



# **UGANDA CHRISTIAN UNIVERSITY**

**EFFECTS OF BUSINESS RISK ON PERFORMANCE OF INSURANCE:**

**A CASE STUDY OF PAX INSURANCE COMPANY LIMITED**

**BY**

**KENNETH KIPTUM TANUI**

**REG NO: EKJ22B05/055**

**A DISSERTATION SUBMITTED TO UGANDA CHRISTIAN  
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**DECLARATION**

I Kenneth Kiptum Tanui, declare that this is my original research report that has never been submitted to any other institution of learning for any award.

Signed: ..... *K Tanui* .....

Date: *15/09/2023* .....

**Kenneth Kiptum Tanui**

**REG NO: EKJ22B05/055**

*APK*  
*20th September 2023*

**APPROVAL**

I certify that this report was prepared by Kenneth Kiptum Tanui under my supervision and is ready for submission with my approval.

Signed: ..... *Natuhwera* ..... Date: *20<sup>th</sup> September 2023* .....

**MS. NATUHWERA MAUREEN K-TAKANA**  
**(ACADEMIC SUPERVISOR)**

## **DEDICATION**

I dedicate this report to my beloved wife, parents, my sons and daughters together with my brothers, sisters and friends for their heartfelt support, prayers, love and guidance and above all to the almighty GOD.

## ACKNOWLEDGEMENT

I extend sincere thanks to a number of people who provided super-abundant help towards the accomplishment of this research work. I would like to acknowledge the assistance and role played by the following personalities to the successful completion of this study.

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*May the Almighty God reward them all*

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## ACRONYMS AND ABBREVIATIONS

AKI : Association Kenya Insurers

FSD : Financial Sector Deepening

GDP : Gross Domestic Product

ICR : Interest Coverage Ratio

RIA : Regulatory Impact Assessment

ROA : Return on Assets

## ABSTRACT

The research study aim was to establish the effects of business risk on performance of insurance with specific objectives being; to determine the effects of financial risk management on performances of Pax insurance company limited; to establish the effects of operations risk management on performance of Pax insurance company limited; to establish the effects of risk monitoring on performance of Pax insurance company limited; to determine if insurance firms liquidity effect on performance of Pax insurance company limited. The study will add to the body of literature and researches shall be able to use this research study as a reference to what they will do in future not forgetting that it was used as a source of literature review to their studies. 47 respondents were chosen through random sampling that was stratified. The researcher used secondary information sources which were obtained through reading relevant literature available in the library, various documents, publications and reports including, journals, and magazines. The research questionnaires were administered by the researcher himself respondents Data was analyzed through frequency and descriptive statistics.

Data was presented with aid of graphs and pie charts and graphs. The study had the following recommendations based on study findings management of Pax insurance company limited should embrace the use of risk identification process to assist in business risk management in ensuring that prospects are maximized and increase in financial performance. The study conclusion is that insurance firms that poorly manage their risk are always faced with accumulations of claims which lead to increased losses and hence poor performance. Business risk management actions are affected by managers risk behaviour, a robust business risk management framework can help companies reduce their exposure to risks and enhance organization performance. Organization that select a particular risk tool tends to be associated with the firms calculative culture that measures attitudes that managers displays towards the use of business risk models

## CHAPTER ONE

### INTRODUCTION

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

#### **1.1 Background of the study**

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

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

Merton (2005) indicated that the central function of an insurance firm is the ability to distribute its risk across different contributors. This idea is also echoed by Cornett and Saunders (2008) who also stated that insurance firms are in a risky management business and they do discuss that insurance firms undertake risk bearing and management function on behalf of the clients through pooling of risks and sale of their services as risk specialist, therefore management of risks should take the center stage in the operations of insurance firms. Insurance firms borrow heavily from the risk management process which involves four steps: process identification of potential losses, evaluation of potential losses, choosing appropriate risk management techniques for treating loss exposures and administering and implementing the risk management program. Kimball (2009) agrees that management of risk integrates recognition of risk assessment and developing strategies to manage it and mitigation of the risk in order to reduce its exposure and prepare for survival after any unexpected crisis. In the last decade investors and financial institutions have profited from improved unpredictability in financial, technology revolution which has resulted in the way organization operates marketplaces, information access is on increase, investor being provided with market changes and financial distribution changes (Crouhy, 2006).

However financial institutions and other organizations are paying much more attention in the ability to manage business risk and have good programmes of risk management as important part of CSR and insurance firms are considered as mirror to financial stability of a nation (Adrian, 2014). Notwithstanding the known advantages of having business risk management to the best of the study there are no known studies that the researcher is aware of on the subject under study in Uganda, therefore there is information gap to be filled by the study.

## 1.2 Statement of the problem

Insurance company's core business is of managing risks. According to Anthony (2007) insurers are in the risk business that involves providing insurance and other financial services which assumes both financial risk and actuarial risk. The business risk arises from funds that are collected from various insurance policies and other liabilities. When insurance firm invest funds in trade securities it always expect to

have on average a zero net economic profit on those securities, therefore if the insurance company pays too much for its funds it cannot expect to earn a satisfactory profit at the end of it all. Banks (2008) maintains that some risks should be retained as part of core business operations that are actively managed to create value for shareholders while others should be transferred elsewhere as long as it's cost effective to do so. Unfortunately insurance firms are faced with numerous challenges associated with management of risks, Pax insurance limited despite the growth in business portfolio, it's not free from difficulties in growth of its profit and some of its branches are faced with closer and this is due to inadequate practices and policies that are major cause of failures and performance of the insurance firm. Weerakoon and Bandara (2012) assert that business risk management is important in the industry because it's the backbone of success but the available studies don't indicate the relations between performance and business risk management therefore it's unclear the extent in which performance of insurance firms can be linked to business risk management however, the research ` 4 was to fill the knowledge gap by conducting the research in topic in relations to Pax insurance company limited.

### **1.3 Purpose of the study**

To investigate the effects of business risk on performance of insurance using Pax insurance company limited as a case study.

### **1.4 Specific objectives**

- i. To determine the effects of financial risk management on performance of Pax Insurance
- ii. To establish the effects of operation risk management on performance of Pax Insurance
- iii. To determine the effects of risk monitoring on performance of Pax Insurance
- iv. To determine how insurance firms liquidity on performance of Pax Insurance

### **1.5 Research Questions**

- i. Does financial risk management affects performance of Pax Insurance?
- ii. What are the effects of operation risk management on performance of Pax Insurance?
- iii. Does risk monitoring affects performance of Pax Insurance?

- iv. To what extent does firms liquidity affects performance of Pax Insurance?

## **1.6 Scope of the study**

### **1.6.1 Content scope**

The study will focus on the effects of business risk on performance of insurance a case study of Pax insurance company limited.

### **1.6.2 Geographical Scope**

The study will be carried out at Pax Insurance Company Limited in Kampala open now. P.O. BOX 7030 Kampala, Nsambya Rd, Kampala, Uganda.

### **1.6.3 Time scope**

The study was carried out during the month of May 2022 to December 2021.

## **1.7 Significance of the study**

### **1.7.1 Management of Pax Insurance**

The management of Pax Insurance used the study as a pointer. This is because it would highlight possessions of business risk management on insurance firm's performance. Managers will therefore use these results to select the optimal strategies that would optimize growth and performance of insurance firms. Findings from the study would aid managers of prospective firms who they main targets are to improve insurance firm's performance. The study will also provide ample information to those firms already in the market with strategies that are not working for them.

### **1.7.2 Scholars and Researchers**

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

### **1.7.3 Policy Makers**

The study will be of significance to policy makers for it will enable the government to understand and appreciate the importance of organization performance in Uganda and

also help those policy makers are able to develop and implement regulations and policies that will promote growth and development of insurance firm's to boost economic growth and job creations.

### **1.8 Structure of the Report**

- i. Chapter one of the researches comprises of the background of the study, statement of the problem, objectives, and research questions, scope of the study and the significance of the study.
- ii. Chapter two consists of the literature review in relation to the study area.
- iii. Chapter three includes the research methodologies used while collecting data for example questionnaires and other sources of data and limitations of the study.
- iv. Chapter four comprises of the results from the research study and the discussion of findings.
- v. Chapter five also comprises of the summary, conclusions and recommendations derived from the discussions and interpretation of findings on the effects of business risk on performance of insurance a case study of Pax insurance company limited.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

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

#### 2.1 Theoretical literature review

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

##### 2.1.1 Contingency Planning Theory

Contingency planning also referred to as business continuity planning is theory that is well associated with risk management, the basis of this theory is that since all business risk cannot be fully eliminated in practice. Despite firm's efforts to mitigate, avoid and prevent risk incidents will still definitely occur (Hinson, 2008). With reference to this study contingency theory can be used to mean controls, plans, process and the totality of activities, it's the act of preparing for major catastrophe and occurrences, articulating malleable strategies and rationalizing appropriate assets that will come into play in the event. In this study contingency planning theory involves the preparing for the unexpected and planning for the unknown. The basic purpose of contingency planning theory is to minimize the adverse consequences of catastrophe and occurrences (James, 2013). Contingency Planning Theory was adopted in this study because it describes and explains how changes in technological advancement, social values and regulations that affect decision regarding performance of insurance firms.

### **2.1.2 Risk Management Theory**

Risk management theory applies in the assessment, identification and prioritizing of risks followed by economical and coordinated of resources to monitor; control and minimize the impact of unsuccessful measures. Effective business risk management has beneficial implications to organizations; these benefits include improved innovation, better management of contingent, superior financial performance, and better value for money, waste reduction, minimize fraud, greater competitive advantage among other benefits (Wenk, 2005). This helps the firm to balance the most significant business pressure, responsibility to succeed and risks associated and generated by the firm itself in a commercial achievable way. This action will enable risk managers to be aware of the risks they face and therefore monitor and if need be they was able to change strategy. The theory is fundamental to this study in logic that insurance firm's functions at an efficient level, then all this institution products to have optimally priced and this in turn reduces discriminating competition in the market.

## **2.2 Empirical literature review**

### **2.2.1 Financial risk management**

Holton (2004) describes financial risk as the unexpected volatility of returns which is measured in terms of market risks, credit risks and liquidity risk. This same view is in agreement with Kithinji (2010) who defined financial risk management as those procedures and activities that managers employ in order to protect the organization from market risks, credit risks and liquidity risk which are the major categories that financial risk management practices into. In provision of insurance and other financial services organizations assume various kind of financial and actuarial risk, insurers product risk contained embedded products that are offered to customers to protect them from the actuarial risk that are not borne by the insurer directly (Holton, 2004). Organizations will always tend to mitigate the financial and actuarial risk associated with proper business practice transaction through shifting it to other parties in a combination of reinsurance, product design and price. The firm only eliminate the risk that they are left to manage this is due to the fact that insurance firms recognises that is what is required (Anthony & David, 2007). The financial risk associated with provision of services that are associated with insurance are risk bound to the financial

operations of the organization that includes underwriting, credit, technical provision, liquidity, solvency, market and reinsurance risk. Anthony and David (2007) explain that the risk the borrower will not perform in accordance with obligations may rise from both unwillingness and inability on the lenders to pre-committed contract manner. Insurance firm was subjected to credit risk whenever the change occurs in the economic policy framework that will entail changes in the investments. Organizations when managing credit risk will look into avoidance of risk that are concentrated and strive to achieve diversification in the investments (Gordon, Loeb, & Tseng, 2009). According to Arif and Showket (2015) insurance firms' main business is that of risk taking. Insurance firms deal with category of risk which have direct impact on their daily performance, based on this risks they proves to be a great setback in the process of achieving performance and growth is restrained in terms of returns. The key risk that hampers the performance of insurance firms are market risk, underwriting risks, credit risks, operational risks, strategic risk and liquidity risks. These risks can be all grouped under financial risk. Financial risk comprehends the risk of insolvency (Arif & Showket, 2015). Allen and Santomero (2009) describes the importance of financial risk because it's determined by various explanations such as greater deregulation, increased competition, price fluctuations and interest rate fluctuation. However with the initiation spinoffs which act as circumventing mechanisms has left companies to prepare to additional possibility to protect the firms against shudders of financial risks (Bartram, Brown, & Conrad, 2011). In simple terms financial risk management can be explained as aegis term for numerous of classifications associated with financial transactions (Arif & Showket, 2015).

### **2.2.2 Operations risk management**

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

insurance firms has been lately emphasized in the wake of frauds, big financial scandals and information technology system failures that are important drivers in the insurance business. Herring and Calomiris (2009) indicated that organization respond to risk in three different approaches try to reduce the risk, lay off the risk and retain the risk and dealing with it as well as managing it at the same time, this also depends on the individual organization strategy. Lopez (2002) also supports this view by indicating that there is no clear established approach to manage operation risk and each individual firm is responsible to develop and establish their own methods or approaches. Studies have shown that organization adopt a top down approach to calculate their operation risk. Price Waterhouse Coppers (2009) describes the integrated approach to operational risk management as proactive and representative of best practice compared to dispersed approach. The characteristics include the structure of operation risk management, resource investment, risk culture, and tools and technique. Insurance firms must commit a large budget to setup operation risk system that is able to monitor, measure, identify and control risk. The operational risk management process calls upon organization management to identify and fully understand the nature of risk that is associated with organization commercial activities. Second insurance firm must be able to measure each risk which calls upon putting in place a system that can measure the available risk, and finally the risk must be continuously monitored to ensure that they are at acceptable level (Price Waterhouse Coopers, 2009).

A good system for operation risk management requires proper infrastructure and the it also depends on the staff in the operation risk management function who must have a clear understanding of the role that operation risk management plays in the financial stability of the firm. In this study operation risk management is related system failures, inadequate controls and procedures, and finally human error. Which are associated with inadequate information system, technology failures, and breaches in the internal control? 2.2.3 Risk Monitoring The last process of business risk management is referred to as risk monitoring, this is the most important job of risk managers which involves physical and frequent contacts with organization clients who believes that the risk managers are problem solvers and trusted advisors. Risk monitoring helps the organization managers to discover the problems which might

have occurred in organisation system. Any organization that adopts appropriate risk monitoring strategy this means that appropriate pricing in the line with estimated risk is achieved which results to profit (Saunders & Allen, 2002). Soyemi (2014) risk managers are employed for the purpose of managing organization information system in order to help monitor levels of risk and facilitate timely review of risk plus their exceptions. The recognition of the exact approach to adopt for monitoring risk management squarely depend on each individual organization which depends on a variety of features like size, nature of activities and sophistication of the activities. Monitoring risk has several components such as internal control culture, effective internal reporting and contingency planning. George (2010) describes the key success of monitoring risk is proper planning (comprehensive, organizes and iterative approach) and aggressive execution. However insurance firms should have a systematic way of tracking and monitoring, organizational activities that would provide meaningful information to expose origination business risk management that will help to develop policy to mitigate business risk.

#### **2.2.4 Insurance firm's liquidity**

Liargovas and Skandalis (2008) liquidity risk is the degree to which debt obligations are due and can be paid from assets or cash. It's usually measured by current assets to current liabilities. Liquidity shows the ability of organizations to convert its assets in to cash and ability of organization to manage working capitals at normal levels. Organization can use its liquid assets to finance its operations when external finances are too costly or not available, however the higher liquidity allows organization to deal with unanticipated eventualities. Gerald and Ulrike (2001) define liquidity risk as not being in a position to make payments on due date. When organization maintains higher liquidity it definitely reduces management's discipline as regarded both investments operations and underwriting (Liargovas & Skandalis, 2008). Anthony and David (2007) also define liquidity risk as the risk of funds crisis. Because insurance firms operates in market where clustered claims can appear any moment due to catastrophes that are beyond human control or massive withdrawal and surrenders due to changing interest rates their liabilities are referred to as liquid, organization assets however are sometime liquid less more probably when they investments are in real estate. Liquidity is defined as the ability of insurance firm's s to meet its obligations

to investors and shareholders (Ongore & Kusa, 2013). The level of liquidity of insurance firms represents the number of premiums to customer claims to assets ratio. The liquidity ratio indicates what percentage of the insurance firm's assets is tied up in the claims. The higher the ratio the less liquidly the insurance firms are exposed to. Liquidity and profitability as performance indicators are vital to the major shareholders and investors. The shareholders have interest in the insurance firm's profitability because it determines their return on investments. Account holders too are concerned with the liquidity of the insurance firms because it determines the ability for them to pay claims. The tax authorities have interest in the profitability of insurance firms in order to establish and determine appropriate tax obligations (Amer, Moustafa, & Eldomiaty, 2011). The self-contradictory form of profitability and liquidity can be explained by the spontaneous thinking that the insurance firms operate with high liquidity that may have low indebtedness risk, but with trade off of low success. Equally, an insurance firm operating on low liquidity level may face high indebtedness risk, but with trade off higher profit margins (Berger, Hasan, & Klapper, 2014).

## **2.3 Operationalization of Variables**

### **2.3.1 Financial risk management**

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

### **2.3.2 Operations risk management**

Operations risk management in this study was measured using questionnaires that were administered to the target population and through reading relevant literature. Risk is incurred in an organization by its internal (environmental risk, fraud and legal risk)

and external (terrorism attacked, natural disasters) activities. Unlike credit risk and market risk the definition of operation risk is still evolving.

### **2.3.3 Risk monitoring**

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

### **2.3.4 Insurance firms Liquidity Insurance firms**

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

## **2.4 Chapter Summary**

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

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### **3.0 Introduction**

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

#### **3.1 Research Design**

A general layout that the researcher uses to respond to research questions is referred to as research design. Orodho (2005) defines research design as general layout that is used to answer research questions. This study dilemma was carried out through descriptive research designs. Cooper and Schindler (2008) describe descriptive design as a process of finding out, what, where and how an incident occurred. Descriptive research design is appropriate for studies that have specific issues where problems have been defined (Mugenda and Mugenda, 2003). The issues in the study being the effects of business risk on performance of insurance, are thus geared to address the essential why, who, when, what, and how questions in the research. The study seeks to describe a situation through the study of variable relationships. The study describes and defines the subject matter by profiling issues under study (Cooper & Schindler, 2008). It also helped the researcher to critically analyse the problem in question with a view of drawing more detailed and specific information about the subject that can be useful to the management. Most often than not, it is used as a precursor to more statistical research as it gives some valuable pointers as to what variables are worth testing quantitatively.

#### **3.2 Target Population**

Borg and Grall (2009) described target population as a common set of study units which the researcher had generalized wishes to generalize results. Target populations are units that have observable characteristics that the study uses to generalize the finding. The research study targets was 80 Madison Insurance staff

*Table 1: Table showing research study population*

Category	Target Population	Percentage (%)
Senior Managers	10	11
Middle level Managers	25	26
Non- Management staff	60	63
<b>Total</b>	<b>95</b>	<b>100</b>

*Source: Primary Data 2023*

### **3.3 Sample and Sample Technique**

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

### **3.4 Data Collections Techniques**

The researcher used questionnaires to collect data especially primary data as outlined by Kothari (2004). A questionnaire is an instrument of research that contains questions on the variables of the study. The researcher used questionnaires which are more efficient and economical tool for descriptive and preventive research for the sample size that is chosen. This way it was easier to identify the level by which the respondent agreed or disagreed (Kothari, 2004). The study used secondary data for literature review; these materials used included books, journals, reports, journals, magazine and internet literature. The research collected primary data for this study report and used secondary data for literature review.

### **3.5 Data Collection Procedure**

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

#### **3.5.1 Questionnaires**

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

### **3.6 Data Analysis and Presentation**

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

### **3.7 Ethical Consideration**

The researchers undertake various steps to ensure that the study adheres to research ethical standards. Research introduction letter was obtained from Uganda Christian University.

**CHAPTER FOUR**  
**RESEARCH FINDINGS AND DISCUSSIONS**

**4.0 Introduction**

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

**4.1 Presentations of Research Findings**

**4.1.1 Response Rate**

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

*Table 2: Table showing response rate*

Category	Frequency	Percentage
Response	49	89%
Non Response	5	11%
<b>Total</b>	<b>47</b>	<b>100</b>

*Source: Primary Data 2023*

**4.1.2 Gender**

The gender characteristics of respondents is dominated by females 55 % as shown in table 2 below by against males who are 45%. The gender representation of the respondents indicates that, views under the study were represented by all gender, and no single opinion can be attributed to a particular gender.

*Table 3: Table showing gender of the respondents*

Category	Frequency	Percentage
Male	19	45%
Female	23	55%
<b>Total</b>	<b>42</b>	<b>100</b>

*Source: Primary Data 2023*

**4.1.3 Age bracket**

As indicated in table 3, 10% of the respondents were had their age fall between 18-23 years old, 21% belonged in the ages between 24-29 years old years, 26% were aged between 30-35 years old , 29% are aged between 36-41 years while 14% were aged

42 Years and above. The response represents a good dispersion of the respondents in the age bracket but a majority was aged between 24-29 years.

**Table 4: Table Showing Respondents Age Brackets**

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

*Source: Primary Data 2023*

#### 4.1.4 Level of education

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

**Table 5: Table showing the level of education of the respondents**

Education	Frequency	Percentage
Doctorate	2	5%
Post graduate	9	21%
Graduate	18	43%
Diploma	13	31%
Secondary	0	0%
Primary	0	0%
<b>Total</b>	<b>42</b>	<b>100</b>

*Source: Primary Data 2023*

#### 4.1.5 Position held in the firm

As shown below in table 6 respondents were asked to indicate their positions held in the organization; 56% of the respondents indicated that they are non-management staff, 33% were in middle level management and 10% were in senior level management. The research senior level management Middle level management Non-management staff 10% 33% 56% Respondents position held in the organisation ` 27 findings indicated that the respondents are in a better position to understand the variables under study.

**Table 6: Table showing respondents' position held in the firm**

Position	Frequency	Percentage
Senior level management	4	10%
Middle level management	13	33%
Non-management staff	22	56%
<b>Total</b>	<b>42</b>	<b>100</b>

*Source: Primary Data 2023*

## 4.2 Main Issues of the Study

### 4.2.1 Financial risk management

**Table 7: Table showing financial risk management affects sales performance**

Category	Frequency	Percentage
Yes	38	90%
No	4	10%
Not sure	0	0%
<b>Total</b>	<b>42</b>	<b>100</b>

*Source: Primary Data 2023*

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

**Table 8: Table showing the extent in which financial risk management affects sales performance**

Category	Frequency	Percentage
Very great extent	15	36%
Great extent	18	43%
Moderate extent	5	12%
Little extent	3	7%
Very extent	1	2%
<b>Total</b>	<b>42</b>	<b>100</b>

*Source: Primary Data 2023*

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

#### 4.2.2 Operations risk management

*Table 9: Table showing if operation risk management affects sales performance*

Category	Frequency	Percentage
Yes	36	85%
No	4	10%
Not sure	2	5%
<b>Total</b>	<b>42</b>	<b>100</b>

*Source: Primary Data 2023*

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

*Table 10: Table showing the extent in which operation risk management affects sales performance*

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

*Source: Primary Data 2023*

Respondents were asked to indicate the extent in which financial risk management affects sales performance Very great extent Great extent Moderate extent Little extent Very little extent 38% 43% 12% 7% 0% The extent in which operation risk management affects sales performance Category Frequency Percentage Very great extent 16 38% Great extent 18 43% Moderate extent 5 12% Little extent 3 7% Very little extent 0 0% Total 42 100` 35 performance 38% indicated very great extent, 43% indicated great extent, 12% indicated moderate extent and 7% little extent respectively disagree as shown in table 4.9. This shows that the respondent agrees that operation risk management affects performance at Pax insurance.

#### 4.2.3 Risk monitoring

*Table 11: Table showing if risk monitoring affects sales performance*

Category	Frequency	Percentage
Yes	40	95%
No	2	5%
Not sure	0	0%
<b>Total</b>	<b>42</b>	<b>100</b>

*Source: Primary Data 2023*

Respondents were asked to indicate if risk monitoring affects sales performance 95% indicated yes and 5% indicated no while none indicated that were not sure as shown in table 4.10. This shows that respondents believe that financial risk management affects sales performance.

*Table 12: Table showing the extent in which risk monitoring affects sales performance*

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

*Source: Primary Data 2023*

Respondents were asked to indicate the extent in which risk monitoring affects sales performance 36% 48% 12% 5% 0% Very great extent Great extent Moderate extent Little extent Very little extent The extent in which risk monitoring affects sales performance Category Frequency Percentage Very great extent 15 36% Great extent 20 48% Moderate extent 5 12% Little extent 2 5% Very little extent 0 0% Total 42 100` 41 performance 36% indicated very great extent, 48% indicated great extent, 12% indicated moderate extent and 5% indicated little extent as shown in table 4.11. This shows that the respondent agrees that risk monitoring affects performance at Pax insurance.

## CHAPTER FIVE

### SUMMARY, RECOMMENDATIONS AND CONCLUSION

#### 5.0 Introduction

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

#### 5.1 Summary of Findings

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

##### 5.1.1 Financial risk management

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

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

### **5.1.2 Operation risk management**

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

### **5.1.3 Risk Monitoring**

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

### **5.1.4 Insurance firm's liquidity**

Respondents were asked to indicate if firm's liquidity affects sales performance all the respondents agreed at 100%. Respondents were asked to indicate the extent in which firm's liquidity affects sales performance 52% indicated very great extent and 48% indicated great extent. Respondents were asked to indicate views on the effects of firm's liquidity on performance of insurance. The first view sought was if the liquidity management variable such as current ratio, cash to deposit ratio and liquid to asset

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

## **5.2 Conclusion**

Insurance firm's core business is managing business risk for clients and their own risk which needs an integrated business system for managing risk. Organizations are in so much pressure to effectively manage their risk in a transparent way. Some part of business risk should be retained as core business operations while others should be transferred elsewhere as long as it's cost effective to do so. Several studies have been conducted on risk in Kenya but little has placed focused insurance firms. Insurance firms that poorly manage their risk are always faced with accumulations of claims which lead to increased losses and hence poor performance. Business risk management actions are affected by managers risk behaviour, a robust business risk management framework can help companies reduce their exposure to risks and enhance organization performance. Organization that select a particular risk tool tends to be associated with the firms calculative culture that measures attitudes that managers displays towards the use of business risk models. According to Mike and Kaplan (2014) they indicated that some risk functions focus on extensive risk measurement and based performance management, while other focus on the mobilization of experts opinion about emerging risk issues and quality disclosure.

### **5.3 Recommendations**

The study had the following recommendations based on study findings management of Pax insurance should embrace the use of risk identification process to assist in business risk management in ensuring that prospects are maximized and increase in financial performance. Management of Pax Insurance should ensure that their products are structured in such a way to curb competition from other organizations, Risk mitigation measures should be exercised by transferring risk to other assets that would help them in risk control techniques. Management of Pax insurance should adopt appropriate pricing of various products in line with the estimated business risk which will eventually increase profit. The risk monitoring strategy would assist managers in discovering problems which have occurred before.

### **5.4 Area of Further Study**

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

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

**Dear Respondent**

I, Keneth Kiptum Tanui a student of Uganda Christian University with **Reg No: EKJ22B05/055** undertaking a study on the *Effects of Business Risk on Performance of Insurance: A Case Study Of Pax Insurance Company in Uganda*. For this reason I humbly request you to assist in filling the attached questionnaire to the best of your knowledge. The information that you will provide is strictly for academic purposes and shall not be used for any other purpose and your names shall not appear in this study. Your input will go a long way to facilitate this research study.

**Thank you**

**Yours Faithfully,**

.....  
*Kanuu*

### SECTION A: BACKGROUND INFORMATION

---

#### Instructions

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

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

2. What is your age?

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

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

Post graduate ( ) Doctorate ( ) any other.....

4. Your current position in the organization

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

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

**SECTION B**

**Financial management risk**

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

Yes ( ) No ( ) Not Sure

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

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

Very little extent ( )

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

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

## Operations risk management

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

Yes ( ) No ( ) Not Sure

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

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

Very little extent ( )

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

	Statements	Strongly agree	Agree	Undecided	Disagreed	Strongly disagreed
1	The performance of Pax Insurance depends on efficiency levels, but not market power.	<input checked="" type="checkbox"/>				
2	Profitability at Pax Insurance firms is attributed to 60 non-competitive market conditions and price behaviour		<input checked="" type="checkbox"/>			
3	Pax Insurance firms market share has little significance on the insurance firms profitability and performance				<input checked="" type="checkbox"/>	
4	Pax Insurance market power has no influences insurance firms performance				<input checked="" type="checkbox"/>	
5	Pax Insurance's profitability and stability appear to be moving with NSE share index	<input checked="" type="checkbox"/>				

**Risk monitoring**

1. Do risk monitoring affect performances of Pax Insurance?

Yes ( ) No ( ) Not Sure

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

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

Very little extent ( )

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

	Statements	Strongly agree	Agree	Undecided	Disagreed	Strongly disagreed
1	At Pax insurance there is monitoring and risk control measures		<input checked="" type="checkbox"/>			
2	At Pax insurance the issue of risk control is taken with great consideration		<input checked="" type="checkbox"/>			
3	At Pax Insurance there are active insurance that covers daily operation	<input checked="" type="checkbox"/>				
4	At Pax controls are in place to evaluate the efficiency of operation risk programes	<input checked="" type="checkbox"/>				
5	At Pax Insurance risks are divided into individual level for further analysis.		<input checked="" type="checkbox"/>			

**Insurance firms Liquidity**

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

( ) Yes (  ) No ( ) Not Sure

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

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

Very little extent ( )

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

	Statement	Strongly agree	Agree	Undecided	Disagreed	Strongly disagreed
1	The liquidity management variable such as current ratio, cash to deposit ratio and liquid to asset ratio had a negative impact on profitability and profitibility of Pax Insurance		<input checked="" type="checkbox"/>			
2	Pax Insurance adopts a tight liquidity approach in which there is more current asset over current liability	<input checked="" type="checkbox"/>				
3	The liquidity and profitability , tradeoff is a major issue facing Pax Insurance				<input checked="" type="checkbox"/>	
4	Liquidity and profitability as performance indicators are very important to shareholders.	<input checked="" type="checkbox"/>				

*Thank you for participation*



# UGANDA CHRISTIAN UNIVERSITY

A Centre of Excellence in the Heart of Africa

## SCHOOL OF BUSINESS

16<sup>th</sup> August 2023

TO WHOM IT MAY CONCERN


NAME: KENETH KIPTUM TANUI REG No. EKJ22B05/055

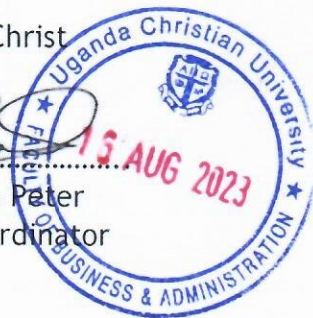
Greetings in the Name of Our Lord Savior Jesus Christ.

This is to introduce to you the above mentioned bachelor's student who is seeking permission from your office to collect data for his dissertation titled "EFFECT OF BUSINESS RISK ON PERFORMANCE OF INSURANCE; A CASE STUDY OF PAX INSURANCE COMPANY LIMITED."

Your assistance to him in collecting the necessary data for his dissertation will be highly appreciated.

Sincerely in Christ

  
Mukisa Simon Peter  
Research coordinator



*Alatus*  
20th September 2023