INFLUENCE OF PREMIUM DEPOSITS ON FINANCIAL PERFORMANCE OF INSURANCE COMPANIES LISTED AT NAIROBI SECURITIES

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Abstract

The aim of the study was to investigate the influence of premium deposits on financial performance of insurance companies listed at Nairobi securities exchange. Theory underpinning this study was Arbitrage Pricing Theory. The study adopted descriptive research design. Target population of the study included 6 insurance companies listed in Nairobi Stock Exchange. The target respondents were finance officers, internal auditors, credit managers, operations managers, valuers and underwriters. Thus the total target population was 36 respondents from the six insurance companies listed in Nairobi stock exchange. The study used questionnaires to collect data. Questionnaires were tested for validity and reliability. The collected data was analyzed using statistical package for social sciences. Data was analyzed using descriptive statistics and inferential statistics and was presented in tables and relevant discussions. Findings indicated that premium deposits had a significant relationship with financial performance. Further, regression analysis indicated that premium deposits have a significant influence on financial performance of insurance companies. Hence the study concluded that premium deposits are crucial in determining the financial performance of insurance firms listed in NSE. The study recommended that insurance firms should work towards maximizing their insurance deposits to maximize on their financial performance.

Keywords: *Deposits, premiums, Financial Performance, Insurance Companies, Nairobi Securities*

1. INTRODUCTION

The insurance industry contributes to economic efficiency and fosters economic growth in several ways. First, insurance improves risk allocation of an economy and reduces transaction costs. Second, by protecting existing assets, insurers provide economic agents with a more stable financial basis. Third, insurers foster governance through their asset holdings by encouraging risk mitigation through warranties and/or risk exclusions, and direct monitoring of risks. Fourth, insurance can be an alternative and supplemental financial support in the event of economic losses caused by, for example, accidents, catastrophes and bankruptcies.

The primary purpose of the insurance business is the spreading of risks. Because the risks associated with different policies are not perfectly correlated, the total risk of a portfolio of policies is smaller than the sum of the policies' risks. Thus, insurance functions as a mechanism to diversify Property and Casualty (PC) insurers and Life and Health (LH) insurers' risks, similar to the role of mutual funds in diversifying investment risks.

In fact, because insurers accumulate substantial funds in conducting their business, they also diversify investment risks for their stakeholders by investing in diversified portfolios (Gatsi & Gadzo, 2013).

According to JP morgan (2014), since the outbreak of the European sovereign debt crisis, sovereign risk has been one of the main threats to financial stability. Many recent research papers investigate the link between sovereign risk and the banking system. In contrast, research on the effects of sovereign risk on insurance companies is very scarce. This is surprising, given the importance of insurance companies as large institutional investors in sovereign bond markets. Insurers hold roughly 12% of all global financial assets (IAIS, 2011) and they invest a major share of these assets in sovereign bonds.

Financial performance measures are intended to assess the efficiency and effectiveness through which firms turn out resources available to create wealth for the shareholders. Financial statement analysis plays an important role to help appraise the financial performance of a firm by extracting useful ratio which help management in identifying deficiencies and take corrective action to improve performance (Mudida & Ngene, 2010). Financial performance measures results of firm's policies and operations in terms of the return on investment (ROI) and return on assets (ROA) or return on equity (ROE).

Most of the literature aiming to estimate the link between firm's financial policy and exact market value of cash holdings has focused on the firms in the United States (U.S.). Faulkender and Wang (2006), studied how firm's financial characteristics and the value of cash play together. On average, the market value of a dollar held by a firm is approximately $1.20, suggesting that shareholders believe the benefits of liquidity outweigh the potential agency problems associated with it. Faulkender and Wang (2006), employing a different methodology, find the market value of a dollar to be $0.94 on average. Their results imply that the potential agency costs, and tax effects, outweigh the benefits in a mean firm.

The ultimate goal of financial management is to maximize the financial wealth of the business owner(s). Financial managers execute/performs financial management practices that determine the success or disappointment of an organization. Chung and Chuang (2010) has classified financial management practice into Capital structure management, working capital management, financial reporting and analysis, investments decision making and accounting information system. The analysis of firms' investment decisions is particularly relevant when assessing and projecting economic activity. In the context of financial frictions that can significantly affect firms' demand of productive factors and hence future economic output capacity, the financial accelerator literature states that corporate investment is highly volatile and strongly concentrated in certain periods followed by sharp declines. In this context, it is argued that the presence of financial frictions exacerbates business cycles. Therefore, examining the relationship between firms' financial health and their investment decisions is an important matter.

The relationship between prudent investment policy making capability of a firm's managers and its advantage in analyzing a target investment's resultant true financial performance is vital, managers are perceived to have more information than other investors regarding an investment, thus managers are vital in making prudent investment decision analysis that shall lead to better performance of a company in both financial and non financial parameters (Akintoye & Olowolaju, 2008).

1.1. Insurance Companies in Kenya

The Insurance Industry in Kenya is regulated by the Insurance Regulatory Authority (IRA) under Insurance Act, CAP 487. The Insurance Regulatory Authority (IRA) was established to regulate, supervise and develop

the insurance industry. According to IRA 2014 statistics, Kenya has 49 licensed insurance companies and 84 Insurance Brokers. The Kenyan insurance market is ranked fourth in Africa and with the full liberalization with many foreign insurance companies operating in Kenya. According to the Association of Kenyan Insurers (AKI), the Kenyan Insurance industry has numerous growth opportunities projecting premium rise from Kes. 90bn in 2011 to Kes. 200bn by 2015, a growth of 22.22%.

The minimum capital requirements as described in the insurance Act is paid up share capital for Long term insurance business of Kshs. 150 million, General Insurance business Kshs. 300 million and Reinsurance business Ksh. 800 million, details of the shareholders and shareholding structure of the company, a detailed statement of assets and liabilities in Kenya at the date of application, Central Bank of Kenya certificate specifying the amounts and details of deposits under section 32 of the Insurance Act (equivalent to 5% of the total admitted assets) among other requirements and conditions. Borrowings that affect the capital structure like issue of corporate bond and debt instruments requires an authority from Capital Market Authority (CMA)

A deepening corporate bond market in Kenya provide insurance companies with incentives that encourage them to make capital structure (borrowing) decisions in order to expand their business, open more branches which at the end lead to performance improvement. In Kenya, Britam was granted authority by CMA in June 2014 to issue Kes. 6 Billion Corporate bond to finance local and regional expansion, property investments as well as fund other strategic incentives. On the same note, CMA approved UAP to issue Kes 2 Billion bond in July 2014 towards geographic expansion, investment in property projects, provide additional capital to enhance capacity in existing insurance businesses as well as create other strategic ventures that will help the firm to record monumental growth in revenues and profitability. This study will be seeking to establish how these forms of financing decisions influence the financial performance of the insurance companies in Kenya.

Kenya insurance companies have been spreading their foothold in the region covering EAC, COMESA and SADC. This has been necessitated by insured's in Kenya with interests in manufacturing, tourism, transport & communication, building and construction across the region to be covered by the same insurer (Association of Kenya Insurers, 2015). However, despite the enhanced growth in premiums from both sectors of the industry, insurance penetration continues to be far below the desired benchmark (Akotey, Sackey, Amoah & Manso, 2013). A study by Mwangi and Murigu (2015) studied the factors that affect the profitability of general insurers in Kenya and found that profitability was positively related to leverage, equity capital, and management competence index and negatively related to size and ownership structure.

2. STATEMENT OF THE PROBLEM

Over the years, the financial market in Kenya has been considered to have undergone tremendous growth. However, the insurance industry has not enjoyed a similar significant growth. According to AKI Insurance industry annual report (2014), only a few top players in the insurance industry dominate the market share with the top 10 players controlling over 60% of the market share as measured by gross written premiums. Most of the industry players are largely not profitable from their core business. This scenario has seen other players exit the market. Mbogo (2010) reported that the Kenyan Insurance market has a low penetration rate which presents the industry with valuable potential as a significant population does not have insurance cover. The consumption of insurance products in Kenya is mainly dominated by Motor, fire industrial and personal accident covers that are normally offered as riders under group medical insurance schemes. Hence, there remains a huge untapped market in the insurance sector which these companies can leverage. The literature done by other researchers on investment decisions and their effect on financial performance has focused more

on developed markets (like USA and UK); little is empirically found about developing economies like Kenya, where the capital markets are less efficient and suffers from high level of information asymmetry than capital markets in developed countries. In the Kenyan context, studies on the relationship between investment policies and financial performance have emphasized more on sectors such as banking, parastatals, firms listed at NSE and microfinance institutions. The insurance sector in Kenya has been largely under-researched and ignored in this context. This study sought to fill these gaps by examining the influence of Premium deposits on the financial performance of insurance firms Listed at Nairobi Securities Exchange.
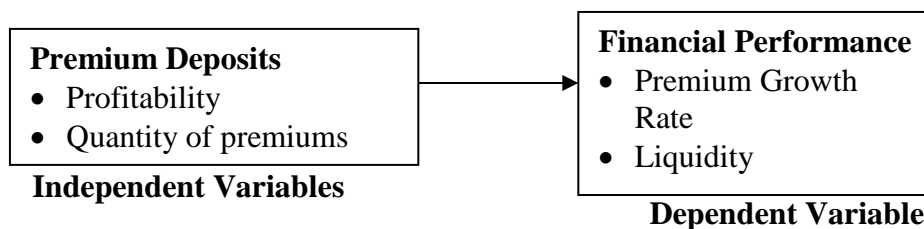
3. OBJECTIVES OF THE STUDY

The sought to examine the influence of Premium deposits on financial performance of insurance companies listed at Nairobi securities.

4. RESEARCH HYPOTHESES

Premium deposits have no significant influence on financial performance of insurance firms listed in Nairobi securities exchange.

5. CONCEPTUAL FRAMEWORK

Premium Deposits
- Profitability
- Quantity of premiums

Independent Variables

Financial Performance
- Premium Growth Rate
- Liquidity

Dependent Variable

6. THEORETICAL REVIEW

6.1 Arbitrage Pricing Theory

Ross (1976) developed the Arbitrage Pricing Theory that assumes that assets return is dependent on various macroeconomic, market and security specific factors. It states that the expected return of an investment or a financial asset can be modeled as a linear relationship of various macroeconomic variables or where degree of correlation to changes in each variable is represented by a beta coefficient. The asset value should equal the expected end of period asset value or future cash flows discounted at the rate implied by the model. If the asset value changes, arbitrage should bring it back to the line.

Charging a price at least as high as the competitive price (reservation price) increases the market value of the company. Charging a lower price would reduce the company's market value. Thus, financial models and financial prices are among the key items of information that insurers should have at their disposal when making financial decisions about tariff schedules, reinsurance contract terms, among others. Though many different specific forces can influence the return of any individual stock, the internal and external factors tend to cancel out in large and well diversified portfolio. Insurance companies are corporations and insurance policies can be interpreted as specific types of financial instrument or contingent claim thus it is natural to apply financial models to insurance pricing.

The theory can help the insurance companies to decide whether a security is undervalued or overvalued thus avoid making losses. It is also very useful for building portfolios because it allows managers to test whether

their portfolios are exposed to certain internal or external factors that would affect the financial performance of institutions. Doumpos and Gaganis (2012) estimated the performance of non-life insurers and found that macroeconomic indicators such as gross domestic product growth, inflation and income inequality influence the performance of firms.

7. EMPIRICAL REVIEW

7.1 Premium Deposits

Insurance companies depend on insurance premiums to raise money for their investments. However, it can be noted that most insurers across the globe have been faced with decreasing insurance premiums and this largely affects the level of income they earn since the investments are limited to the amount of money available. Some of the factors that have contributed to the worsening of this situation include high rate of unemployment; slow economic growth; lower income as a result of the financial crisis and increased competition for non-life business are recurring explanations. Slow growth and high unemployment, constrained demand for workers' compensation insurance, which can represent a substantial part of the non-life market. Strong competition in motor insurance put downward pressure on premium growth in some countries (OECD, 2013).

Mudaki et al., (2012) assert that the profitability of insurance business in Kenya is low due to the increasing mortality rates caused by ailments, poverty, lack of food and low living standards which result to inability to raise premium for buying insurance. The performance of insurance industry in Kenya may have been poor about three decades ago due to lack of a regulatory body which made several firms to operate without enough capital and hence leading to their statutory management or collapse (Mudaki et al., 2012). According to Gitau (2013), penetration of insurance industry in Kenya has been very low which has been caused by collapsing of the firms like Lake Star and Stallion insurance companies in year 2002.

Theoretically, a more efficient insurance company should have growth in profits since it is able to maximize on its net premiums and net underwriting incomes (Akotey, Sackey, Amoah & Manso, 2013). The multifactor arbitrage-pricing model presupposes that many macroeconomic factors are involved in the determination of risk and return relationship hence the performance of a firm (Saeed & Akhter, 2012). The modern portfolio theory suggests that investors can improve their financial performance of their firms by allocating their investments into different classes of financial securities and industrial sectors that are not expected to react similarly if new information emerges (Suheyli, 2015). Thus, the financial performance of insurance companies is also relevant within the macroeconomic context since the insurance industry is one of the financial system' components, fostering economic growth and stability (Wani & Showket, 2015).

7.2 Financial Performance

Insurance companies like banks provide financial intermediation by facilitating the flow of funds from surplus spending units to deficit spending units through the process of issuing insurance cover to policyholders and investing the premium generated in productive sectors (Gatsi & Gadzo, 2013). The financial performance of the insurance companies plays a pivotal role in the growth of the industry as a whole, which ultimately contributes to the success of an economy. The insurance companies endanger their financial performance by assuming different types of risks (Wani & Showket, 2015). The financial performance of insurance companies can be analyzed at micro and macroeconomic level, being determined by both internal factors represented by specific characteristics of the company, and external factors regarding connected institutions and macroeconomic environment (Burca & Batrinca, 2014).

Measuring financial performance of an organization is very important since it determines whether the organization has been able to achieve its financial objectives or not. There are a variety of measures that organizations can use or adopt in measuring their financial performance. One such category of measures is the liquidity measures that determine the ability of the business to meet its financial obligations without disrupting any of its activities. These measures usually rely on the relationship between assets and liabilities of the organization. The other type of measures are solvency measures which determine the amount of borrowed capital used by the business relative the amount of owner's equity capital invested in the business (Ismailia, 2011).

For insurance firms, profit performance measures the difference between premiums earned (revenues) and expenses over a period of time, usually twelve month. Profits are cheap source of funds for firms' expansion and survival in competitive environment (Pandey, 2007). In assessing the profitability of individual insurance firms, Association of Kenya Insurers (AKI) and Insurance Regulatory Authority (IRA) consider the gross earned premiums, re-insurance ceded investment and other incomes, claims incurred and commissions/expenses from underwriting activities.

Murungi (2013) also carried out a study on the relationship between macroeconomic variables and financial performance of insurance companies in Kenya. The financial performance of insurance companies was measured by Return on Assets computed from the financial statements of the firms. The other macroeconomic variables were obtained from the figures available from the Central Bank of Kenya. The study took the form of a descriptive research design with a target population of 46 insurance companies that were registered by the Association of Kenya Insurers in the year 2013. The findings reveal that interest rate, gross domestic product, claim ratio and expense ratio were statistically significant in influencing financial performance of insurance companies.

Akotey and Amoah (2012) researched on determinants of performance of life insurance companies in Ghana. The findings revealed that life insurers have been incurring underwriting losses which detract from their financial performance. The high underwriting losses as the results showed is due to overtrading, high claims payments and high managerial expenses. The study further showed that gross written premiums and total assets have a negative effect on investment income. This may be due to the excessive attention on marketing to grow premiums without a proportionate allocation of resources towards the management of their investment portfolios. This is evidenced in the low levels of investment income in the industry. The study concluded that Life insurers" financial performance was measured by three parameters: investment income, underwriting profit and overall sales profitability. These parameters capture the key operations of life insurers.

According to a study done by Wabita (2013) on the determinants of financial performance of insurance companies in Kenya, from his finding it was established that finance performance positively affects the growth of an insurance company, financial performance negatively influence leverage and an insurance companies tangible assets affects financial performance positively. Mutungi (2012), on factors that influence financial performance of life assurance companies in Kenya. It was revealed that financial performance of an insurance company is determined by capital structure, innovation and ownership structure are determinants of financial performance. Omondi and Muturi (2013), on their study of effects of financial performance in insurance companies in Nairobi it was established that leverage (ratio of debt-equity) and ROA has a negative effect on financial performance and that liquidity and company size has a positive influence on firms performance. Mwangi (2013), he established that financial performance of Kenyan insurance companies is influenced by interest rate fluctuations, liquidity, and competition.

8. RESEARCH METHODOLOGY

Research design is the strategy for a study and the plan by which the strategy is to be implemented. This study employed descriptive research design to assist the researcher in determining the influence of asset allocation policy on financial performance of insurance companies listed at Nairobi securities exchange. The population for this study included the insurance companies in Kenya. There were 55 insurance companies licensed to operate in Kenya (IRA, 2017). However of the 55, only six of them are listed in Nairobi securities exchange. As such the target population of the study included the six insurance companies listed in Nairobi securities exchange. The target respondents included the finance officers, internal auditors, credit managers, operations managers, valuers and underwriters. Thus the total target population was 36 respondents from the six insurance companies listed in Nairobi stock exchange. Based on the small population of the study the study employed a census. The study employed the use of questionnaires as the main tools for collecting data. A questionnaire is a research instrument which consists of a series of questions designed to assist the researcher in getting information from the respondent. The study employed Cronbach alpha (α) to test the reliability of the research instrument. Tabulation of data was used to enable a meaningful description of the distribution of scores with the use of frequencies and percentages, means and standard deviation presented in tables. Inferential statistics was done to establish the relationships between variables and the strength of prediction. This was done using correlation, simple linear regression analysis and multiple regression analysis. Tabulation of data allows for space conservation, comparison of responses, detection of errors and omissions and gives a basis for statistical computation. Analysis was done using statistical package for social sciences (SPSS).

9. FINDINGS AND ANALYSIS

A total of 36 questionnaires were distributed to the respondents. Out of the 36 questionnaires, 34 of them were returned out of which 30 of them were properly filled. The 30 properly filled questionnaires represented a response rate of 83.3% which can be characterized as an excellent indicator that the results are externally valid and therefore can be generalized. A response rate below 51% is considered inadequate in social sciences (Pinsonneault & Kraemer, 1993). Babbie (1990) suggested that a response rate of 60% is good; 70% is very good.

9.1 Descriptive Statistics

9.1.1 Premium Deposits

The sought to find out respondents views regarding premium deposits in Insurance firms. The percentages means and standard deviation values were computed. The findings from the analysis were as presented in Table 1.

Table 1: Descriptive Statistics on Premium Deposits

		SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
i.	Insurance companies have the capacity to collect sufficient premiums which maximizes their net premiums incomes	30	56.7	6.7	6.7	0	4.10	.803
ii.	Insurance companies allocate their investments into different classes of financial securities	23.3	73.3	0	3.3	0	4.17	.592
iii.	Insurance firms have adopted premium valuation method to measure the financial performance of firms	33.3	53.3	10	3.3	0	4.17	.747
iv.	Companies are faced with decreasing insurance premiums due to high rate of unemployment	23.3	40	16.7	16.7	3.3	3.63	1.129
v.	Insurance firms have growth in profits since they are able to maximize their net premiums	10	83.3	3.3	3.3	0	4.00	.525
vi.	Insurance firms are able to foster economic growth and stability of the economy through the premiums paid	13.3	76.7	3.3	3.3	3.3	3.93	.785
Valid N (listwise)		30						

From the findings majority of the respondents agreed that insurance companies have the capacity to collect sufficient premiums which maximizes their net premium incomes with 56.7% and 30% of the respondents having agreed and strongly agreed .The findings had a mean of 4.10 and a standard deviation of .803. Further, 73.3 % of the respondents agreed while 23.3 % strongly agreed that insurance companies allocate their investments into different classes of financial securities with a mean of 4.17 and a standard deviation of .592. 53.3% and 33.3% of the respondents agreed and strongly agreed respectively that insurance firms have adopted premium valuation method to measure the financial performance of firms with a mean of 4.17 and standard deviation .747. Further, 40% of the respondents agreed and 23.3 % strongly agreed that companies are faced with decreasing insurance premiums due to high rate of unemployment, while 16.7% of the respondents were undecided and disagreed respectively with the assertion registering a mean of 3.63 and a standard deviation of 1.129. Also majority of the respondents comprising of 83.3% agreed that insurance firms have growth in profits since they are able to maximize their net premiums registering a mean of 4.00 and a standard deviation of .525. In addition, majority of the respondents agreed that insurance firms are able to foster economic growth and stability of the economy through the premiums paid. 76.7% of the respondents agreed while 13.3% strongly agreed, while (9.9%) of the respondents were undecided, disagreed and strongly disagreed respectively with the assertion returning a mean of 3.93 and a standard deviation of .785.

9.1.2 Financial Performance of Insurance Companies

Further the study sought to establish the respondents views on the status of financial performance of insurance firms listed in NSE. The percentages, means and standard deviation values were computed for making deductions. The findings from the analysis were as presented in Table 2.

Table 2: Descriptive Statistics on Financial Performance of Insurance Companies

		SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
i.	Insurance companies have sufficient liquidity to meet their daily financial obligations	30	53.3	16.7	0	0	4.13	.681
ii.	Insurance companies have capital structure that sustains operations within the companies	6.7	86.7	3.3	0	0	3.97	.490
iii.	Insurance companies have the capacity to collect enough premiums that leads to premium growth rate	10	66.7	20	3.3	0	3.83	.648
iv.	Companies have adopted innovation that leads to cut down operational costs	26.7	66.7	3.3	3.3	0	4.17	.648
v.	Insurance companies generate their income through the premium paid	20	63.3	10	6.7	0	3.97	.765
vi.	Insurance companies finance their operations through debt financing rather than equity capital	23.3	36.7	13.3	23.3	3.3	3.53	1.196
vii.	Premiums collected by insurance companies increases firms profitability	23.3	66.7	10	0	0	4.13	.571
Valid N (listwise)		30						

From the table, findings indicate that respondents, agreed that insurance companies have sufficient liquidity to meet their daily financial obligations.53.3% of the respondents agreed while 30% strongly agreed with the assertion returning a mean of 4.13 and a standard deviation of .681.Further the findings also demonstrated that the respondents agreed that insurance companies have capital structure that sustains operations within the companies.86.7% of the respondents agreed while 6.7% strongly agreed, registering a mean of 3.97 and a standard deviation of .490. 66.7% of the respondents agreed and 10% strongly agreed that insurance companies have the capacity to collect enough premiums that leads to premium growth rate. The findings had a mean of 3.83 and a standard deviation of .648. In addition 66.7% of the respondents agreed and 26.7% strongly agreed that companies have adopted innovation that leads to cut down operational costs. (9.9%) of the respondents were undecided and disagreed with the assertion registering a mean of 4.17 and a standard deviation of .648. 63.3% of the respondents agreed and 20% strongly agreed respectively that insurance companies generate their income through the premium paid, registering a mean of 3.97 and a standard deviation of .765. Also 36.7 % of the respondents agreed that insurance companies finance their operations through debt financing rather than equity capital, while 23.3% of the respondents strongly agreed and 23.3% of the respondents disagreed with the assertion, registering a mean of 3.53 and a standard deviation of 1.196.Finally the respondents agreed that premiums collected by insurance companies increases firms profitability.66.7% of the respondents agreed while 23.3% strongly agreed with the assertion, registering a mean of 4.13 and a standard deviation of .571.

9.2 Correlation Analysis

9.2.1 Premium Deposits and Financial Performance

The study further sought to examine the relationship between premium deposits and financial performance in Insurance firms listed in NSE. The composite mean scores on premium deposits were correlated with composite mean scores for financial performance. Pearson product moment correlation coefficient was used to establish the relationship. The findings from the analysis were as presented in Table 3.

Table 3: Correlations between Premium Deposits and Financial Performances of Insurance Companies

		Financial Performance
Premium Deposits	Pearson Correlation	.424[*]
	Sig. (2-tailed)	.020
	N	30

*. Correlation is significant at the 0.05 level (2-tailed).

The findings indicated the existence of a relatively weak positive significance (r=.424, p=.020) relationship between premium deposits and financial performance of insurance companies. This therefore shows premium deposits have a direct relationship with financial performance of the insurance companies. Thus, an increase in premium deposits enhances the financial performance of insurance firms. As such, the study observed that premium deposits have a significant role in determining the financial performance of insurance firms. This was in agreement with other researchers like Akotey, Sackey, Amoah and Manso, (2013) who asserted that a more efficient insurance company should have growth in profits since it is able to maximize on its net premiums and net underwriting incomes. Patrick and Florence (2015) they found out that Premium valuation method is positively significant to influence risk management practices thus the study concludes that Premium valuation methods had positive influence on financial performance of life assurance firms in Kenya. The study established that underwriting guidelines employed by insurance companies in Kisii County increase value of investment and had a positive effect on financial performance of life assurance firms in Kenya.

a. Regression Analysis

The third hypothesis for the study observed that premium deposits have no significant influence on financial performance of insurance firms in NSE. To ascertain the truth of the hypothesis, simple regression analysis was undertaken. The findings from the analysis were as shown in table 4.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.424[a]	.180	.150	.33696

a. Predictors: (Constant), Premium Deposits

From the model summary, the R-squared value was 0.180. This shows that premium deposits accounted for 18% of the total variance in financial performance of insurance firms. This shows that a variation in premium deposits would impact on the financial performance in the insurance companies. However, the remaining 82% of the total variation in financial performance of insurance firms is accounted for by factors not considered in this model. To examine the significant of premium deposits in explaining the variation in financial performance, analysis of variance was undertaken. The findings from the analysis were as presented in Table 5.

Table 5: ANOVAᵇ

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.696	1	.696	6.127	.020ᵃ
	Residual	3.179	28	.114		
	Total	3.875	29			

a. Predictors: (Constant), Premium Deposits

b. Dependent Variable: Financial Performance

The table indicated an F-value ($F_{(1,28)}$=6.127, p=.020) was obtained which was found to be significant at p<.05 level of significance. Therefore the study observed that premium deposits are significant in influencing the financial performance of the insurance firms. Consequently the null hypothesis that premium deposits have no significant influence on financial performance of insurance firms listed in Nairobi securities exchange was rejected. The researcher concluded that premium deposits have a significance influence on financial performance of insurance firms.

10. CONCLUSIONS AND RECOMMENDATIONS

The study demonstrated that premium deposits are crucial in determining the financial performance of insurance firms listed in NSE. Insurance companies were shown to have sufficient capacity to collect sufficient premiums thus maximising their net premium incomes. Premium deposits had a significant relationship with financial performance and significantly accounted for the variation in the financial performance of the insurance firms. Therefore the study concluded that insurance premiums have a significant influence on the financial performance of insurance firms listed in NSE. The study recommended that insurance firms should work towards maximizing their insurance premium deposits to maximize on their profitability. The study have shown that insurance premiums incomes have a significant role in the determination of the financial performance of the insurance firms. Hence maximization of the premium deposits would go a long way in enhancing the financial performance of the insurance firms.

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