 to August 2016.

Kindly grant this student the required permit.

Yours Faithfully,

Prof. D.C. Chemorion
Director, Postgraduate Studies

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

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2241349,3310571,2219420
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Email:dg@nacosti.go.ke
Website: www.nacosti.go.ke
when replying please quote

9th Floor, Utalii House
Uhuru Highway
P.O. Box 30623-00100
NAIROBI-KENYA

Ref: No. **NACOSTI/P/16/11396/11818**

Date: **16th June, 2016**

Stephen Mutuku Wambua
St. Paul's University
P.O. Private Bag-00217
LIMURU.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"An assessment of factors contributing to the performance of insurance companies in Kenya: A case of insurance companies in Nairobi,"*** I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **20th June, 2017.**

You are advised to report to **the Chief Executive Officers of selected Insurance Companies, County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies and one soft copy in pdf** of the research report/thesis to our office.

DR. STEPHEN K. KIBIRU, PhD.
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The Chief Executive Officers
Selected Insurance Companies.

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.

Appendix F:Research Permit from NACOSTI

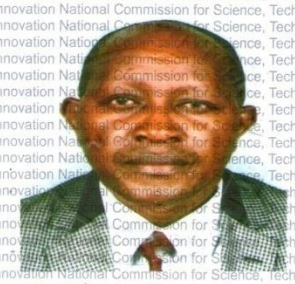
THIS IS TO CERTIFY THAT:
MR. STEPHEN MUTUKU WAMBUA
of ST.PAULS UNIVERSITY, 6307-200
nairobi,has been permitted to conduct
research in *Nairobi County*

on the topic: *AN ASSESSMENT OF FACTORS CONTRIBUTING TO THE PERFORMANCE OF INSURANCE COMPANIES IN KENYA:A CASE OF INSURANCE COMPANIES IN NAIROBI*

for the period ending:
20th June,2017

.....
Applicant's
Signature

Permit No : NACOSTI/P/16/11396/11818
Date Of Issue : 20th June,2016
Fee Recieved :ksh 1000



.....
Director General
National Commission for Science,
Technology & Innovation

ST. PAUL'S UNIVERSITY