

**RISK MITIGATION STRATEGIES ADOPTED BY
INSURERS IN KENYA**

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D61/P/8346/03

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PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTERS OF BUSINESS
ADMINISTRATION (FINANCE) OF NAIROBI
UNIVERSITY**

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DECLARATION

This Management Research Project is my original work and has not been submitted for a degree in any other University.

Signed Date: 23/11/2006
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This Management Research Project has been submitted for examination with my approval as the University Supervisor

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ACKNOWLEDGEMENT

I dedicate this project to my wife Idah and my children Betsy, Newton, Rita and Fiona.

I would like to extend my appreciation to my Supervisor, family, colleagues, friends and all those who contributed tremendous inputs towards the completion of this Research Project.

Special thanks to my Supervisor, Mrs. Angela Kithinji for her tireless assistance and support on the project supervision, experience and initiatives, which guided me throughout the entire research.

Secondly, I am grateful to my MBA colleagues whose assistance on this project cannot be overlooked.

Thirdly, I am grateful for the support of my relatives, specifically my wife Idah and my work colleagues.

Finally, thanks to the Almighty God for giving me sufficient grace.

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QIC Quality Insurance Congress

RIMS Risk and Insurance Management Society

SPSS Statistical Package for Social Sciences

LIST OF ABBREVIATIONS

AKI	Association of Kenya Insurers	29
COMESA	Common Market for Eastern and Southern Africa	30
CPCU	Chartered Property Casualty Underwriters	31
PSV	Passenger Service Vehicle	32
QIC	Quality Insurance Congress	33
RIMS	Risk and Insurance Management Society	33
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available for managing them. The target population included all the 43 licensed insurers in Kenya. Primary data was collected using self-administered questionnaires and data analyzed with the help of SPSS using descriptive statistics such as frequencies, percentages, mean score and standard deviations.

The Kenyan insurance industry was mainly found to be vulnerable to economic risks and legal risks. However, the industry was also affected by political risks, technological risks, socio-cultural risks, geographical risks, management risks and personnel risks to a moderate extent. These were mainly mitigated using risk avoidance, risk retention, risk transfer and risk reduction techniques. The main challenges faced by the firms in risk mitigation included lack of appropriate risk identification tools, lack of the right human resources, lack of top management support, inability to understand the nature and implications of risks, budgetary constraints and inability of remaining mitigation strategy.

Toward ensuring sustainability in the industry, there is an urgent need for the insurance firms to frequently train their staff on risk mitigation, empower risk managers, identify and train internal risk experts, and provide adequate budgetary allocations for risk mitigation.

ABSTRACT

The objectives of this study were to identify the types of risks mitigated by the Kenyan insurers, mitigation strategies and techniques adopted, and the challenges facing the insurers in risk mitigation process. This was an exploratory study, hence survey methods were used to identify the risks in the Kenya's insurance sub-sector and the techniques available for managing them. The target population included all the 43 licensed insurers in Kenya. Primary data was collected using self-administered questionnaires and data analyzed with the help of SPSS using descriptive statistics such as frequencies, percentages, mean score and standard deviations.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

The insurance industry provides protection against financial losses resulting from a variety of perils. By purchasing insurance policies, individuals and businesses can receive reimbursement for losses due to car accidents, theft of property, fire and storm damage, medical expenses and loss of income due to disability or death.

Mainly, the industry consists of insurance carriers (or insurers) and insurance agencies and brokerages. In general, insurance carriers are large companies that provide insurance and assume the risks covered by the policy. Insurance agencies and brokerages sell insurance policies for the carriers. While some of these establishments are directly affiliated with a particular insurer and sell only that carrier's policies, many are independent and are thus free to market the policies of a variety of insurance carriers. In addition to supporting these two primary components, the insurance industry includes establishments that provide other insurance-related services, such as claims adjustment or third-party administration of insurance and pension funds (Rowe, 1977).

Insurance carriers assume the risk associated with annuities and insurance policies and assign premiums to be paid for the policies. In the policy, the carrier states the length and conditions of the agreement, exactly which losses it will provide compensation for, and how much will be awarded (Rowe, 1977).

The premium charged for the policy is based primarily on the amount to be awarded in case of loss, as well as the likelihood that the insurance carrier will actually have to pay. In order to be able to compensate policyholders for their losses, insurance companies invest the money they receive in premiums, building up a portfolio of financial assets and income-producing real estate that can then be used to pay off any future claims that may be brought (Thietart, 1979).

There are two basic types of insurance carriers: direct and reinsurance. Direct carriers are responsible for the initial underwriting of insurance policies and annuities, while reinsurance carriers assume all or part of the risk associated with the existing insurance policies originally underwritten by other insurance carriers (Rowe, 1977).

The concept of insurance and particularly the “social insurance programme”- dealing with socio-economic problems - has been around Africa for a long time (Kenyatta, 1962). Members of a community pooled together resources to create a “social insurance fund”. The “premiums” ranged from material to moral support or other payments in kind. From the fund, “drawings were made out” to support the few unfortunate members exposed to perils (Azevedo, 1993).

Effective risk management in insurance sector requires an iterative process of identification, analysis, prioritization, action, monitoring and reporting of material risks.

The processes necessary to deliver risk management objectives needs to ensure clear identification of corporate and service objectives and targets; specification of roles and responsibilities in respect of risk management activities; consideration of risk as an integral part of corporate and business processes; requirements to analyze, prioritize, respond to, monitor and report on material and significant risks; specification of guidance and support arrangements to assist managers in their consideration of risk; and facilitation of shared organizational intelligence and learning. Subsequently, decisions to either retain or transfer risk should be made in accordance with the available potential and expected outcomes (Thietart, 1979).

In Kenya, the history of the development of commercial insurance is closely related to the historical emancipation of Kenya as a nation (Throup, 1988). With the conquest of Kenya as a British colony complete, settlers initiated various economic activities, **particularly farming, and extraction of agricultural products** (Huxley, 1990).

These substantial investments needed some form of protection against various risk exposures. British insurers saw an opportunity in this, and established agency offices to service the colony's insurance needs. 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 independence in 1963, most branches had been transformed to fully-fledged insurance companies (Maxon, 1993).

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1.2 Statement of the Problem

In Kenya, the history of the development of commercial insurance is closely related to the historical emancipation of Kenya as a nation (Throup, 1988). With the conquest of Kenya as a British colony complete, settlers initiated various economic activities, particularly farming, and extraction of agricultural products (Huxley, 1990).

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More than forty years since independence, Kenya's insurance industry has flourished, and today over 40 insurers are registered and actively operational in the life and general insurances. The industry leads within the East Africa Community (a trading block of Kenya, Uganda and Tanzania), and is a key player in the Common Market for Eastern and Southern Africa (COMESA) region. It employs over 10,000 people, underwrites well over €300m premiums, and pays over €120m per annum in claims. The largest ten insurers handle over 70% of the motor business with a similar number handling well over 90% of the property business in the market (The Insurer, June 2006).

1.2 Statement of the Problem

Exposure to risk is created whenever an act or circumstance gives rise to possible gain or loss that cannot be predicated with clarity. Organizations have motives to address these exposures and this motivation gives rise to risk management. At this most basic level, risk management is practical because the negative and positive possibilities of risk as well as moral considerations provide incentives for an organization to take steps in minimizing the cost of risk while striving to maximize returns.

In the Kenyan insurance industry, indications of severe threats to insurers' existence were rife. The industry suffered a big blow in the year 2005 when a key player, United Insurance- with a Passenger Service Vehicle (PSV) stake of 45 percent- collapsed. Other firms that had gone under receivership in mysterious circumstances included Stallion Assurance, Lakestar Insurance, Liberty Insurance and the Kenya National Assurance Company.

They collapsed with huge amounts of policyholders' contributions leaving in their wake a public with diminished confidence in the sub-sector's ability to protect investments. Moreover, the industry was on the spot when leading medical insurers, Mediplus (2003) and Strategis (2005), folded up in controversial circumstances.

Another factor which bedeviled the industry was that the office of the Commissioner of Insurance fell under the Ministry of Finance and lacked the muscle that was expected as an independent regulator. Critics pointed at this arrangement as limiting the regulator from enforcing specific industry requirements, hence the high exit rate.

Compounding this fact was the factor that there was hardly sufficient information on the prevailing nature of frequently observable risks and how their severity could be determined. Additionally, no particular risk mitigation approaches had been developed suiting the country's context.

In this research study, the primary intent was to assess the risk concentration levels in Kenyan insurance industry and how firms applied risk management skills in order to remain more focused and better prepared to changing needs and priorities within the industry. The study's central focus was guided to finding sufficient information necessary toward answering the following questions:

- a) What risks are mitigated by Kenyan insurers?
- b) Which mitigation techniques are adopted by the Kenyan insurance sub-sector?

- c) What challenges are faced by the Kenyan insurers in adopting the risk mitigation strategies and techniques?

1.3 Research Objectives

The study's objectives were stated as follows:

- a) To identify the type of risks mitigated by Kenyan insurers;
- b) To establish the risk mitigation strategies and techniques adopted by Kenya insurers; and
- c) To identify the challenges facing Kenyan insurers in adopting the risk-mitigation strategies and techniques.

1.5 Significance of the Study

The pervasiveness and complexity of risks present strong challenges to organizational managements, one of the most important being the coordination of handling risks across areas within the organization. Thus, there is need to accessing adequate multidimensional awareness on risk issues.

Moreover, since the ultimate quality of strategic decisions widely depend on prudence levels concerning risk identification, evaluation and mitigation, then an in-depth investigation in this area is vital to proactive managers. In this limelight, the study was destined to appropriately investigate current and potential risk factors whose impacts need consistent recognition whilst making decisions.

Recommendations out of this study were expected to create positive awareness on existing risk scale, which is useful for both new entrants and competition seekers.

Specifically, the study's fundamental rationale was geared toward the following:

- a) Providing guidance to advance the use of a more corporate and systematic approach to risk management;
- b) Contributing toward building risk- smart environment that allows for innovation and responsible risk taking while ensuring legitimate precautions are taken to protect the interest of all stakeholders; and
- c) Proposing a set of risk management practices that departments can adapt to their specific circumstances and mandate.

CHAPTER TWO

2.0 LITERATURE REVIEW

In process of ensuring that the researcher remained well versed and more focused on the research area, relevant literature was reviewed. The key elements reviewed included the nature of risk, types of risks, failures of insurance industry, risk mitigation strategies and broad challenges encountered during the mitigation processes.

2.1 Nature of Risk

The classical definition of risk was provided by Knight (1994) as the situation in which the decision maker has the advantages of knowledge of the problem structure, understanding of the complete range of possible outcomes and ability to objectively assess the likelihood of each outcome occurring. At its simplest level, Knight (1994) saw risk as a form of measurable as opposed to un-measurable uncertainty (Ritchie and Marshall, 1993).

Bettis (1982) observes that other than industry characteristics (IC) and organizational strategy (S), risk (R) partly determines an organization's performance (P).

Mathematically expressed,

$$P = f(IC, S, R)$$

Further, risk is essentially an endogenous variable because strategic managers tend to assume, both explicitly and implicitly, that it is a variable that can be managed. The nature of risk is itself primarily dependent on the industry characteristics and the strategy pursued (Bettis, 1982).

Bowman (1980) also supports this view of risk as essentially endogenous variable and argues that a well- devised strategy could simultaneously reduce risk and increase returns. Overall, the theme of the argument on risk reduction is mainly related to the ability of the organization to reduce the variability of the returns generated (Bowman, 1980).

The simplified model of risk presented by Bettis (1982) is:

$$R = f(IC, S)$$

Where,

R – Risk

IC – Industry characteristics

S – Strategy developed.

Industry characteristics include factors such as concentration level in the market, and size of the barriers to entry. Within the organization, the author selected research and development, and capital investment as the primary measures of the characteristics of an industry. The various types of strategy were differentiated on the extent to which any new product or market area was selected to the organization's existing or market areas.

Bowman (1980), like Bettis (1982), recognized that corporate strategy is a means of altering both risk and returns.

Taback (1991) takes the practical view that, before a crisis occurs, there is usually a warning period during which a proactive management team can recognize the signals and events that increase the likelihood to disaster. During this period, the organization can accomplish the most at the least cost.

Even if it cannot prevent the disaster, knowing it is coming makes the company better prepared. This means that crises do not simply happen. They arise out of the context of the business. Thus, some sense of defensive mechanism at a strategic level is sensible in order to allow the organization make a reasonably well coordinated effort in responding to the emergency at the time of maximum turmoil (Taback, 1991).

2.2 Classification of Risks

Broadly, different risks can be classified simultaneously according to the three categories below:

2.2.1 Pure and Speculative Risks

An important classification of risk involves the concept of pure and speculative risks. Pure risks exist when there is uncertainty as to whether loss will occur. No possibility of gain is presented by pure risk- only the potential for loss. In contrast, speculative risks exist when there is uncertainty about an event that could produce either a profit or a loss. Gain as well as losses may occur, changing the nature of the uncertainty that it presents. Both pure and speculative risks may be present in some situations (Trieschmann *et al*, 2001).

2.2.2 Static and Dynamic Risks

Another classification of risk is the extent to which uncertainty changes over time. Static risks, which can either be pure or speculative, stem from an unchanging society that is in stable equilibrium.

On the other hand, dynamic risks are produced because of change in society. They can either be pure or speculative. The two risks are not independent: greater dynamic risks may increase some of the static risks (Trieschmann *et al*, 2001).

2.2.3 Subjective and Objective Risks

A third classification of risk is according to whether the risk is subjective or objective. Subjective risks refer to the mental state of an individual who experiences doubt or worry as to the outcomes of a given event. In addition to being subjective, a particular risk may also be either pure or speculative and either static or dynamic. Essentially, the subjective risk is the psychological uncertainty that arises from an individual's mental attitude or state of the mind. Objective risks differ from subjective ones primarily in the sense that they are more precisely observable and therefore measurable. Generally, objective risks are the probable variations of actual from expected experiences (Trieschmann *et al*, 2001).

Figure 1.1 below gives a summary on the above discussed risk classification.

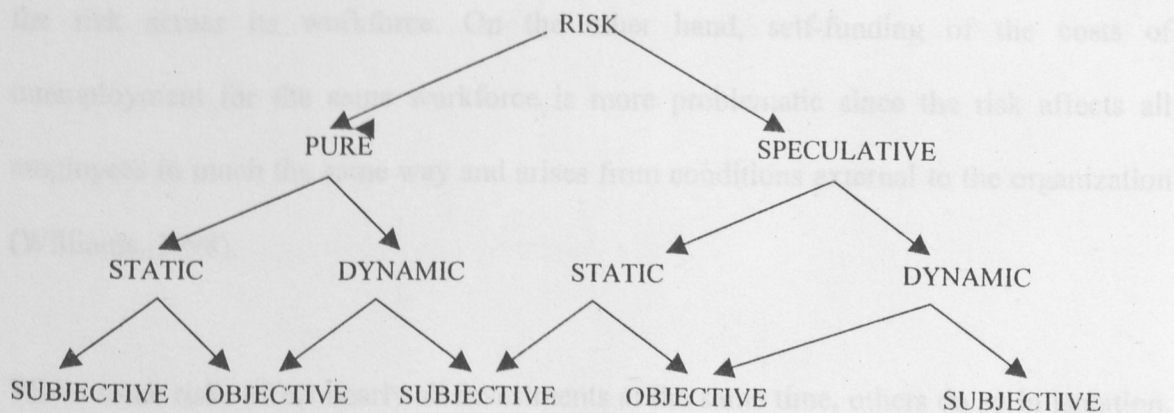


Fig.1.1: Classification of risk (source: Trieschmann *et al*, 2001)

2.3 Systematic and Unsystematic Risks

A risk is unsystematic if it is possible to reduce it through pooling. On the other hand, a risk is systematic if pooling agreements are ineffective in hedging it (Williams, 1998). After the unsystematic risk is eliminated, what is left is the systematic part. This part of the risk is inescapable because no matter how well an investor diversifies, the risks of the overall market cannot be avoided (Jones, 1998).

The distinction between systematic risk and unsystematic risk is important in risk management because it affects the usefulness of pooling and risk sharing agreements. Risks that are diversifiable within a particular organization are more amenable to internal treatment than others. For instance, an organization might seek to pay directly for all costs arising from injuries incurred by employees while on the job.

This risk may be managed internally because, for the most part, worker injuries are independent of one another. As a consequence, the organization can spread the cost and the risk across its workforce. On the other hand, self-funding of the costs of unemployment for the same workforce is more problematic since the risk affects all employees in much the same way and arises from conditions external to the organization (Williams, 1998).

While some risks affect nearly all investments at the same time, others do so in isolation. Unless the manifestations of a risk affect organizations or individuals in the same way and about the same time, it is possible for the affected entities to reduce their risks through pooling and sharing agreements. Naturally, the ability of any organization to affect systematic risk-concentration will be a function of their dominance within the market, and that unsystematic risks could easily be mitigated through effective strategic planning (Kudla, 1981). In more general terms, Kudla questioned the effectiveness of the communication channel between business and their investors, and challenged the assumption that a single organization can influence the responsiveness of the market to changes in systematic risks.

Salter and Weinholt (1981) identified three strategies open to managements if they wish to influence the level of total risk (Systematic risk + Unsystematic risk), which include: Firstly, understanding strategies aimed at producing related diversification. This attempts to reduce the variability of the organization's cash flow as a result of increasing the size of the operating margin relative to fixed costs of the business.

The Second strategy includes ensuring a more effective asset selection and management by a diversified organization that will generate either a faster growth or a more stable free cash flow than available in a comparable portfolio of independent business and the third increased diversification enabling management to include some individual businesses in the portfolios that have high unsystematic risks attached to them but which have, or lead to, low systematic risks (Salter and Weinhold, 1981).

2.4 Identifiable Risks in the Insurance Industry

2.4.1 Interest Rate Risk

The variability in a security's return resulting from changes in the level of interest rates is referred to as interest rate risk. Such changes generally affect securities inversely; that is, other things being equal, security prices move inversely to interest rates. The reason for this movement is tied up with the valuation of securities. Interest rate risk affects bonds more directly than common stocks and is a major risk faced by all bondholders. As interest rates change, bond prices change in the opposite direction.

2.4.2 Purchasing Power Risk

A factor affecting all securities is purchasing power risk also known as inflation risk. This is the chance that the purchasing power of invested amounts will decline. With uncertain inflation, the real inflation-adjusted return involves risk even if the nominal return is safe.

This risk is related to interest rate risk, since interest rates generally rise as inflation increases, because lenders demand additional inflation premiums to compensate for the loss of purchasing power.

2.4.3 Regulation Risk

Some investments can be relatively attractive to other investments because of certain regulations or tax laws that give them an advantage of some kind. The risk of a regulatory change that could adversely affect the stature of an investment is a real danger. For instance, in 1987 the U.S. tax laws changed dramatically and lessened the attractiveness of many existing limited partnerships that relied upon special tax considerations as part of their total return. Prices for many limited partnerships tumbled when investors were left with different securities, in effect, than what they originally bargained for.

2.4.4 Exchange Rate Risk

All investors who invest internationally in today's increasingly global investment arena face the prospect of uncertainty in the returns after they convert the foreign gains back to their own currency. Unlike the past when most investors ignored international investing alternatives, investors today must recognize and understand exchange rate risk, which can be defined as the variability in returns on securities caused by currency fluctuations.

2.4.5 Political Risk

The risk of loss when investing in a given country caused by changes in a country's political structure or policies, such as tax laws, tariffs, expropriation of assets, or restriction in repatriation of profits. For example, a company may suffer from such loss in the case of expropriation or tightened foreign exchange repatriation rules, or from increased credit risk if the government changes policies to make it difficult for the company to pay creditors.

2.4.6 Liquidity Risk

Liquidity risk is the risk associated with the particular secondary market in which a security trades. An investment that can be bought or sold quickly and without significant price concession is considered liquid. The more uncertainty about the time element and the price concession, the greater the liquidity risks.

2.4.7 Reputation risk

Reputation risk arises when a situation, occurrence, business practice or event has the potential to materially influence the public and stakeholder's perceived trust and confidence in an institution. The risk event will result in a measurable, negative impact on financial performance on a short or long-term basis, and on the going-forward value of the brand or franchise, such that the underlying value of the brand or franchise is threatened in a material manner.

There are three categories of events or circumstances, which give rise to reputation risk, and the risk methodology must be broad enough to reach all risks in each category.

Inherent risk: These are risks that arise from, or are an intrinsic feature of, products and services (or their delivery) and which negatively impact on market and customer satisfaction. Thus, a good deal of inherent risk derives from the Operational Risk, Quality Assurance and Customer Satisfaction areas. The insurance industry would understand this risk to include those activities that effect pricing policy and underwriting decisions, investment management efficiency and claims handling risk such as fraud and effective claims adjuster support.

Environmental risk: These are risks that arise from the manner in which business is conducted (geographic, industrial, political, societal) which, while unrelated to the quality of the products or services, can negatively impact on market and customer brand or franchise acceptance.

Governance and control risk: These are risks which arise from losses as a result of inadequate or failed internal processes, people and systems as well as from losses caused by an organization's failure to adopt or adhere to applicable laws, regulation rules, codes, industry standards or practices which negatively impact on the market and customer's perception of institutional integrity.

2.4.8 Technology Risk

The risks of introducing new technology can - if not properly managed - exceed the technology's benefits. Moreover, managing risks in technology can be extremely complex. With rapid growth through technological advancements, keeping up is a challenge. For instance, risks surrounding information technology, such as network failure, lack of resources and skills, hacking and viruses, and poor system integration, have the potential to have a greater negative impact on an organization than in the past.

2.5 Risk Mitigation Process and Strategies

Risk mitigation enables people and organizations to cope with uncertainty by taking steps to protect its vital assets and resources. The process provides a framework for identifying risks and making decisions about which types deserve immediate attention.

Additionally, it is not a task to be completed and shelved; it is a process that, once understood, should be integrated into all aspects of the organization's management (Thietart, 1979).

Trieschmann *et al* (2001), identifies five key steps involved in the risk mitigation process:

Step 1: Establishing the context

It is important to begin a risk mitigation program by setting goals and identifying any potential barriers or impediments to the implementation of the program. In the goal setting exercise, managers need to identify what they are trying to accomplish by integrating risk management into the organization's operations. Some common goals for risk management efforts include: reducing injuries, avoiding costly claims, preserving the firm's reputation in the community, freeing up resources for mission-critical activities and ensuring adequate risk financing.

Step 2: Acknowledging and identifying potential risk exposures

There are many ways to undertake risk identification; the key is using a framework or strategy that allows the firm to identify all major risks they are facing. To identify exposures to potential losses involves developing a complete list of loss exposures for the organization. Professional risk managers begin with a physical inspection, and then use tools such as surveys, questionnaires and business flowcharts to identify potential loss exposures or business bottlenecks.

Step 3: Evaluating and prioritizing risks

This step in the process helps the risk manager to keep things in perspective and establish a list of action items in priority order.

Step 4: Selecting appropriate risk management strategies and implementing the plan:

Once potential loss exposures have been identified and analyzed, professional risk managers evaluate industry-accepted techniques for treating these exposures. These techniques include risk avoidance, retention, transfer and reduction. Professional risk managers often apply a combination of two or more of the following techniques to address potential loss exposures.

Avoidance: Whenever an organization cannot offer a service while ensuring a high degree of safety, it should choose avoidance as a risk mitigation technique. It should not offer programs that pose too great a risk. In some cases, avoidance is the most appropriate technique especially for infant firms because they simply do not have the adequate financial resources required to fund programmes such as training, supervision, equipment, or other safety measures.

Reduction: This comprises techniques that are implemented with the intent to minimize the probability or frequency with which certain losses might occur. They ensure that adequate policies and procedures are put in place to ensure that risk exposures are contained or their severities minimized.

Retention: There are two ways to retain risk. The first is by design. A firm may decide that other available techniques are not suitable and therefore retain the risk of harm or loss. This can be a rational and appropriate approach to managing risk. Where organizations get into trouble, risk tends to be retained unintentionally.

The unintentional retention of risk can be the result of failing to understand the exclusions of an insurance policy, insufficient understanding of the scope of risk an organization faces or simply because no one has taken the time to consider the risk and how it can be addressed.

Risk Transfer: This involves sharing risks with another organization through a contract. Two common examples are insurance contracts that require an insurer to pay for claim expenses and losses under certain circumstances, and service contracts whereby a provider agrees to perform a service and assume liability for potential harm occurring in the delivery of the service.

Step 5: Monitoring and updating the risk management program

Risk management techniques and plans should be reviewed periodically to ensure that they remain the most appropriate strategy given the organization's needs and circumstances. Once implemented, monitoring a risk mitigation program is an ongoing activity. Routine observations of the effectiveness of the program are imperative to determine whether progress is being made in addressing the exposures.

If measurements prove more progress is required, modifications are called for to further enhance the program (Trieschmann, 2001).

2.6 Failures of Insurance Industry

There is widespread customer dissatisfaction in the insurance industry, stemming from insurers' failure to satisfy customers' needs. Previous studies, notably those of Wells & Stafford (1995), The Quality Insurance Congress (QIC), Risk and Insurance Management Society (RIMS) (Friedman, 2001), Chartered Property Casualty Underwriters (CPCU), and Longitudinal Studies (Cooper & Frank, 2001), have all confirmed widespread customer dissatisfaction within the insurance industry, especially in service design and delivery. Particularly, ignorance of customers' insurance needs (the inability to match customers perceptions with expectations), and inferior quality of services largely account for this.

The American Customer Satisfaction Index showed that, between 1994 and 2002, the average customer satisfaction had gone down by 2.5% for life insurance and 6.1% for personal property insurance respectively. This was partly because more than a dozen managed care companies failed during 1999, leaving half a million members without health insurance. In addition, more than half of all health plans lost money in 1998, and for a long time-length loss persisted (Cooper and Frank, 2001).

In Greece, 48% of consumers consider that the industry as a whole is characterized by lack of professionalism. Furthermore, 34% believe that insurers find various pretexts to avoid promised compensations. This is a legacy the industry has cultivated, sparking a host of controversies, denials and counter denials which unfortunately have not helped to bolster its image worldwide (Wells & Stafford, 1995).

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Kenya is not exempted either. In the past ten years, the industry's exit rate had been quite astounding. Key players had successively felled by the wayside; a situation that attracted diversified concerns in the industry, questioning its viability in providing reliable covers. Among others, the main reasons for failures, especially in the property/casualty domain, involved continuing competitive pressures which led to inadequate pricing, thus, facilitating weakened reserve positions.

Additionally, workers' quality contributions and commensurate compensation criteria had been particularly questioned. By the time of the study, there were over forty registered and active insurers, who had forced the estimated annual growth rate down to 1.2 percent (The Insurer, January 2005).

2.7 Challenges of Mitigating Risks in Insurance Industry

Business risk appears in a bewildering variety of guises - credit risk, financial risk, geopolitical risk, operational risk and reputational risk, to name just a few. A business can only adjust for risks through a variety of conventional mechanisms and strategies, but still there are no certainties. Risk managers are constantly obliged to consolidate reliable risk profiles and there are hardly refined mitigating processes suiting every rate of change within the environment (Ridley, 1999).

The other challenge is of understanding the potential risks associated with new products in a given business line which is heightened when firms attempt to see how those risks intersect with the risks from its other business lines.

A firm may be hedging its risks or enhancing diversification by offering new products but at the same time adding to risks it already has.

Furthermore, an institution has to pay attention to the behavior and performance of its risk mitigants, whose appropriateness and applicability may also vary with changes in the market. The bottom line for today's insurance institutions, particularly the largest and most complex ones, is that they must continue to monitor very carefully the embedded risks of their products and services, pay close attention to subtle changes in business practices that could affect the risks related to a given product, and fully understand how the risks in all their business lines intersect and combine to affect the risk profile of the consolidated entity (Ridley, 1999).

3.1 Data Collection Instruments

The research instrument used in the study was the self-administered questionnaire. The questionnaire comprised of both structured and semi-structured question items. The structured items were designed to enable the researcher to analyze data with ease, whilst the semi-structured items were meant to facilitate in-depth responses. All question items were validated against the literature that formed the basis of the study.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research Design

Being an exploratory study, survey methods were used to identify the risk mitigation strategies adopted by Kenya's insurance sub-sector and the various challenges faced in the process.

3.2 Target Population

The study's target population included all the licensed insurers in Kenya as at September 2006, when actual data collection began. In the quest of achieving a wider scope of relevant information and minimum possible error, the researcher opted for conducting a census rather than focusing on a sample. To enhance representativeness, in cases of failed responses, the researcher targeted working with a minimum of thirty firms, a number far above the one-third population recommended for survey analysis by Bell (1993).

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The questionnaires sought information pertaining to risk concentration, mitigation techniques and challenges faced by Kenyan insurers while dealing with risk.

4.0 DATA ANALYSIS AND FINDINGS

3.4 Data Analysis Techniques

After the data had successfully been collected, analysis was performed using descriptive statistics with the help of Statistical Package for Social Sciences (SPSS). Tables and graphs were widely used for data presentation. Relevantly, they were designed to give a clearer picture of the shape of the distribution of data and a general impression of values that could be seen as common or average. The analysis further attempted to assess whether there was any relationship in the risk mitigation strategies between the various insurance categories (life, general and composite).

4.2 Response Rate

Forty three (43) questionnaires were distributed to the respondents out of which thirty three (33) responded by completing and returning the questionnaires. However, one (1) questionnaire was discarded due to incompleteness and inconsistency. This gave a response rate of 76%, which reflected a fair representation of the firms studied.

4.3 Demographic Information of the Firms

The demographic information of the respondents considered in the study included the ownership structure, duration of being in the insurance industry in Kenya, range of business transacted and current number of employees. The results are presented below:

CHAPTER FOUR

4.0 DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter contains summaries of data findings together with their possible interpretations. The chapter is divided into two sections one of which is related to the objectives of the study. The first section analyses the demographic information of the insurance companies, while the second section analyses the risks mitigated, mitigation techniques and challenges faced by the Kenyan insurers in adopting the risk mitigation strategies and techniques.

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4.3 Demographic Information of the Firms

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4.3.1 Ownership Structure of the Firm

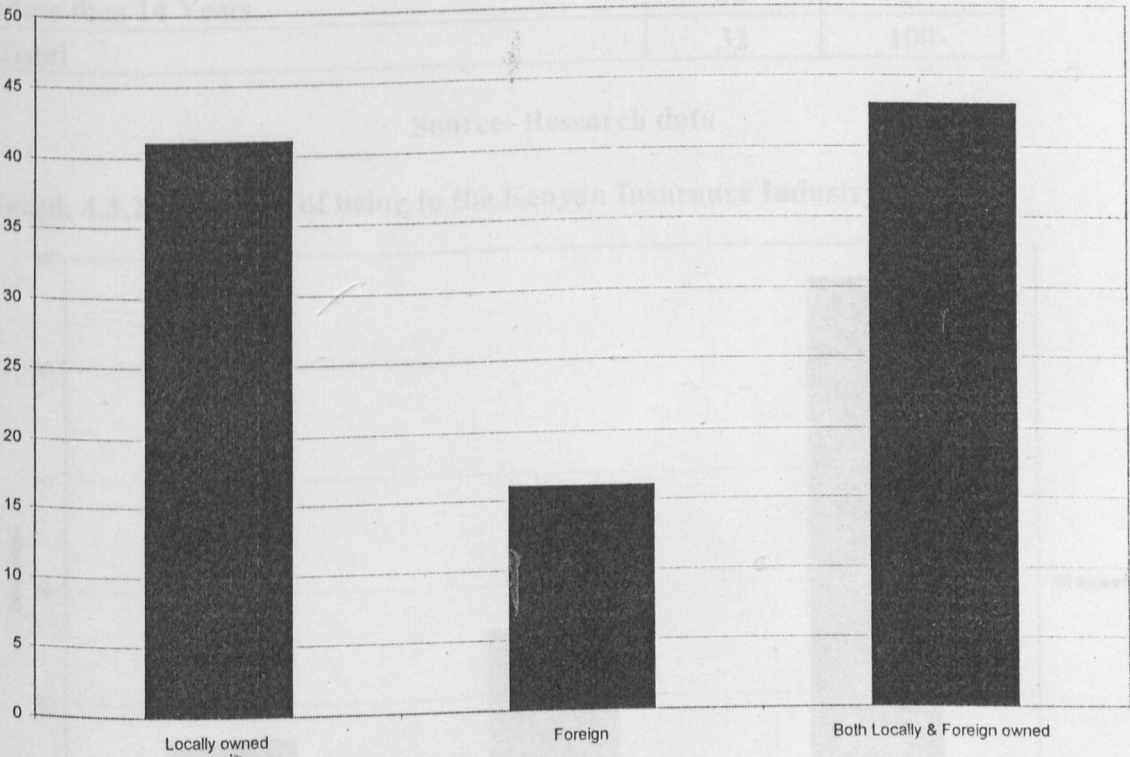
The respondents were to indicate the ownership structure of their firms as either locally owned, foreign or both locally and foreign owned.

Table 4.3.1: Ownership Structure of the Firms

Ownership Structure	Frequency	Percentage
Local owned	13	41
Foreign	5	16
Both Locally and Foreign owned	14	43
Total	32	100

Source: Research data

Graph 4.3.1: Ownership Structure of the Firms



Source: Research data

From the findings 41% of the insurance firms which responded were locally owned, 16% foreign owned while both the locals and foreigners owned 43% of the firms.

This showed that majority of firms were either owned by the locals or by both the locals and foreigners.

4.3.2 Duration of being in the Kenyan Insurance Industry

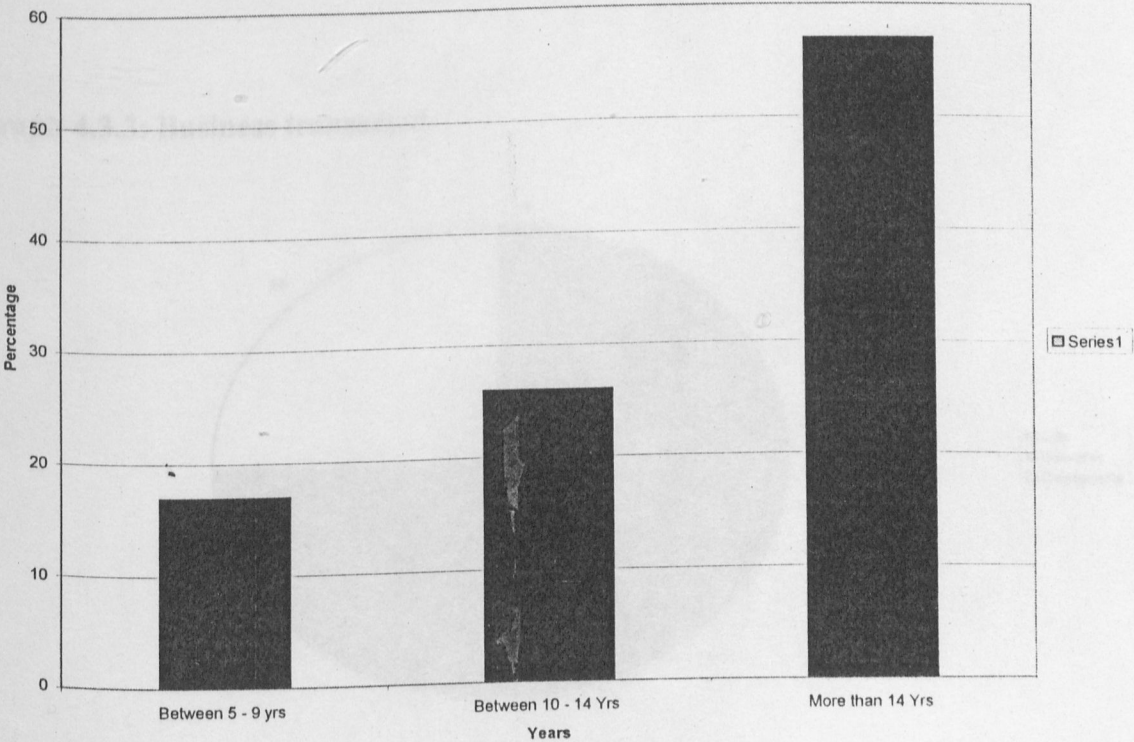
The respondents were to indicate the duration their firms had been in the insurance industry in Kenya.

Table 4.3.2: Duration of being in the Kenyan Insurance Industry

	Frequency	Percentage
Between 5 – 9 Years	5	17
Between 10 – 14 Years	8	26
More than 14 Years	18	57
Total	32	100

Source: Research data

Graph 4.3.2: Duration of being in the Kenyan Insurance Industry



Source: Research data

The findings indicated that 17% of the firms had been in the industry for between 5- 9 years, 26% between 10 - 14 years while 57% had been in the industry for more than 14 years. This showed that majority of the firms had been in the insurance industry for more than 14 years thus were in a better position to understand risk associated with insurance industry in Kenya.

4.3.3 Current Number of Employees

The respondents were to indicate the current number of employees in the firms. This

4.3.3 Range of Business Transacted

The respondents were to indicate the range of business transacted by their firms in three categories, namely life, general and composite.

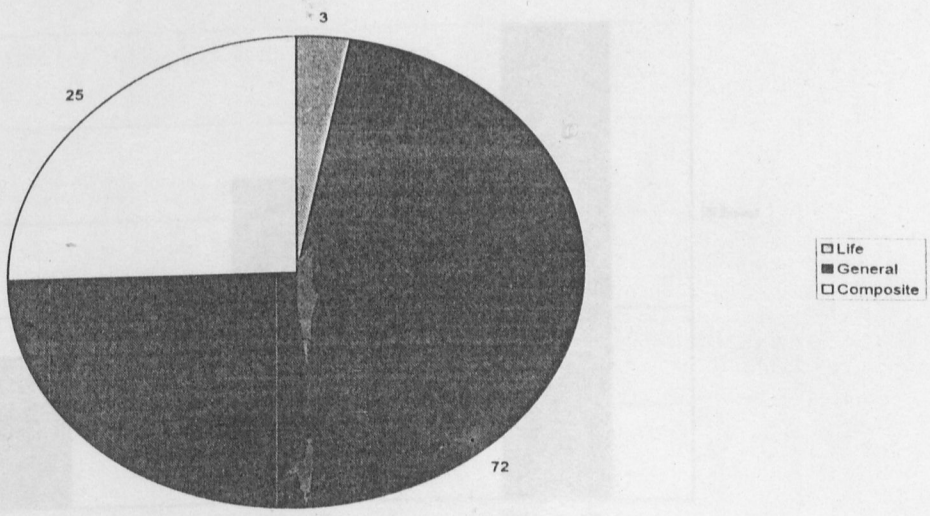
Table 4.3.3: Business Transacted

	Frequency	Percentage
Life	1	.3
General	23	72
Composite	8	25
Total	32	100

Source: Research data

Graph 4.3.3: Current Number of Employees

Graph 4.3.3: Business transacted



Source: Research data

The findings indicate that 3% of the firms transacted life, 72% general while 25% transacted composite business. This shows that most of the firms transacted general businesses thus were faced with variety of risks.

4.3.4 Current Number of Employees

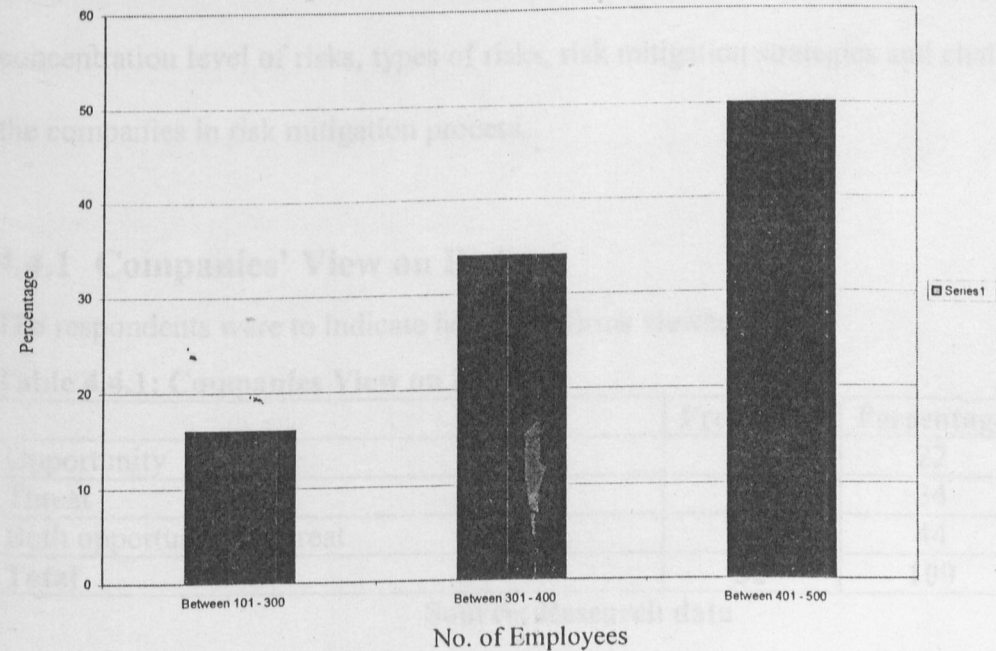
The respondents were to indicate the current number of employees in the firms. This would show the employment capacity in the insurance industry.

Table 4.3.4: Current Number of Employees

	Frequency	Percentage
Between 101 – 300	5	16
Between 301 – 400	11	34
Between 401 – 500	16	50
Total	32	100

Source: Research data

Graph 4.3.4: Current Number of Employees



Source: Research data

The findings showed that, 22% of the firms viewed risks as an opportunity, 34% as threat

From the findings, 16% of the firms had between 101 – 300 employees, 34% between 301 – 400 employees, whereas 50% had between 401 – 500 employees. This shows that majority of the insurance firms employed more 400 employees thus the industry was a major employer.

Table 4.4.2: Presence of a Risk Manager

	Frequency	Percentage
Yes	13	22
No	9	34

4.4 Risk Management

The classical definition of risk was provided by Knight (1994) as the situation in which the decision maker has the advantages of knowledge of the problem structure, understanding of the complete range of possible outcomes and ability to objectively assess the likelihood of each outcome occurring. At its simplest level, Knight (1994) saw risk as a form of measurable as opposed to un-measurable uncertainty (Ritchie and Marshall, 1993). Factors considered under risk management included: how the insurance companies viewed risks, duties performed by risk managers, sources of risks, concentration level of risks, types of risks, risk mitigation strategies and challenges facing the companies in risk mitigation process.

4.4.1 Companies' View on Risks

The respondents were to indicate how their firms viewed risks.

Table 4.4.1: Companies View on Risks

	Frequency	Percentage
Opportunity	7	22
Threat	11	34
Both opportunity & threat	14	44
Total	32	100

Source: Research data

The findings showed that, 22% of the firms viewed risks as an opportunity, 34% as threat while 44% viewed risk as both threat and opportunity. This implied that risk presented both positive and negative effect to industry players.

4.4.2 Presence of Full Time Risk Manager

Table 4.4.2: Presence of a Risk Manager

	Frequency	Percentage
Yes	23	72
No	9	28
Total	32	100

Source: Research data

The results showed that 72% of the firms had a full time risk manager while the remaining 28% did not have a full time risk manager. This showed that most firms valued the contributions of risk managers.

4.4.3 Duties Performed by Risk Managers

The respondents were to rate the extent to which the following duties were performed by the risk mangers in their firms on a five point Likert scale, where 5 = very large extent and 1= no extent at all. A standard deviation greater that one would imply a major variance on the opinion of the respondents.

Table 4.4.3: Duties performed by risk managers

Duties	Mean Score	Std Dev
Identifying the risk faced by the firm	4.12	0.56
Measuring the potential effect of each risk	4.23	0.49
Determining and monitoring of exposures	4.46	0.46
Creating need for risk recognition in decision-making	3.56	0.56
Provision of leadership in risk management	4.11	0.71
Formulation of risk mitigation strategy	3.69	0.42
Coordination of risk management strategy	4.39	0.37

Source: Research data

The findings show that to a large extent, the risks managers were involved in identifying the risk faced by the firms (4.12), measuring the potential effect of each risk (4.23), determining and monitoring exposures (4.46), providing of leadership in risk management (4.11) and coordination of risk management strategy (4.36). However, to a moderate extent the risk managers created need for risk recognition in decision-making (3.56) and formulated risk mitigation strategy (3.69).

4.4.4 Sources of Risks

The respondents were to rank on a five point scale the sources of risks according to their frequency of occurrence in the firm.

Table 4.4.4: Sources of Risk

	Mean Score	Std Dev
Business partners (interdependency, confidentiality, cultural conflict, contractual risks)	3.44	0.57
Competition (market share, price wars, industry trial espionage, antitrust allegations)	3.69	0.61
Customers (product liability, credit risk, poor market timing, inadequate customer support)	4.23	0.53
Distribution systems (transportation, service availability, cost, dependence on distributors)	2.76	0.92
Financial (Foreign exchange, portfolio, cash, interest rate, stock market)	3.61	0.59
Operations (Facilities, contractual risks, natural hazards, internal processes and control)	4.63	0.66
Regulatory and legislative (antitrust, export licensing, jurisdiction, reporting and compliance, environmental)	3.67	0.69
Reputations (Corporate image, brands, reputations of key employees)	2.34	0.39
Strategic (mergers and acquisitions, joint ventures and alliances, resource allocation, organizational agility)	2.97	0.57
Technological (Complexity, obsolesce, virus attacks, work force skills)	3.49	0.91
Personnel (Employees, independent contractors, training, staffing inadequacy)	4.26	0.64
Political (civil unrest, war, terrorism, enforcement of intellectual property, change in leadership, revised economic policies)	4.39	0.77

Source: Research data

Sources of risks which occurred to a large extent were customer related risk factors, which included product liability, credit risk, poor market timing, inadequate customer support (4.23); operations, and included facilities, contractual risks, natural hazards, internal processes and control (4.63); personnel risks, encompassing employees, independent contractors, training, staffing inadequacy (4.26); and political factors that included civil unrest, war, terrorism, enforcement of intellectual property, change in leadership, revised economic policies (4.39). To a moderate extent, business partners with issues relating to interdependency, confidentiality, cultural conflict, contractual risks (3.44); competition, which encompassed. market share, price wars, industry trial espionage, antitrust allegations (3.69); financial that included foreign exchange, portfolio, cash, interest rate, stock market (3.61); regulatory and legislative encompassing antitrust, export licensing, jurisdiction, reporting and compliance, environmental (3.67); and technological which included. complexity, obsolesce, virus attacks, work force skills (3.49) contributed to risks in the insurance firms. Whereas to a small extent, distribution systems encompassing transportation, service availability, cost, dependence on distributors (2.76); reputations which included. corporate image, brands, reputations of key employees (2.34); strategic factors that involved mergers and acquisitions, joint ventures and alliances, resource allocation, organizational agility (2.97) contributed to risks. From the standard deviations the applicability of business partners (0.57), competition (0.61), customers (0.53), distribution systems (0.92), financial (0.92), operations (0.66), regulatory and legislative (0.69), strategic (0.57), technological (0.91), personnel (0.64) and politics (0.77) widely varied among the respondent firms, as opposed to reputations (0.39).

From the findings, 28% of the respondents stated that risk mitigation was complex and costly, 41% as high, 22% as moderate and 9 % as low. This showed that in majority of the firms understood the nature of risk dominating the industry but limited in

4.4.5 Concentration Level of Risks in Kenyan Insurance Industry

The respondents were to show how they viewed risk concentration level in the Kenyan insurance industry.

Table 4.4.5: Concentration level of risks in Kenyan insurance industry

	Frequency	Percentage
Very high	9	28
High	13	41
Moderate	7	22
Low	3	9
Total	32	100

Source: Research data

From the findings, 28% of the firms rated the risk concentration level in Kenya as very high, 41% as high, 22% as moderate and 9 % as low. This showed that the risk concentration level in the Kenyan insurance industry was relatively high.

4.5 Risk Mitigation

4.5.1 Ease of Risk Mitigation in Kenya

The respondents were to give their view on how easy it was to mitigate risks in Kenya.

Table 4.4.6: Ease of Risk Mitigation in Kenya

	Frequency	Percentage
Complex and costly	9	28
Complex but cheap	7	22
Simple and cheap	2	6
Simple but costly	14	44
Total	32	100

Source: Research data

From the findings, 28% of the respondents stated that risk mitigation was complex and costly; in 22%, risk mitigation was complex but cheap, in 6% of the firms, it was simple and cheap while in 44% risk mitigation was simple but costly. This showed that in majority of the firms understood the nature of risk dominating the industry but limited in terms of resources.

4.5.2 Risks within the Kenyan Insurance Industry

The respondents were to rate the identifiable risks within Kenyan insurance industry in accordance with severity levels.

Table 4.4.7: Risks within the Kenyan insurance industry

	Mean Score	Std Dev
Economic risks	4.11	0.42
Political risks	3.57	0.63
Technological risks	3.76	0.39
Legal risks	4.23	0.61
Socio- cultural risks	3.16	0.54
Geographical risks	3.41	0.36
Management risks	3.79	0.71
Personnel risks	3.44	0.69

Source: Research data

The Kenyan insurance industry was vulnerable to economic risks (4.11) and legal risks (4.23) to a large extent. However, the industry was also vulnerable to political risks (3.57), technological risks (3.76), socio- cultural risks (3.16), geographical risks (3.41), management risks (3.79) and personnel risks (3.44) to a moderate extent.

As indicated by the standard deviations, there was a close agreement on the severity of economic risks (0.42), technological risks (0.39) and geographical risks (0.36) as opposed to political risk (0.63), legal risks (0.61), socio-cultural risks (0.54), managerial risks (0.71) and personnel risks (0.69). Thus, the insurance industry was mainly affected by economic risks and legal risks.

4.5.3 Who Mitigates Risks?

Table 4.4.8: Who Mitigates Risks?

	Frequency	Percentage
Internal risk manager	23	72
Expatriates	11	34
Board of directors	16	50
Top managers	32	100

Source: Research data

From the findings, in 72% of the firms, risk mitigation was done by the internal risk managers, in 34% by expatriates, in 50% by the board of directors, and in all the firms the top managers participated in the risks mitigation. This showed that risks mitigation was not only the duty of the internal but also involved the top managerial inputs.

4.6 Risk Mitigation Strategies

The respondents were to indicate the reliability of using the following strategies to mitigate against the identified risks.

Table 4.4.9: Strategies used to Mitigate Economic risks

	Mean Score	Std Dev
Risk transfer	4.23	0.41
Risk avoidance	2.79	0.98
Risk reduction	4.19	0.36
Risk retention	4.13	0.46

Source: Research data

To a large extent, risk transfer (4.23), reduction (4.19) and risk retention (4.13) were used to mitigate economic risks, whereas risk avoidance (2.79) was used to a small extent. Moreover, preferences on risk avoidance were widely dispersed, with a standard deviation of 0.98, while close commonality was recorded on risk reduction (0.36), risk transfer (0.41), and risk retention (0.46). This showed that economic risks were mainly mitigated using risk transfer, risk reduction and risk retention techniques.

Table 4.4.10: Strategies used to mitigate Political Risks

	Mean Score	Std Dev
Risk transfer	2.49	0.59
Risk avoidance	4.12	0.33
Risk reduction	4.61	0.63
Risk retention	2.81	0.36

Source: Research data

In mitigating the political risks, risk avoidance (4.12) and risk reduction (4.61) were used to a large extent. On the other hand, risk transfer (2.49) and risk retention were used to a small extent. The standard deviations indicated that the respondents closely preferred managing political risks through avoidance (0.33) and risk retention (0.36). However, a relatively high disparity was observed in the use of risk transfer (0.59) and risk reduction (0.63) techniques. This implied that political risks were mainly mitigated using risk avoidance and retention.

Table 4.4.11: Strategies used to mitigate Technological Risks

	Mean Score	Std Dev
Risk transfer	3.32	0.69
Risk avoidance	3.79	0.44
Risk reduction	3.64	0.39
Risk retention	3.61	0.52

Source: Research data

Risk transfer (3.32), risk avoidance (3.79), risk reduction (3.64) and risk retention (3.61) were used to a moderate extent to mitigate technological risks. However, most firms closely preferred risk reduction (0.39) and risk avoidance (0.44). On the other hand, relatively wider differences were recorded in the use of risk transfer (0.69) and risk retention (0.52) techniques. These findings indicated that technological risks were mostly mitigated by risk reduction and risk avoidance.

Table 4.4.12: Strategies used to mitigate Legal Risks

	Mean Score	Std Dev
Risk transfer	2.31	0.42
Risk avoidance	4.36	0.31
Risk reduction	3.12	0.56
Risk retention	2.11	0.32

Source: Research data

To mitigate legal risks, risk avoidance was used to a large extent (4.36), while risk reduction was used to a moderate extent (3.12). However, risk transfer (2.31) and risk retention (2.11) were used to a small extent. The standard deviations indicated that the use of risk transfer (0.42), risk avoidance (0.31) and risk retention (0.32) were closely preferred by the respondent firms, whereas the preference of risk reduction (0.56) technique was widely spread. The findings indicated that legal risks were mainly mitigated using risk avoidance technique.

Table 4.4.13: Strategies used to mitigate socio-cultural risks

	Mean Score	Std Dev
Risk transfer	2.66	0.36
Risk avoidance	4.27	0.12
Risk reduction	4.28	0.36
Risk retention	2.33	0.12

Source: Research data

To mitigate managerial risks, the firms used risk transfer (4.12), risk avoidance (4.19),

To large extent risk avoidance (4.27) and risk reduction (4.28) were used to mitigate Socio- Cultural risks. However, risk transfer (2.66) and risk retention (2.33) were used to a small extent to socio- cultural risks. As indicated by the relatively low standard deviations, these techniques were closely preferred by the respondent firms in mitigating socio-cultural risks.

Table 4.4.14: Strategies used to mitigate Geographical risks

	Mean Score	Std Dev
Risk transfer	2.14	0.59
Risk avoidance	3.16	0.67
Risk reduction	3.78	0.39
Risk retention	2.16	0.46

Source: Research data

Risk avoidance (3.16) and risk reduction (3.78) were used to a moderate extent to mitigate (3.78) geographical risks. On the hand, risk transfer (2.14) and retention (2.16) were used to a small extent to mitigate geographical risks. From the standard deviations, the use of risk transfer (0.59) and risk avoidance (0.67) widely varied among the respondent firms. On the other hand, the use of risk reduction (0.39) and risk retention (0.46) was common among the respondents. Thus, geographical risks were mainly mitigated using risk reduction technique.

Table 4.4.15: Strategies used to mitigate managerial risks

	Mean Score	Std Dev
Risk transfer	4.12	0.61
Risk avoidance	4.19	0.37
Risk reduction	4.36	0.56
Risk retention	4.17	0.49

Source: Research data

To mitigate managerial risks, the firms used risk transfer (4.12), risk avoidance (4.19), risk reduction (4.36) and risk retention (4.17) were used to a large extent. However, standard deviations indicated that the use of risk transfer (0.61) and risk reduction (0.56) was widely dispersed among respondents, while the use of risk reduction (0.49) and risk avoidance (0.37) was closely interrelated among the firms. Thus, risk avoidance was mostly used to mitigate managerial risks.

Table 4.4.16: Strategies used to mitigate human resource risks

	Mean Score	Std Dev
Risk transfer	4.59	0.61
Risk avoidance	4.13	0.82
Risk reduction	4.19	0.59
Risk retention	3.78	0.69

Source: Research data

To mitigate human resource risks, the firms used risk transfer (4.59), risk avoidance (4.13) and risk reduction (4.19) to a large extent, while risk retention (3.78) was used to a moderate extent. The corresponding standard deviations indicated that the use of these techniques widely varied among the respondent firms. These findings showed that risk transfer and risk reduction were mainly used to mitigate human resource risks.

4. 7 Challenges Facing Companies in Risk Mitigation

Table 4.4.17: Challenges facing companies in risk mitigation

	Frequency	Percentage
Lack of appropriate risk identification tools	14	44
Lack of the right human resources	17	53
Lack of top management support	19	59
Inability to understand the nature & implication of risks	16	50
Budgetary constraints	32	100
Inability of sustaining mitigation strategy	32	100

Source: Research data

The main challenges faced by the firms in risk mitigation were established to be budgetary constraints (100%) and inability of sustaining mitigation strategy (100%). The other challenges included lack of appropriate risk identification tools (44%), lack of the right human resources (53%), lack of top management support (59%), and inability to understand the nature & implication of risks (50%).

4.8 Establishment of Common Risk Culture in an Organization

Table 4.4.18: Establishment of common risk culture in an organization

	Frequency	Percentage
Use of common risk language	32	100
Regular monitoring and documentation of risk indicators	32	100
Immediate communication	27	84
Frequent training	17	53
Empowerment of risk managers	19	59
Identifying and training internal risk experts	11	34
Aligning risk management with company culture	29	91
Including risk management activities in job description	28	88

Source: Research data

The insurance firms mainly practiced, use of common risk language (100%), regular monitoring and documentation of risk indicators (100%), immediate communication (84%), aligning risk management with company culture (91%) and including risk management activities in job description (88%) in order to create common risk culture in an organization. Other practices included, frequent training (53%), empowerment of risk managers (59%) and identifying and training internal risk experts (34%).

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

This chapter summarizes the findings as well as the conclusions gathered from the analysis of data. Findings have been summarized alongside the objectives of the study, conclusions have been drawn from the study and the recommendations are given.

5.1 Summary of Findings and Conclusions

5.1.1 Summary of Findings

The firms evaluated the risk concentration level as high, simple but costly in the Kenyan insurance industry. The Kenyan insurance industry was vulnerable to economic risks and legal risks to a large extent. However, the industry was also venerable to political risks, technological risks, socio- cultural risks, geographical risks, management risks and personnel risks to a moderate extent. The internal risk managers, the board of directors and the top managers are the parties mainly involved in risk mitigation. However, only a few firms involved the expatriates in handling the risk mitigation activities. Economic risks were mainly mitigated using risk transfer, reduction and risk retention. In mitigating the political risks, risk avoidance and risk reduction were used to a large extent.

Technological risks were mitigated using risk transfer, risk avoidance, risk reduction and risk retention. Legal risks were mainly mitigated using risk avoidance and risk reduction. Risk avoidance and risk reduction were used to mitigate socio- cultural risks. Geographical risks were mitigated using risk avoidance and risk reduction.

Managerial risks were mitigated using risk transfer, risk avoidance, risk reduction and risk retention. To a greater extent, risk transfer, risk avoidance and risk reduction were used to mitigate risks associated with human resources.

The main challenges faced by the firms in risk mitigation were budgetary constraints and inability of sustaining mitigation strategy. Other challenges included lack of appropriate risk identification tools, lack of the right human resources, lack of top management support and inability to understand the nature and implication of risks.

5.2. Recommendations

The insurance firms mainly practiced use of common risk language, regular monitoring and documentation of risk indicators, immediate communication, aligning risk management with company culture and including risk management activities in job description in order to create common risk culture in an organization. Other practices done by a few firms included, frequent training, empowerment of risk managers, identifying, and training internal risk experts.

5.1.2 Conclusions

The Kenyan insurance industry was mainly vulnerable to economic risks and legal risks. However, the industry was also vulnerable to political risks, technological risks, socio-cultural risks, geographical risks, management risks and personnel risks to a moderate extent. These were mainly mitigated using, risk avoidance, risk retention, risk transfer and risk reduction. This implied that all-risk encompassing strategies are required if risk mitigation is to be successful.

The leading challenges that faced most firms in risk mitigation included lack of appropriate risk identification tools, lack of the right human resources, lack of top management support, inability to understand the nature and implication of risks, budgetary constraints and inability of sustaining mitigation strategy.

5.2 Recommendations

Insurance firms are tasked with protecting other organizations from pure risks and to achieve their goal of enhanced returns, they need to reactivate client confidence which had vanished due to evident high exit rates from the industry. Therefore, there is an urgent need for the insurance firm managements to mobilize resources toward mitigating risks which frequently threaten their existence.

Risk management should be regarded as an organization-wide activity if the firms are to induce high standards of competitiveness within the industry. Thus, all employees should be appropriately trained on risk management issues and given necessary facilities in order to fend their firms against pure risks.

Since risk management is quite primary in determining an organization's ultimate effectiveness, insurance firm managements should get deeply involved in the process. This can be actuated through provision of adequate risk management funds, empowering risk managers' potential and linking their firms to outside partners such as Government and Association of Kenya Insurers for the common goal.

The Kenyan Government, through the commissioner of insurance, and in conjunction with the insurers' association should formulate and implement a mechanism that independently regulates the industry without any perceived prejudices and arbitrary law enforcement.

5.3 Limitations of the Study

The study dealt with internal strategies of the firms, which are always confidential to the firm's management and this could have influenced the responses given by the respondents.

The study was designed to conduct an analysis in all Kenyan insurance firms. However, respondents from ten firms did not complete and return the questionnaires. On this basis, only one pure life insurance firm responded, thus did not give an all inclusive presentation of the industry.

REFERENCE

Some firms did not have risk managers who explicitly understood all the aspects reflected in the questionnaires and as a result some inconsistencies were detected but not to an extent of invalidating the study generalizations.

Risks are highly dynamic, hence generalization of this study may not be applicable in the long term.

5.4 Suggestions for Further Research

The study dealt with general risks facing the insurance industry, thus providing base for enhanced research on individual risks in the industry.

The study also only investigated preference levels on different risk mitigation strategies in different firms. In order to achieve a clearer understanding, an in-depth study on individual mitigation strategies could be carried out.

Since risks and their corresponding mitigation techniques frequently emerge, researchers in Kenya with interest in the area could find this study's findings handy in analyzing trends of change in the risk field.

Finally, a comparative analysis could be conducted between Kenyan risk mitigation practices and other economies on the basis of this study's findings. Such analysis would be influential in uplifting internal practices to keep pace with the outside environments.

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APPENDIX I

LICENSED MEMBERS OF THE INSURANCE INDUSTRY

1. Africa Merchants Assurance Co. Ltd
2. A.I.G Kenya Insurance Co. Ltd.
3. APA Insurance Co. Ltd.
4. CFC Life Assurance Co. Ltd.
5. Apollo Insurance Company Ltd.
6. Blue Shield Insurance Co. Ltd.
7. British American Insurance Co. Ltd
8. Cannon Assurance (K) Ltd.
9. Concord Insurance Co. Ltd.
10. Co-operative Insurance Co. Ltd.
11. Corporate Insurance Co. Ltd.
12. Direct Line Assurance Co. Ltd.
13. East Africa Reinsurance Co. Ltd.
14. Fidelity Shield Insurance Co. Ltd.
15. First Assurance Co. Ltd.
16. Gateway Insurance Co. Ltd.
17. Geminia Insurance Co. Ltd.
18. General Accidents Insurance Co. Ltd.
19. Heritage Insurance Co. Ltd.
20. Insurance Company of E.A Ltd.
21. Intra Africa Assurance Co. Ltd.

22. Invesco Assurance Co. Ltd.
23. Jubilee Insurance Co. Ltd.
24. Kenindia Assurance Co. Ltd.
25. Kenya Orient Insurance Co. Ltd.
26. Kenya Reinsurance Corporation Ltd.
27. Kenya Alliance Insurance Co. Ltd.
28. Lion of Kenya Insurance Company Ltd.
29. Madison Insurance Co. Ltd.
30. MayFair Insurance Co. Ltd.
31. Mercantile Life and General Assurance Co. Ltd.
32. Occidental Insurance Co. Ltd.
33. Old Mutual Insurance Company Ltd.
34. Pacis Insurance Co. Ltd.
35. Pan African Assurance Ltd.
36. Phoenix of E.A Insurance Co. Ltd.
37. Pioneer Assurance Co. Ltd.
38. Royal Insurance Co. of E.A.
39. Standard Assurance Kenya Ltd.³
40. Tausi Assurance Co. Ltd.
41. The Mornach Insurance Co. Ltd.
42. Trident Insurance Co. Ltd.
43. UAP Provincial Insurance Co. Ltd.

SOURCE: KENYA ASSOCIATION OF INSURERS (AKI)

APPENDIX II

QUESTIONNAIRE

SECTION ONE: COMPANY PROFILE

Please provide appropriate responses to the following questions:

- 1) Name of company (optional):
- 2) What is the ownership structure of your organization?
 - a) Locally owned ()
 - b) Foreign owned ()
 - c) Both locally and Foreign owned ()
- 3) For how long has your organization been in the Kenyan insurance industry?

	5	4	3	2	1
a) Less than 1 Year					
b) Between 5 – 9 Years					
c) Between 10 – 14 Years					
d) More than 14 Years					
- 4) Range of business transacted

a) Life	()				
b) General	()				
c) Composite	()				
- 5) Number of branches within Kenya:
- 6) Current number of employees in Kenya

	5	4	3	2	1
a) Less than 100					
b) Between 101 – 300					
c) Between 301 – 300					
d) Between 301 – 500					
e) Over 500					

SECTION TWO: RISK MANAGEMENT

7) How does your company view risk?

- a) Opportunity ()
- b) Threat ()
- c) Both ()

Please, give brief reasons for your positions above:.....

.....

.....

8) Does your company have a full time risk manager?

Yes () No ()

9) Please rate the extent to which the risk managers in your firm perform the following duties. (5= Very Large extent, 4= Large Extent, 3= Moderate Extent, 2= Small Extent 1= No extent at all)

	5	4	3	2	1
Identifying the risk faced by the firm					
Measuring the potential effect of each risk					
Determining and monitoring of exposures					
Creating need for risk recognition in decision-making					
Provision of leadership in risk management					
Formulation of risk mitigation strategy					
Coordination of risk management strategy					
Others (specify)					

10) Please rank the following sources of risks according to their frequency of occurrence in your firm. (5= Very Large extent, 4= Large Extent, 3= Moderate Extent, 2= Small Extent, 1= No extent at all)

	5	4	3	2	1
Business partners (interdependency, confidentiality, cultural conflict, contractual risks)					
Competition (market share, price wars, industry trial espionage, antitrust allegations)					
Customers (product liability, credit risk, poor market timing, inadequate customer support)					

Distribution systems (transportation, service availability, cost, dependence on distributors)					
Financial (Foreign exchange, portfolio, cash, interest rate, stock market)					
Operations (Facilities, contractual risks, natural hazards, internal processes and control)					
Regulatory and legislative (antitrust, export licensing, jurisdiction, reporting and compliance, environmental)					
Reputations (Corporate image, brands, reputations of key employees)					
Strategic (mergers and acquisitions, joint ventures and alliances, resource allocation, organizational agility)					
Technological (Complexity, obsolesce, virus attacks, work force skills)					
Personnel (Employees, independent contractors, training, staffing inadequacy)					
Political (civil unrest, war, terrorism, enforcement of intellectual property, change in leadership, revised economic policies)					

11) Corporate, Public and Non-profit entities seek insurance covers to mitigate their risks. From your experience, is the Kenyan business environment supportive to the industry in meeting this obligation?

Yes () No () Partly ()

Reasons:

12) How would you generally describe the concentration level of Kenya's risks the insurers are subjected to?

- a) Very High ()
- b) High ()
- c) Moderate ()
- d) Low ()
- e) No idea ()

13) How easy is it to mitigate risks in Kenya?

Complex and costly () Simple but costly ()

Simple and cheap () Complex but cheap ()

14) Please rate the following identifiable risks within Kenyan insurance industry in accordance with severity levels. (5- Very high 4 - High 3 - Moderate 2 - Low 1 - No idea)

	5	4	3	2	1
Economic					
Political					
Technological					
Legal					
Socio- cultural					
Geographical					
Management risks					
Personnel risks					

15) Who mitigates risks in your firm?

- a) Internal risk manager ()
- b) Expatriates ()
- c) Board of directors ()
- d) Top managers ()
- e) All employees ()
- f) All stakeholders ()

16) Please indicate the reliability of using the following strategies to mitigate against the identified risks: (5= Highly reliable 4= Reliable 3= Moderately reliable 2= lowly reliable 1= not reliable at all)

Economic Risks

	5	4	3	2	1
Risk transfer					
Risk avoidance					
Risk reduction					
Risk retention					

Political Risks

	5	4	3	2	1
Risk transfer					
Risk avoidance					
Risk reduction					
Risk retention					

Technological Risks					
	5	4	3	2	1
Risk transfer					
Risk avoidance					
Risk reduction					
Risk retention					

Legal Risks					
	5	4	3	2	1
Risk transfer					
Risk avoidance					
Risk reduction					
Risk retention					

Socio- Cultural risks					
	5	4	3	2	1
Risk transfer					
Risk avoidance					
Risk reduction					
Risk retention					

Geographical risks					
	5	4	3	2	1
Risk transfer					
Risk avoidance					
Risk reduction					
Risk retention					

Managerial risks					
	5	4	3	2	1
Risk transfer					
Risk avoidance					
Risk reduction					
Risk retention					

Human resource risks

	5	4	3	2	1
Risk transfer					
Risk avoidance					
Risk reduction					
Risk retention					

17) The following are basic suggestions that could help establish common risk culture in an organization. Please rate the extent to which your company practices them. (5= Very Large extent 4= Large Extent 3= Moderate Extent 2= Small Extent 1= No extent at all)

	5	4	3	2	1
Use of common risk language					
Regular monitoring and documentation of risk indicators					
Immediate communication					
Frequent training					
Empowerment of risk managers					
Identifying and training internal risk experts					
Aligning risk management with company culture					
Including risk management activities in job description					

18) What challenges face your company in risk mitigation?

	Yes	No
Lack of appropriate risk identification tools		
Lack of the right human resources		
Lack of top management support		
Inability to understand the nature & implication of risks		
Budgetary constraints		
Inability of sustaining mitigation strategy		

SECTION THREE: RECOMMENDATIONS

19) What would you recommend to the following authorities on boosting the Kenyan insurance sub-sector's risk management effort?

Government:

.....
.....

Commissioner of insurance:

.....
.....

Association of Kenya Insurers:

.....
.....

Others (specify):

.....
.....

Thank you for your contributions.