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THE INFLUENCE OF RISK RESPONSE STRATEGIES ON PERFORMANCE OF INSURANCE COMPANIES IN NAIROBI COUNTY, KENYA

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ABSTRACT

The study sought to investigate how risk response strategies influence the performance of insurance providers in Nairobi County. The following objectives served as the study's guiding principles: to determine the influence of risk transfer on the performance of insurance firms in Kenya; to evaluate the influence of risk reduction on that performance. The purpose of the study was to understand how each independent variable influences the dependent variable and to assess the link between risk response methods. The study adopted descriptive research design and the sample size of 241 was determined using Taro Yamane's formula and the respondents were top tier management level, risk managers and risk officers who were chosen using stratified and purposive sampling. Pilot study was carried out using 10% of the sample size. Structured questionnaires were used to collect primary data while performance was measured by collecting secondary data and SPSS version 26 was used to analyze data. Descriptive such as mean, frequencies, standard deviation, and percentages were used to profile major patterns emerging from the data. The relationships between the variables were determined using inferential statistics. The regression analysis was used to gauge the intensity of the association between the independent and dependent variables, while the correlation coefficient was used to gauge the link between the independent and dependent variables. Data was presented in form of tables, graphs. The findings established that risk response strategies had a positive and significant influence on performance of insurance companies in Nairobi Kenya. The study recommended that insurance companies to capitalize on the use of risk reduction and risk transfer strategies since they have a strong and positive influence on performance. Since risk transfer had the highest influence on performance of insurance companies in Nairobi County, the study recommends the enhancement of cooperation of insurance companies in undertaking risky insurance contracts as well as broadening scope of reinsurance portfolio undertaken with reinsurance companies.

Key Words: Risk Response Strategies, Performance, Insurance Providers, Risk Transfer, Risk Reduction

Background of the study

Sraders (2019) defines risk as the possibility of an outcome not being as expected especially returns on financial investments. Risk can occur in different forms, it could be investment risk, inflation risk, business risk, market risk, and even liquidity risk. Risk opens the probability that a result will not be as anticipated. Generally, people, businesses, or nations run the danger of losing all or part of their investment whenever risk is concerned. Risk can also be defined as the degree of unpredictability an investor is able to accept about the potential returns on their investment. Business risk refers to a company's exposure to a variety of variables, such as competition, consumer preferences, and other considerations that could reduce profitability or jeopardize the company's success. Every business that enters a market is subject to business risk because there are many variables that could have a negative influence on profitability or even cause the business to fail, such as governmental laws or the general state of the economy. (Sraders,2019).

Risk response is the process of identifying, assessing, and controlling risks to the assets and earnings of a company. These risks can be caused by a wide range of factors, including financial irrationality, legal obligations, technology issues, poor strategic planning, mishaps, and natural disasters. (Tucci, 2023) Risk response is crucial for enhancing financial performance and hence growth of organizations (Okotha, 2003).

Standard & Poor's (2013) claims that insurers are risk-bearing organizations that occasionally fail due to improper risk management. Poor risk management by insurance companies results in the buildup of client claims, which increases losses and results in poor financial performance (Magezi, 2003). The risk-taking behaviors of managers have an influence on risk response actions. Organizations can lower their risk exposure and improve their financial performance with the use of a strong risk response framework (Iqbal and Mirakhor, 2007). According to Merton (2005), an insurance company's primary duty is to spread risk among various participants. Cornett and Saunders (2008) emphasized this argument by claiming that insurance companies are in the risk response business by undertaking risk carrying out management and bearing duties on behalf of their clients. The foundation of the operations ought to be risk. The degree of knowledge, the policies employed when confronting risks, and the issues encountered when implementing risk response in a construction project were all examined in a study by Yusuwan, Adnan, and Omar (2008). Conclusion: Risk response has an influence on project finances, production, and efficiency, and it is advantageous for projects with particular features, such as those involving new technology.

A risk response strategy is a set of guidelines for dealing with a specific issue. The purpose of a risk response strategy is to reduce a negative risk, also known as a threat, to a person or corporation. Depending on the organization or person, a threat may be defined differently, but generally speaking, a threat is something that has the potential to be harmful. Natural disasters, precarious financial conditions, data breaches, and product recalls are some hazards that may need the deployment of a risk response strategy. A risk response strategy may occasionally attempt to capitalize on a favorable risk, also referred to as an opportunity. An opportunity is a future situation or event that could be advantageous to a person or company. There are four basic risk response strategies for dealing with identified hazards: avoidance, transference, minimization, and acceptance. Each technique has advantages and disadvantages depending on the type, likelihood, and impact of the risk.

The Kiochos (1997) risk response process is mostly used by insurance companies. Kiochos (1997) asserts that the risk response method entails four steps: identifying potential losses, analyzing potential losses, choosing efficient risk response strategies for mitigating loss exposures, and implementing and managing the risk response program. According to Kimball (2000), risk

response is an activity carried out by humans that comprises risk identification, risk assessment, risk response strategies, and risk mitigation employing managerial resources. In general, an effective risk response approach allows a company to limit its risk exposure and plan for survival in the event of an unanticipated disaster.

Statement of the problem

According to Business Monitor International, (BM1) The Kenyan insurance sector contributes the lowest to its GDP as compared to other African countries. Kenyan insurance sector contributes only 6.64% as opposed to South Africa which contributes 15.9% and Malaysia which has 41% of its population utilizing insurance.

According to the World Bank, the insurance company assets to the GDP percentage in Kenya was reported to be at 6.639% in the year 2019.This might have gone higher overtime. The insurance industry, contributes immensely to the economy of the country. Other than providing safety and security to its members, it generates financial resources that are gainfully employed in industrial development of a country, offers loss mitigation, financial stability and profitable investments out of accumulated wealth. (Chand 2022).

Inflation was named as the top challenge for 2023 by more than one-third of insurance sector insiders, According to Kenya National bureau of Statistics, The average monthly rate of inflation affecting the insurance sector was reported to be at 9.6%. Global Data survey, also reported other important issues like digitization, climate change, legislation, COVID-19, cybercrime, and geopolitics were far behind it. Because insurers already experience inflationary pressure in the cost of running their businesses and because claims expenses will increase as a result of higher costs for goods and labor, inflation is a serious threat to them. People have less disposable income than ever because of the rising cost of living and stagnating earnings, whereas insurers would typically pass on greater claims costs to customers by raising premiums. Because of this, insurers will find it challenging to implement premium rate hikes without incurring losses. (Carey, 2023). For the insurance sector to maintain its position in the turbulent business environment, it has to employ strategies that ensures that it remain afloat and ahead of competition. Schumpeter argues that firms need to be proactive to respond to turbulent business environments that disrupt performance of a business.

Several studies show that Risk response strategies have been applied in different sectors, for instance, Matinde & Atikiya, (2023), studied risk responses on performance of oil marketing firms in Nairobi County Kenya. The study discovered that the organizational performance of oil marketing companies in Nairobi County was significantly influenced by innovative response methods and risk response strategies. Bhoola et al. (2014) conducted research on an evaluation of risk response techniques used in Indian software projects. The study identified risk mitigation, avoidance, transfer and acceptance as major forms pf risk response strategies which led to effective completion of the project's quality, cost, and scope objectives. Ahmadi-Javid et al. (2020) investigated a technique for project portfolio management risk response planning. From the empirical evidence risk response strategies have been used across the globe in different sectors, the studies have however not touched much on how risk response strategies effect performance of insurance companies in Kenya. Since there is a void, our study aims to fill it.

Research objectives

The research was guided by the following research objectives:

i. To establish the influence of risk transfer on the performance of insurance firms in Nairobi County, Kenya

ii. To assess the influence of risk reduction on the performance of insurance firms in Nairobi County, Kenya

LITERATURE REVIEW

Theoretical framework

Modern Portfolio Theory

A financial theory called the Modern Portfolio Theory (MPT) enables investors to create an asset portfolio that maximizes expected return for a specific level of risk. Markowitz's Portfolio Selection theory, first put forth in 1952, and William Sharpe's contributions to the theory of financial asset price formation, first presented in 1964 and later known as the capital asset pricing model, make up modern portfolio theory. The hypothesis states that it is possible to construct an influenceive frontier of optimum portfolios that offer the maximum expected return for a specific level of risk. Market risks have a significant influence on performance, according to studies that support current portfolio theory (Kim et al., 1995; Pervan & Pavic', 2010; Shiu,2004). This study examines the performance of several insurance companies and how they manage their investment portfolios. According to the hypothesis, for a given amount of expected return, investors would always choose the portfolio with lower risk. An investor must be compensated for a higher level of risk by larger expected rewards. The basic tenet of diversification, which MPT implements, holds that having a portfolio of assets from various classes is less risky than doing the same with a portfolio of equivalent assets. Investors build portfolios in an effort to maximize expected return on investment while taking on as much risk as they are willing to. Efficient portfolios provide the greatest expected return for a given standard deviation, investors are assumed to be risk averse in this way some risks can be easily avoided to ensure there is no harm to both parties that is the insurance firms and the clients. The theory relates to the objective of study on risk reduction strategies

Credit Risk Theory

According to Liu, Mirzaei, and Vandoros (2014), credit risk is the possibility of suffering a financial loss as a result of a decline in the creditworthiness of a counterparty in a financial transaction. Credit risk originates from default risk, which is the chance that a counterparty will break a contract. The lender bears the majority of the risk, including lost principal and interest. Total or partial disruption loss can occur in a variety of conditions, including when a bank goes bankrupt and is unable to repay customer deposits. Structural credit risk models were first introduced in the works of Black and Scholes (1972, 1973) and Merton (1973, 1974). When a company's assets are worth less than its debt (based on the capital structure theory of Modigliani and Miller, 1958), structural models claim that a default has occurred. Black and Scholes (1973) demonstrate that call options on stock have indirect influences on debt value by using an options pricing model to price debt and equity. Building on their research, Merton (1974) demonstrates that, under specific conditions, it is possible to determine the asset value and use it to compute the likelihood of default, or what he refers to as the distance to default. The fundamental theory of credit risk was first introduced by Robert Merton in 1974 with his theory of default or default model. Robert offered a model that defined a firm's shares as a call option on its assets in order to assess the credit risk of the company. The two fundamental methods for modeling credit risk are the structural approach and the intensity-based approach, commonly referred to as the reduced form approach. Based on the Merton model, Clifford V. Rossi proposed three key methods for assessing credit risk. Examples of these include loss distribution produced by Monte Carlo simulation, credit spreads, and credit portfolio management. The lender may run a credit check on a prospective borrower, demand that the borrower obtain proper insurance, such as mortgage

insurance, or look for third-party security or guarantees in order to reduce the lender's risk. According to Owojori, Akintoye, and Adidu (2011), the riskier the situation, the greater the interest rate that debtors must pay on their debt. According to this theory, risk is transferred from one party to another via an insurance contract, which is most commonly between the policyholder and the company. Depending on the type of insurance coverage chosen, the policyholder pays periodic payments to the insurance company known as premiums in exchange for bearing the risk. To guarantee they can always satisfy the claims of the insured in the occurrence of a loss, the insurance firms can also transfer risk to reinsurance companies. As a result, this theory becomes pertinent to the research because of how it connects to the variable of risk transfer.

Conceptual Framework

The conceptual framework is a collection of concepts and theories that provides the study's direction and sheds light on the relationships between the variables being studied (Mugenda, Mugenda 2003). The conceptual framework explains how the independent and dependent variables are related. Risk transfer, and risk reduction are the independent variables. The performance of insurance businesses is the dependent variable.

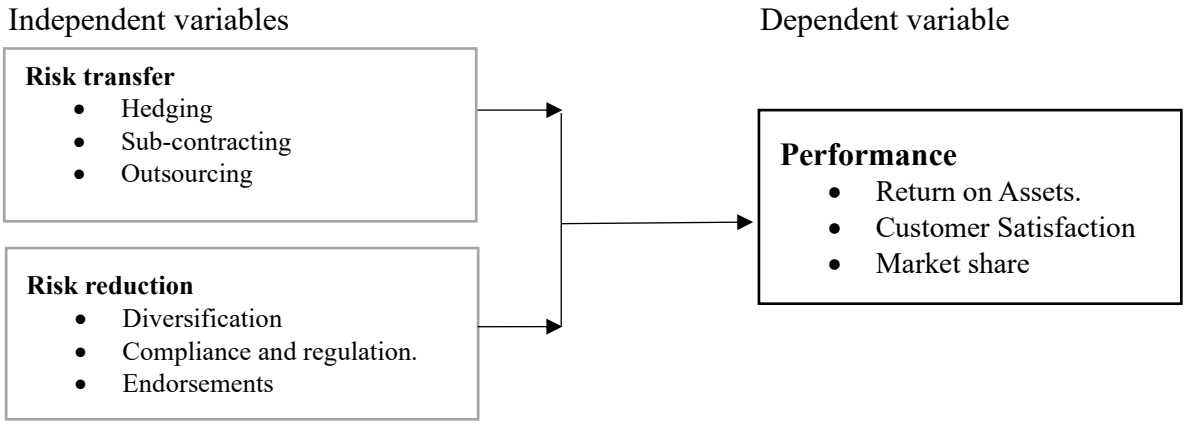

Figure 2.1. Conceptual Framework

Source; researcher, (2023)

Risk Transfer

Risk transfer is a method is used by insurance companies to shift the risk of a loss to a different person or entity that can handle the damage (Kokobe and Gemechu ,2016). An insurer uses the reinsurance approach to shift the remaining portion of the risk to the reinsurer who would compensate him while keeping the manageable portion. Both Naik and Ayali concurred that insurance companies can assign risks to those who are most suitable to bear them by utilizing a reinsurance strategy. This could lower losses for the first insurer and boost financial performance. (Kokobe and Gemechu ,2016).

Pott (2008) argued that this risk may be passed to parties that could adequately handle it. Depending on the specifics of the hazards, he claims that risk can be shifted to a variety of players, including the client, subcontractor, contractor, designer, and insurer. He added that this might lead to more work and a rise in what is known as the premium. When risk cannot be handled by the project management team, Darnall & Preston (2010) claim that shifting risks is the only option. There are instances when a situation includes unforeseen disasters that are uncommon in some circumstances. Since unpredictable disasters are outside of our control, they should be covered by insurance plans (Winch 2002).

According to William (1998), risk transfer implies exchanging risks with other parties. Risk transfer can take place between organizations, between businesses and insurance companies, the insured and insurance companies, and insurance companies and reinsurance companies. Insurance companies insure their risks with reinsurance companies as part of a risk-transfer method known as reinsurance. A risk-transfer approach known as multiple insurance coverages combines several insurances into one contract to cover very high risk. Contrarily, group life insurance covers a complete uniform group under a single contract.. Insurance companies can diversify their risk exposures thanks to risk transfer, which also lowers capital costs and increases the amount of insurance available. (Maksimovic and Vladimir, 2009)

Risk Reduction

One of the four fundamental ways to managing risk that, when used in conjunction with other methods, can help a person or organization influenceively manage the risk of suffering a loss is risk reduction. (Stulz,1984). Risk reduction is the method by which an insurance company or other organization can lower its financial losses by putting in place safeguards that lessen the financial influence of potential losses. Techniques can be things that stop specific risks from happening, lower the frequency or number of times that risk can happen, or even lessen the harm done when a loss unavoidably happens. Kaplan and Mikes (2014). Risk minimization is a risk response tactic that aims to reduce a loss's financial influence to the least possible extent. This entails reducing the influences of a loss, cutting down on how often it happens, or increasing the likelihood that it won't happen at all.

Utilizing methods to lessen the influences of a loss is part of a risk mitigation approach (Lambiano, 2019). This is mostly accomplished through an organization's internal policies and procedures that are adequate and ensure that risk exposures are kept to a minimum. It works best when the frequency of recurrence is high but the severity of loss is low (Moriasi, 2007).Strategies for reducing risk include offering advisory services to the insurance to lower the likelihood that the risks will materialize, deducting a certain amount having independent assessments by experts prior to accepting risk and paying claims, making any deletions, additions, or other changes to the original contract (referred to as endorsements), and finally from a loss that is not covered by the insurance (deductible).

Performance

According to Daft (2000), organizational performance refers to a company's capacity to use resources influenceively and efficiently to achieve its goals. Organizational performance has three components: economy, efficiency, and influenceiveness (Chien, 2004). Economy refers to the capacity to acquire adequate inputs in terms of quality and quantity at the lowest cost. Maximizing output from a particular input is efficiency. Hansen and Wernefelt (1989) identified two models of firm performance that affect organizational performance. First, is the organizational model, which emphasizes elements like human resources, corporate culture, and leadership philosophies. The second is the economic model, which identifies factors of organizational performance as industry features, resource value, and a firm's position in relation to its rivals. (Thuku, 2012) A combination of financial and non-financial metrics are used to assess how influenceively organizations are operating. The three primary foci of financial performance are profitability, solvency, and liquidity (Muia, 2016). Non-financial factors that contribute to success include service delivery, quality, dependability, customer satisfaction, and product or service quality (Karanja, 2017). An organization's performance can be clearly shown using a combination of monetary and non-monetary metrics. The influenceiveness of a company's performance in achieving its objectives can be determined (Cascio, 2006). In order to align internal strengths with external opportunities,

organizations develop strategic objectives after carefully analyzing their internal and external environments opportunities that will be used to gauge performance. According to Porter (2008), business performance refers to the actual output or results compared to the expected outputs. Organizations aim for performance that strengthens sustained competitive advantage. This performance continues to depend on tactical choices made within the anticipated context, and any change in the environment could result in performance that is not what was anticipated.

Empirical Review

Risk transfer and performance of insurance companies.

According to Kimani & Kirui (2018), risk transfer had a substantial influence on how well construction projects in public secondary schools performed. Secondary public schools in Kenya's Murang'a County were the subject of an investigation on the risk transfer method and project performance. The data from the study, along with the descriptive research methodology, were evaluated using descriptive statistics. The study's results also showed that strengthening risk transfer channels will improve the efficiency of construction projects. In his study on how risks are shared and distributed between clients and contractors in Dutch Project Alliances, Koolwijk (2015) came to the conclusion that the majority of risk factors are challenging to foresee during the planning and design phases of construction. In order to influenceively control some risks, he also noted that multiple contracting parties must work together. Additionally, they discovered a list of 16 dangers that may be managed jointly. In two different project partnerships, Koolwijk (2015) also looked on the risks that were shared between a client and a contractor. The results of the analysis revealed that the risk factors and those mentioned by Kumaraswamy and Rahman were substantially similar. (Kimani and Kirui 2018)

Istemi et al, (2016) studied relationships between stakeholders and risk transfer in public-private partnerships. As part of the multi-stakeholder approach, semi-structured interviews were conducted with a number of stakeholders. According to the study, such risk sharing between the public and private sectors may be necessary to guarantee the fundability of PPPs and minimize the level of uncertainty. The best way to transfer risk in the construction business, which can have the influence of minimizing expensive and contentious conflicts, is through the use of construction contracts and design, according. (Bryan and Shapiro 2006) They contend that this does not necessarily result in an influenceive risk response approach since the stronger party has a tendency to transfer unwanted risks that it does not like to bear on the weaker side. In addition, poor risk allocation can have an influence on both stronger and weaker parties. Bryan and Shapiro also support the idea that assigning risk to the party best able to handle it will lead to more lucrative, successful projects and, as a result, enhance the performance of construction projects. (Kimani and Kirui 2018).

Lambaino (2019) wanted to know how the supply chain resilience was affected by the risk transfer mechanisms used in Kenya's petroleum industry. The Energy Regulatory Commission (ERC)-licensed 87 oil marketing enterprises made up the target population. Depot managers and logistics managers furnished the fundamental data that led to the conclusion that performance was strongly influenceed by the transfer of risks to third parties through partnerships, insurance, and outsourcing. Reinsurance was analyzed by Aduloju and Ajemunigbohun (2017) as a risk transfer technique and the performance of insurance companies in Nigeria that transfer entire risk to reinsurance companies. Performance was assessed using the ratio of reinsurance recovered to surplus of policyholders, return of equity, ceded ratio, return on asset, and return on asset ratio. Purposive sampling was used in the study along with descriptive research. 56 insurance businesses made up the population, and 248 respondents provided the primary data. Published fiscal annual reports for the years 2014 and 2015 also provided information. The study found that purchasing

reinsurance, which stabilizes loss experience, lowers the insolvency risk faced by insurance businesses. (Anne and Thuku, 2021).

Risk reduction and performance of insurance companies.

Kokobe and Gemechu (2016) used a descriptive research technique and regression analysis to analyze risk response methods and the financial performance of insurance enterprises in Ethiopia. The study included both primary and secondary data and came to the conclusion that there was a significant association between the factors. Risk reaction has a huge influence on the financial performance of Ethiopian insurance businesses, further indicating that financial performance and risk response are not associated from the regression study. Risk reduction uses preventative measures to minimize the occurrence of a particular loss also reducing the frequency of the loss from occurring, insurers give advice to clients on prevention measures.

Okumu and Wanjiru (2017) investigated the influence of risk control strategies and performance of regulated motor insurance companies in Kenya: A case study that analyzes the data utilizing descriptive survey research techniques and inferential statistics. The study discovered an association between risk control approach and regulated motor insurance businesses' performance that was both favorable and substantial, and that the insurance industry should use more risk reduction strategies to improve their performance. Risk reduction is therefore a vital strategy that should be implemented in organization to ensure they perform adequately.

Sofia and Augustine (2019) investigated two variables enterprise risk response and hybrid strategies to identify the most influential barrier towards organizational performance. Their study on whether risk response and hybrid strategy affect organizational performance using a descriptive approach found that enterprise risk response can influenceively reduce risks for companies that are willing to ensure they develop a more structured risk response strategy that can be flexible in the dynamic environment, implementation of the strategies being a main problem. They argued that enterprise risk response is not related to financial performance and risk response alone cannot ensure the profitability of a firm.

Amemba (2013) conducted study on the influences of supply chain risk reduction techniques on the operation of the Kenya Medical Supplies Agency (KEMSA). The study used an examination of descriptive data and a census approach. A sample of 28 supply chain employees from KEMSA was taken. According to the report, KEMSA's supply chain performance was significantly influenceed by risk reduction measures such as defining product criteria, establishing quality assurance standards, mandating testing and inspection, and offering third-party guarantees. The results were based on a case study, hence it is difficult to generalize the results to other industries.

RESEARCH METHODOLODY

A descriptive research design was used for the investigation. The study's target population was the 55 insurance companies that have been granted IRA licenses. The respondents were executive management, risk managers and risk officers of the insurance companies. The sample frame was drawn from executive management, risk managers and risk officers that are first hand concerned with risk response practices in the registered insurance companies. Insurance companies in Kenya will make up the study's sample.

A sample size of between 10% and 30% could be deemed reliable in a study to reflect the complete population, according to Vasileiou et al. (2018) and Mugenda and Mugenda (2003). Taro Yamane Formula was used to determine the sample size since it provides a simplified method of calculating the sample size. The study applied stratified and purposive sampling technique to select the relevant risk personnel to participate in the study. Stratified and purposive technique was suitable

because it is flexible and adequately helps in achieving the study objectives. The study used a semi-structured questionnaire to collect primary data due to the technical nature of the material and the requirement to assure the validity of responses from the intended respondents within a realistic time and budgetary constraint. Regression analysis was also used in the study to ascertain the relationship between the independent and dependent variables. Regression and correlation analysis, two inferential statistics techniques, were utilized to determine how risk response affects the performance of Kenyan insurance companies. The response on risk response was measured by computing indices based on the responses derived from the Likert-Scaled questions. The study adopted linear equation model as presented.

RESERCH FINDINGS AND DISCUSSIONS

For the final research, the study administered 217 questionnaires for the purpose of collecting data. From that,185 were dully filled and returned giving a response rate of 85.25% Mugenda and Mugenda (2018) suggested that 50% response rate is adequate to give viable results,60% is good while 70% and above is very good response rate therefore 85.25%was excellent for analysis and giving reliable results for the study.

Descriptive Analysis

Risk Reduction

The first objective of the study was to establish the influence of risk Reduction on the performance of insurance firms in Nairobi County, Kenya The respondents were presented with 6 items. A Likert scale was used where the responses were coded as follows: 1=Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5 = Strongly Agree.

Statements	Mean	SD
Any deletions, additions or modifications made by the company to the original contract changes either the terms or the scope of the policy	4.216	0.736
The company provides advisory services to clients on additional measures to take to reduce severity of loss	4.183	0.734
The company subtracts certain amounts of money of loss when the risks actualize for certain risks	4.361	0.816
The company offers training and advisory services to its policy holders	3.718	0.641
The company conducts trainings that allows allowance for change in policy holding.	4.011	0.747
The company conducts pre- independent assessment of risks and losses	4.231	0.831
Average score	**4.12**	**0.751**

The total aggregate mean score of this section was found to be 4.12 with a standard deviation of 0.751signifying that on average, managers confirmed that risk reduction strategies affected organizational performance. The results indicate that organizational performance is highly dependent on pre -independent risk assessment (Mean =4.231: SD=0.831) Policy scope modifications (Mean= 4.216; SD = 0.736) and clients advisory (Mean =4.183:SD=0.734). This implies that insurance companies require pre- independent risk assessment to provide additional evidence that will be used to ascertain the extent of risk as well as the status of the insured. Pre – independent risk assessment is usually done by third parties who are well known to provide unbiased inspection reports who include valuers, hospitals and government agencies.The findings further indicate that training and advisory services to policy holders (mean 3.718; SD 0.641) has the lowest influence on the performance. This indicates that in the Kenyan context and specifically in the insurance companies, additional training and advisory services to policy holders is of little

significance on performance. This could imply that by the time the insured undertakes the cover, they are willing to adhere to the conditions of the contract and well Informed of their choices. The insured compliance to policy scope changes is not likely to be affected as long as the matters in questions are justifiable such as scope changes arising from macro – economic variables such as interest rate, inflation, taxation among others.

The findings support those of Njeri (2014) who determined that organizations can enhance performance through use of reduction strategy. The findings further agree with the findings of Kokobe & Gemechu's (2016) which stated that Risk reduction uses preventative measures to minimize the occurrence of a particular loss also reducing the frequency of the loss from occurring, insurers give advice to clients on prevention measures.

Risk Transfer

The second objective of the study was to establish the influence of risk transfer on the performance of insurance firms in Nairobi County, Kenya the respondents were presented with 5 items. A Likert scale was used where the responses were coded as follows: 1=Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5 = Strongly Agree.

Statements	Mean	SD
Insurance derivatives are used to transfer risks to capital market investors	3.671	0.716
The company insures its risks with reinsurance companies	4.367	0.735
The company has infrastructure in place to offset potential losses	4.233	0.631
For very high risks, the company partners with other insurance companies to cover the risk under one contract	4.413	0.767
The company uses group insurance products to manage risks between individuals belonging to a homogenous group under one contract	3.856	0.781
Average score	**4.11**	**0.726**

The total aggregate mean score of this section was found to be 4.11 with a standard deviation of 0.726 signifying that on average, managers confirmed that risk transfer strategies affected organizational performance. The results indicate that organizational performance is highly dependent on risk reinsurance (Mean score=4.367:SD=0.735) and partnerships on high risks (Mean =4.413:SD=0.767). This depicts that insurance companies are expected to spread risks with other companies to minimize incidences of great losses and enhance their sustainability. The IRA requires reinsurance, and sensible insurance management must comply with it (IRA, 2013). Spreading risks in the insurance industry is crucial to ensuring that if the number of claims increases significantly, the insurance firm remains a continuing concern. Findings are consistent with Wabomba (2015) who established that outsourcing and contractual agreements had a positive influence on performance.

The findings further indicate that group insurance products (Mean=3.856:SD=0.781) and insurance derivatives (Mean=3.671:SD=0.716) have the lowest influence on the organizational performance. This signifies that Kenyan context and specifically in the insurance companies, group insurance products and insurance derivatives have a minimal influence on organizational performance. This can be linked to the fact that Kenya's derivatives market is still in its infancy, and hence the bulk of insurance managers have yet to explore insurance derivatives. Group insurance product is yet to be adopted by a majority of Kenyans except for medical insurance products which are widely taken up by organizations for their employees covering 24.5% of the total Kenyan population (IRA,2019).

Performance of Insurance Company

Organization; Overall insurance companies					
	2017	**2018**	**2019**	**2020**	**2021**
ROA (x/y)	**9.35**	**3.00**	**12.71**	**3.68**	**8.91**
Market share Index	**2.57**	**2.43**	**2.37**	**2.30**	**2.92**

Data Source; Association of Kenya Insurers.

From the results, insurance company has been faced with inconsistency in their performance. Major decline in the performance of insurance companies happened in 2020 which was due to the covid- 19 pandemic. Thereafter, the sector has experienced an upward trajectory.

Inferential Analysis

Regression Analysis

The study conducted a multivariate regression analysis so as to determine the significance of the relationship between the dependent and the independent variables. The regression model was as follows. The model shows that there is a positive influence between, risk reduction and risk transfer and performance of insurance companies in Nairobi County.

Regression Coefficients

Table 4: coefficients

Coefficients[a]	Unstandardized		Standardized	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.078	0.606		0.129	0.898
Risk Reduction	0.353	.145	.331	2.425	0.012
Risk Transfer	0.573	.147	.472	3.887	0.000

a. Dependent Variable: Performance
b. Predictors: (Constant), Transfer, Reduction

$Y= 0.078 + 0.353X_1 + 0.573X_2$

A unit increase in Risk reduction corresponds to a 0.353 rise in insurance firm performance in Nairobi County, whereas a unit increase in Risk transfer leads to a 0.573 increase in insurance firm performance in Nairobi County.

Analysis of Variance

The analysis of variance was used to examine whether the regression model was a good fit for the data. The F-critical (4, 55) the F-calculated was 11.37 as shown in Table below. This shows that F-calculated was greater than the F-critical and hence linear relationship between the Risk response strategies and performance of insurance companies In Nairobi County, Kenya. In addition, the p-value was 0.000, was less than the significance level (0.05). Therefore, the model can be considered to be a good fit for the data and hence it is appropriate in predicting the influence of the four independent variables on the dependent variable.

Table 5: Anova

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	7.234	4	1.809	11.37	.002[b]
Residual	8.749	55	.159		
Total	15.983	59			

a. Dependent Variable: Performance
b. Predictors: (Constant), Risk Transfer, Risk Reduction,

Model Summary

Table 6: model summary

Model	R	R squared	Adjusted Rsquare	Standard error of the estimate
1	.673	.453	.413	.3988

a Predictors: (Constant), Transfer, Reduction
b. Dependent Variable: Performance

The table above shows the R – Squared and also the significance level of the model. The model is significant at a confidence level of 95% since the P – Value is 0.00 and hence >0.05. There is a considerable positive correlation between the dependent and independent variables. The R value of 0.673 indicates a perfect link between the dependent and independent variables. Based on the R – Squared, the model is able to explain 45.3% of the changes in the dependent variable. The other 54.7% of changes in organizational performance of maybe clarified by other independent variables that were not used in the current study model.

Conclusion of the study

Risk reduction measures has an impact on the organizational performance of insurance businesses. The study concluded that the P-value for risk reduction indicates that this predictor variable is statistically significant at a 95% confidence level. The coefficient thus indicates that there is a positive relationship between insurance company performance and risk reduction, and that increasing risk reduction will lead to an improvement in insurance company organizational performance. The study revealed that endorsements, advising services, deductibles, and independent assessment procedures had a good and significant impact on the performance of insurance businesses in Nairobi County.

The study established that the P – value of 0.000 for risk transfer, indicates that this predictor variable is statistically significant at 5 percent level of significance. Therefore, conclude that risk transfer is statistically significant in affecting organizational performance of insurance businesses within Nairobi County. The coefficient for risk transfers implied that risk transfer techniques had a favorable impact on the performance of insurance businesses, therefore a rise in risk transfer will result in an increase in insurance companies' organizational performance. The study indicated that insurance derivatives, reinsurance, multiple insurance coverage, and risk group insurance methods had a favorable and significant impact on the performance of insurance companies in Nairobi.

Recommendations

Finally, with reference to the third and fourth objective, the study recommends insurance companies to capitalize on the use of risk reduction and risk transfer strategies since they have a strong and positive influence on performance. Since risk transfer had the greatest impact on insurance company performance in Nairobi County, the study recommends that insurance companies improve their cooperation in entering into risky insurance contracts, as well as broaden the scope of their reinsurance portfolios with reinsurance companies. The government should

strengthen the derivatives market and IRA through training and sensitization on use derivatives as an avenue of risk transfer to enhance performance of the industry

Areas for further research

Further research can be carried out on the specific objectives each as a main variable of the study. Since the variables of the study only account for 45.3% of the dependent variable, further research can also be carried out using other variables that were not included in the study which accounts for 54.7%. In addition, researchers could also study challenges faced in the implementations of risk management strategies by other industries within the financial sector. The study can also be carried out in a different geographical scope.

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