Assessing Factors Affecting Financial Performance of Insurance Companies in Zambia

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ABSTRACT

The aim of the research was to assess the factors that affect the financial performance of insurance companies in Zambia and to what extent these factors affect performance. The research employed a mixed method approach in form of descriptive and a sample of 150 respondents drawn from 10 insurance companies (5 Life and 5 Non-life) and from various levels of management and departments using the stratified random sampling technique to guarantee representation. Data was collected through administering survey questionnaires and the results were analysed using the regression technique under the Statistical Package for Social Sciences (SPSS), descriptive statistics and content analysis respectively. The study revealed that underwriting risk, premium-growth, company size, liquidity, GDP and inflation are factors that affect the financial performance of insurance companies in Zambia. The study also indicated through the majority of the respondents that the above-mentioned factors have an effect on financial performance to a great extent. Based on the findings, the study recommends that insurance companies must strike a balance between long-term investment assets and the need to maintain good liquidity, which is essential in meeting short-term liabilities. Insurance companies in Zambia need to assess risky policies in order protect themselves from such policies by reinsurance and pricing them accordingly. Furthermore, the study suggests that insurers in Zambia increase their leverage in order to perform better in terms of their return on assets. However, insurance companies should exercise caution when using excessive debt as this can potentially harm their long-term viability. If they are unable to meet their loan payments, heavily leveraged businesses could face insolvency. Insurance companies should also improve the staff's managerial skills because they are favourably associated to output.

Key words: Financial performance, Insurance, Underwriting risk, Premium-growth, Liquidity, Gross Domestic Product (GDP), Inflation and Company Size

INTRODUCTION

The aim of this research was to assess the factors that affect the financial performance of insurance companies in Zambia and to what extent these factors affect performance. Insurance is the process through which individuals known as insurers accept the financial risk of another individual insured for consideration in the form of premiums paid. Within any given economy, the insurance industry is an essential agent for sustainable economic growth and development (Haufler, 2013). Deyganto and Alemu (2019) use two approaches to describe the term insurance; these are the transfer approach and the pooling approach. The transfer approach views insurance as a tool used to reduce the uncertainty of one party (the insured) by transferring risk to another party (the insurer). On the other hand, the pooling approach views insurance as a framework where risk and uncertainty are abolished by combining many individuals who are exposed to a particular risk or uncertainty. In this approach, insured individuals or organisations contribute to a common fund where the unlucky ones who suffer loss are helped by the lucky ones who do not suffer loss. The insurance industry is a significant stakeholder in the financial system of Zambia due to the provision of services to a wide range of clients. The Zambian insurance market includes 31 insurers: 10 of which operate in life insurance and 21 in non-life activity (Pensions and Insurance Authority (PIA), 2020). The market also

involves five reinsurers. The sector also offers crucial risk management of products for various Zambian organisations (Nzyoka & Orwa, 2016). Some of the leading insurance companies in Zambia include Sanlam, Professional, Prudential, Prima Reinsurance PLC, Zambian Reinsurance Company Ltd, Advantage Insurance, African Grey Insurance and Diamond General Insurance Ltd (Zambia Invest, 2016). However, the progress of the Zambian insurance sector has been hindered by the country's recent slowdown in economic growth and the effects of the COVID- 19 pandamic. An evolved and a well-developed insurance sector is a key tool for economic development due to its ability to offer funds for long-term infrastructural development. Therefore, as Zambia struggles to create an upturn in its economy, the role of insurance companies is vital. Insurance companies need to have awareness of the factors that promote or hinder their financial performance to survive in the Zambian economy and thus this research was conducted.

Statement of the Problem

The insurance sector, which includes Zambia's, is an essential component of the whole financial system. Insurance businesses, in addition to commercial banks, play a vital role in the financial intermediation of the economy. As a result, their success or failure directly affects the state of the economy ((Aniah et al, 2019; Ekerete and Sunday, 2016)). Compared to other countries within the Sub- Saharan region, Zambia recorded the lowest GWPs of about US$216 while Kenya and Tanzania recorded higher GWPs of US$935 and US$356 respectively. Furthermore, the Zambian insurance industry experienced a slower growth rate with Compound Annual Growth rate (CAGR) of 12% in comparison to short term insurance of 28% CAGR during the same period. Long term insurance as a proportionate of the whole industry declined from 42% in 2018 to 35% in 2020. In 2020, COVID 19 added pressure to Zambia's struggling economy. Ministry of Finance figures showed that real GDP contracted by 3% in 2020 due to disruptions to global supply chains, decreased investment, and consumption spending. According to the 2021 World Bank Group report on monitoring the impact of COVID -19 firms in Zambia, more than 70% of Zambian firms are still experiencing depressed demand for goods and services while nearly 5% businesses were reported to have closed permanently in Zambia since the onset of the pandemic. This effect did not spare the insurance industry.

Market penetration of the Insurance industry has remained relatively low over the past three years, hovering around the 1% mark for the industry. The low penetration rate implies that all companies are competing for the same number of policyholders creating an intense challenge for insurers to secure business. The insurance industry recorded a penetration of 0.45% in 2018, 0.53 in 2019 and 0.48 in 2020. Penetration is calculated as GWPs as a percentage of GDP. This is according to Insurance Association of Zambia Insurance Industry Report 2020. Mulenga, Bwalya and Gebremeskel (2017) describe the financial performance of the Zambian insurance sector as one that is characterised by uncertainty and unpredictability. Therefore, the financial performance of companies in such a sector also remains uncertain and unpredictable.

Besides, the last two decades have witnessed the collapse of leading insurance companies around the globe and in the African region as a whole. Some of the leading insurance companies that have gone under include Penn Treaty Network America Insurance Company, American Medical and Life Insurance Company and the Meridian Group which owned Madison Insurance Company Zambia collapsed and ended up in liquidation (Nzyoka & Orwa, 2016). Blue Shield Insurance Company and Concord Insurance Company also collapsed due to poor financial performance where they were operating on losses (Tegegn, Sera & Merra, 2020). These companies have closed business while owing millions of money to policyholders, life funds and pension schemes. Locally, for example, in 2018, the Pensions and Insurance Authority (PIA) ordered the compulsory liquidation of two life insurance businesses, A-Plus Life Assurance Limited and Focus Life Assurance Limited for failing to meet solvency requirements (PIA, 2019). While there are numerous factors that contribute to such scenarios, such as inadequate prices, low loss reserves, poor management, and

regulations, all of which contribute to insurance companies' poor financial performance (Kripa & Ajasllari, 2016). There was need to widely explore the determinants of profitability for insurance companies as over the years, these companies have registered mixed financial performance. Therefore, this study focused on specific internal and external factors that affect financial performance of insurance companies in Zambia

Research Objectives

The research objectives were as follows:

- To identify key internal and external factors that affect the financial performance of insurance companies in Zambia
- To determine the extent to which each of these factors affects the financial performance of insurance companies in Zambia
- To find solutions on how insurance companies in Zambia can enhance or mitigate the factors that affect their financial performance based on the research findings.

Research questions

- What are the key internal and external factors that affect the financial performance of insurance companies in Zambia?
- To what extent do these internal and external factors affect the financial performance of insurance companies in Zambia?
- How can the insurance companies in Zambia enhance or mitigate the factors that affect their financial performance?

LITERATURE/THEORETICAL UNDERPINNING

Financial performance may be defined as a judgment of how well a company uses its resources to generate and accumulate income (Nandan, 2018). According to their review of company performance, Brealey et al. (2017) determined that an investment that earns more than the cost of capital makes investors better off because it is earning them a higher return than what they can obtain for themselves. A company can be performing well financially if it is using its assets more effectively than its peers or competitors. Naturally, the primary concern of business managers is whether the firm's asset returns exceed or fall short of the cost of capital. If a company's return on the assets it uses is higher than the return one could get by investing in a comparably secure fixed income security, that company is said to be performing well. Financial performance in the insurance industry is often stated in net premiums collected, underwriting activities' profitability, and yearly turnover, investment returns, and return on equity (Simiyu&Ngile, 2015).

The following are the common factors affecting the financial performance of insurance companies.

Liquidity effect on financial performance

Liquidity is one of the most important goals of working capital management and central task of revenue optimization and company's financial performance (Waswa, et al., 2018). Liquidityrefers to the degree to which short-termdebt obligations could be paid from cash or assets that would be converted into cash (Sur & Banerjee, 2013). Companies need to have adequate cash on hand or assets that can be swiftly turned into cash without losing value for the reasons mentioned above. High liquidity necessitates the sale of more profitable investments. A company's financial health would suffer if it missed out on more lucrative investment opportunities since it will produce less income in the future. It is important to strike a balance while taking financial stability and profit potential into account.

Premium growth effect on financial performance

Premium revenue is the primary source of revenue for most insurers, and it is generally more persistent than other revenue sources. Therefore, premium growth should help predict future revenue and earnings growth. Premium growth also measures the rate of market penetration (Birru, 2019). According to NazishIshtiaq& Siddiqui (2018), measuring the growth of life insurance companies is based on the premium. The variable of growth indicates the premium growth of long-term insurance firms, which vary year to year. Therefore, premium growth compares the new premium collected in the previous year and new premium collected in the current year. The difference in change in the amount of base year and particular year will identify the change in growth in the respective year. According to Zainudin& Leong (2017), Premium growth represents the rate of market penetration of an insurance company,

Underwriting risk and financial performance

Another factor which is a determinant of financial performance is underwriting risk which reflects the adequacy and efficiency of the insurers' underwriting performance. Sound underwriting guidelines are pivotal to an insurer's financial performance. The underwriting risk depends on the risk appetite of the insurers. It is measured through the claim incurred divided by annual premium earned (Birru, 2019). Assessing the degree of risk associated with an insurance proposer is known as underwriting. The procedure aids in determining the proper rates to adequately offset the probable expense of providing insurance to consumers.

Scordis (2019) discovered a favorable relationship between underwriting efficiency and financial efficiency about underwriting risk. According to Scordis (2019), insurers' competitive informational advantages in underwriting might account for the favorable association between underwriting and performance. Additionally, a favorable correlation between sales and performance was found. Since the favorable effect of underwriting success on financial strength grows as sales rise (Scordis, 2019, pp. 36-38). The difficulty for insurers in the future is the falling cost of data and information mining, which allows competitors to identify and discover consumers with lesser risks and attract them away with reduced prices (Scordis, 2019, pp. 36-38).

Company size effect on financial performance

The size of the firm determines the level of economics of scale enjoyed by a firm. When a firm becomes larger it enjoys economics to scale and its average cost of production is lower and operational activities are more efficient (Chandrapala&Knapkova, 2013). Large firms have more layers of management, greater number of departments, increased specialization of skills and functions, greater formalization, greater centralization, and greater bureaucracy than smaller firms (Hendricks & Singhal, 2000).

In the insurance sector, large insurers are likely to perform better than small insurers because they can achieve operating cost efficiencies through increasing output and economizing on the unit cost of innovations in products and process development (Wani&Showket, 2015).

GDP effect on financial performance

Gross Domestic Product (GDP) is the indicator of economic development in a particular country (state). During the declining GDP growth the demand for insurance services or products is expected to fall which in turn negatively affect the profitability of insurance companies. On the contrary, in a growing economy as expressed by positive GDP growth, the demand for financial products and services such as life or general insurance tends to be high due to the nature of business cycle. According to Christophersen&Jakubik

(2021), there is a strong correlation between insurance company premiums and economic expansion. According to (Nissim, 2019), the growth of insurers is impacted by the general economic activity since the demand for insurance goods is influenced by the availability of income. According to (Beck & Webb, 2017), rising income may be the cause of consumers setting aside a portion of their earnings for retirement and purchasing investment-related insurance products.

Inflation effect on financial performance

Inflation is a general rise in the prices of goods and services in a particular country; specifically it leads to a fall in the value of money. If one's country inflation rate in significantly increased the total goods and services of the country is also significantly fall (Suheyli, 2015). Low or medium levels of inflation in a country can have a positive effect on the business sector, in that it can act as an incentive to production (Muthama, Mbaluka&Kalunda, 2013).

Theoretical framework

The following are the theories in which this study was grounded

The Resource-Based View theory

The Resource-Based View theory, as discussed by Ahmed et al. (2018), focuses on the ability of an organization's resources to create sustained competitive advantage. One of the concepts related to this theoretical framework is the VRIO model (Barney, 1991). The model suggests that sustained competitive advantage is realized when a firm's resources are valuable, rare, and inimitable and can be supported by organisational processes and systems (Kim, Lee & Shin, 2015). However, Kozlenkova, Samaha and Palmatier (2014) argue that existing resources alone may not be sufficient to support a firm's future market requirements; this is because most insurance firms are operating in a VUCA (Volatile, Uncertain, Complex, Ambiguous) business environments. Insurance companies need to identify and capitalise on new strategic assets in their internal and external business environments; these include technology, research and development, organisational learning and customer feedback. However, most of the theoretical studies do not emphasise on the ways through which managers can transfer, copy and recombine resources (integration) to realise organisational goals (Laaksonen&Peltoniemi, 2018).

The rational choice theory

The rational choice theory finds applicability in many areas of social science. The theory suggests that any type of social interaction or social contact between two parties is viewed as a method of social exchange (Du, Feng & Hennessy, 2017). In this theory, reward is a benefit while punishment is a cost for social exchanges. When applied to insurance, the rational choice theory points out that individuals purchase the right policies from the best-performing companies to get the best benefits (Outreville, 2015). Hence, the rational choice of individuals can be linked to the financial performance of the insurance companies under consideration. Nonetheless, the availability and interpretation of such financial information to the average insurance client is not addressed in most studies

The Stakeholder Theory

This theory was founded by Edward Freeman in 1984. Stakeholders are groups and individuals who benefit from or are harmed by the decisions and actions of an organization. They include shareholders and other financers of the business, suppliers and creditors, the workers, consumers, and the community (Fontaine & Stefan, 2016). The main idea of the stakeholder theory is that the management of the risks can increase the significance of financial distress cost and customer trust and taking into consideration the management of

risks is effective to overcome the financial issues. It is used to determine the performance using different variables (Ferretti, 2016). The organization should be seen as a collection of stakeholders with the purpose of managing the needs and interests. In the case of insurance companies, the major stake holders are the insurers and contributors to of the premiums.

The Agency Theory

According to Bosse& Phillips, (2016), the agency theory is considered as a significant framework for the purpose of designing the governance as well as controlling the organizations. The agency theory is one of the theories that has been applied in corporate governance. It was developed by Jensen and Meckling (1976). According Jensen et al., , corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the corporation such as the board, shareholders managers, and other stakeholders and spells out the rules and procedure for making decisions concerning corporate affairs.

By doing this it provides the structural framework through which the firm's goals s are set and the means of attaining those goals. It also provides a systematic framework for monitoring of performance. The average premium payers, for example, has no in-depth knowledge of the investments industry or how their contributions are managed. They therefore rely on trustees who are presumed to be experts in the field to represent their best interests. This delegation of authority to trustees creates an agency problem that is a problem determining managerial accountability. In delegating authority, the premium payers who are shareholders to the fund have no ability to influence managerial decision making.

Empirical Literature review

Abubakar, et al., (2018) study examined the effect of firm's characteristics and financial performance of listed insurance companies in Nigeria. The data for the study were collected from the annual reports and accounts of Insurance companies quoted in the Nigeria Stock Exchange (NSE) within the period of 2007 and 2016. Robust regression analysis was used to test the hypothesis in addition to some diagnostic tests conducted on the data. The results of the study revealed that liquidity and Age have significant negative impact on financial performance of insurance companies in Nigeria.

Maroofi, et al. (2017) study investigated the sales strategies in the financial performance of insurance companies in the Kurdistan province. The data were collected by the questionnaires and analyzed. The reliability of the questionnaires was analyzed used Cronbach's alpha coefficient, which were 864/0 and 873/0 for the questionnaire of sales strategy and sales performance respectively. All hypotheses were confirmed in the 05/0 reliability and the results showed that the sales strategy has a significant impact on the performance. The relationship between the insurance companies and sales strategies (direct and indirect sales) performance (customer satisfaction and return on total assets) was significant approved as shown by the correlation coefficients which were 0.906, 0.939, 0.942 and 0.894.

Datu (2016) also examined the relationship between firm specific factors and profitability (ROA). The empirical underpinning revealed that underwriting risk, reinsurance utilization, firm size, financial leverage and input cost significantly effect on profitability. Additionally, he also examined the relationship between macroeconomics and profitability in Philippine non-life insurance market. Return on assets (ROA) and operating ratio were used for profitability. The results show that there is no evidence found in the Gross Domestic Product (GDP) and inflation rate on profitability in both ROA and operating ratio.

Daare(2016) study investigated factors that determining general insurance profitability in India. Financial statements of non-life general insurance companies were collected from the year 2006 up to 2016 from 10 general insurance companies (4 public and 6 private insurances). Panel data analyzed using Fixed Effect

Model (FEM) after testing the appropriateness of the model with Random Effect and Pooled regression model. According to the regression result, capital adequacy and GDP were positively affecting profit and liquidity and inflation negatively affecting the profitability of general insurances in India.

METHODOLOGY

Research design

This research used a mixed method approach. A mixed method integrates both quantitative and qualitative research. The study used both primary and secondary data to assess the financial performance of insurance companies in Zambia. Primary data was collected using survey questionnaires. The questionnaires were administered to various stakeholders in the insurance sector in Zambia. Primary data collection is beneficial due to its authenticity, specificity, and up-dated nature (Brannen & Moss, 2012). The data is better suited to address targeted research issues since it is collected firsthand-hand from respondents in the field.

Secondary data was gathered from PIA, peer-reviewed journals, books, industry reports and reputable magazines (Zambia Industry Survey 2020). Secondary data collection provided a wide knowledge scope suitable for analysis in wide contexts. Additionally, the financial data collected from PIA as well as industry information revealed historical facts that were used to establish sectoral patterns in an industry (PIA 2020).

Target population

The targeted population in this research was 31 Insurance companies in Zambia as of December 2021.

Sampling and Sample Size

The study used Stratified random sampling that involves first dividing a population into subpopulations and then applying random sampling methods to each subpopulation to form a test group. This enabled the researcher to obtain a sample population that best represents the entire population being studied; making sure that each subgroup (level of management, department of operation) of interest was represented. The sample size that was considered in this research was 10 insurance companies out of the 31. The study comprised a total of 150 respondents who were drawn from the 10 companies, each of the 10 insurance companies comprised of 15 respondents. The sample was arrived at by getting 30% of the targeted population (500 employees from the 10 Companies) in line with the minimum acceptable sample size according to Kombo & Tromp (2011).

Research Instruments and data analysis techniques

The main research instruments used were survey questionnaires that targeted respondents of the sampled insurance companies. The researcher adopted measurement instrument developed by Madda (2017). The collected data was analysed both qualitatively and quantitatively; this is because the use of survey questionnaires, and secondary methods availed both qualitative and quantitative data.

Data Analysis

Statistical tools and software, specifically SPSS software, was used for data processing. Graphs, percentages and tables have been used. However, for statistical analysis of the data, the following tools were used:

Descriptive Statistics of Samples and Variables: This involved presentation of averages, standard deviation, and direct representation of numbers.

Multiple regression analysis in order to predict the value of a variable based on the value of two or more

other variables. The variable we want to predict is called the dependent variable financial performance. The variables we are using to predict the value of the dependent variable are called the independent variables (i.e. Liquidity; Underwriting risk; Inflation; Company Size; GDP; Premium Growth).

Econometric Model

The following mathematical model was validated to predict the influence of independent factors on dependent variable based on examining both empirical and theoretical study (ROA).

$ROA = \alpha + \beta_1(UR) + \beta_2(L) + \beta_3(PG) + \beta_4(CS) + \beta_5(GDP) + \beta_6(I) + \text{Є}$

Where:

ROA = Return on Assets

UR = Underwriting Risk

L = Liquidity

PG = Premium Growth

CS =Size of companies; Natural log of Total Assets

GDP = growth rate of GDP

I = Inflation

Є = is the error component for company i at time t assumed to have mean zero E [? it] = 0

α = Constant or interpretation of the parameters

β = of the coefficient or parameters that will be estimated

Reliability and Validity of Research Findings

To maximize on reliability and validity of the research findings, the researcher used a clear methodology and research tools during the study so that primary data which was collected, and the findings do not differ significantly from the findings of other scholars (Denzin, 2011). Additionally, questions in the questionnaire were formulated in such a way that they respond to the research objectives and key questions. This helped the findings of this research study to be verified and compared to the findings of other researchers (review literature) upon using similar or same research methods. Additionally, the pilot study was conducted using self-administering questionnaires to the similar group of respondents (an insurance company) in Lusaka District of Lusaka Province. The pre-test helped to know the return rate of the answered questionnaires; completeness; and more importantly to understand the challenges which some respondents faced in understanding the meaning of questions. Therefore, research questionnaires were pre-tested to enhance validity and reliability of the content, some questions were modified, and new questions were added in the questionnaires to improve on questions and the format of the research tools

RESULTS/FINDINGS

Regression Analysis

The variables used to predict the value of the dependent variable are called the independent variables, and these represent the Liquidity; Underwriting risk; Inflation; Company Size; GDP; Premium Growth. Using

multiple regression analysis within the SPSS software program, it has been possible to determine the extent to which the variations in the dependent variable are predicted by the variations in the independent variable, and hence the extent to which the six variables being tested have an impact on performance:

Table 1: Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.918[a]	.844	.726	.10122

a. Predictors: (Constant), Size, Liquidity, Risk, Inflation, Prem Growth, GDP

Source: Research findings

This table presents a summary of the outcomes of the regression. The adjusted R square figure of 0.726 indicates that around 72.5% of the variations in the financial performance of insurance companies can be seen to be due to variations in the six independent variables, indicating that when combined these variables do have an overall impact on the financial performance of Insurance companies in Zambia.

Table 2: ANOVA[a]					
Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	.442	6	.074	7.192	.007[b]
Residual	.082	8	.010		
Total	.524	14			

a. Dependent Variable: ROA
Source: Research findings

b. Predictors: (Constant), Size, Liquidity, Risk, Inflation, PremGrowth, GDP

This table above looks to analyse the extent to which the impact of the independent variables on the dependent variable is statistically significant. In this regard, the ANOVA analysis is used to calculate the F statistic, which in turn can provide a measure of the statistical significance of the results. The significant of the results is 0.007, which is lower than 0.05. As such, this indicates that there is a less than 5% chance that any observed influence of the independent variables on the dependent variable is due to chance, rather than due to any genuine relationship between the variables (Saunders et al, 2019). Furthermore, the F critical at 5% level of significance was 7.192. As a result of this, there is sufficient evidence to draw meaningful conclusions that the overall model is statistically significant as there is a strong level of evidence to suggest that the financial performance of insurance companies is impacted by the combination of all six factors. The significance value is 0.007 which is less than 0.05 thus the model is statistically significant in predicting financial performance of insurance companies.

Analysis of regression coefficients

Table 3 shows the results of the coefficients of the model used in the study. The coefficients, the standard error of coefficients, the t-value, and the p-value are shown. The results in the table show which variables have a significant effect on financial performance and how each of the variables affect performance of insurance firms.

Table 3: Coefficients[a]					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.618	.412		3.931	.004
GDP	-.020	.011	-.509	-1.908	.093
Inflation	-4.300	1.261	-.781	-3.409	.009
Liquidity	-.652	.179	-.601	-3.654	.006
Prem Growth	.527	.217	.438	2.425	.041
Underwriting Risk	1.374	.684	.339	2.008	.080
Company Size	3.987E-10	.000	.602	2.826	.022

a   Dependent Variable: ROA –

Source: Research findings

$ROA = \alpha + \beta_1(UR) + \beta_2(L) + \beta_3(PG) + \beta_4(CS) + \beta_5(GDP) + \beta_6(I) + \varepsilon$

$ROA = \alpha + 1.374(UR) + -.652(L) + 0.527(PG) + 3.978(CS) + -.020(GDP) + -4.300(I) + \varepsilon$

The above means that a unit increase in underwriting, premium-growth and company size will lead to 1.374, 0.547 and 3.978 positive changes in the financial performance of the insurance companies in Zambia respectively. Further, a unit increase in liquidity, GDP and inflation will result in -0.652, -0.020 and -4.300 decrease in the financial performance of the insurance companies in Zambia respectively. Therefore, the coefficient values for liquidity, GDP and inflation are negatives. This implies that liquidity, GDP and inflation have a negative relationship with the financial performance of the insurance companies in Zambia while the positive coefficients for underwriting, premium-growth and company size have a positive relationship with the financial performance of the insurance companies in Zambia

Summary of Hypothesis testing

Hypothesis	Type of Hypothesis	P-value	Decision
H_1	Liquidity/Solvency has a statistically significant effect on financial performance (R.O.A)	0.006<0.05	Accepted
H_2	Premium growth has a statistically significant effect on financial performance (R.O.A)	0.041<0.05	Accepted
H_3	Underwriting risk has a statistically significant effect on financial performance (R.O.A)	0.080>0.05	Rejected
H_4	Company size have a statistically significant effect on financial performance (R.O.A)	0.022<0.05	Accepted
H_5	GDP has a statistically significant effect on financial performance (R.O.A)	0.093>0.05	Rejected
H_6	Inflation has a statistically significant effect on financial performance (R.O.A)	0.009<0.05	Accepted

DISCUSSION

Descriptive analysis

SN	Statements	Mean	Std. Deviation
1	Underwriting	4.31	0.701
2	Solvency/Liquidity	4.62	0.352
3	Premium Growth	3.01	0.528
4	Company Size	4.57	0.246
5	Growth Rate of GDP	4.68	0.429
6	Inflation	4.73	0.388

Statistical findings revealed that that Underwriting factor has a great effect on the financial performance of the insurance companies in Zambia as shown by mean value of 4.31. Equally, respondents were of the view that Solvency/Liquidity, Company Size, Growth Rate of GDP and Inflation have greater impact on the financial performance of the insurance companies in Zambia as demonstrated by mean values of 4.62, 4.57, 4.68 and 4.73 respectively. The results are in line with those of Scordis (2019) discovered a favorable relationship between underwriting efficiency and financial efficiency with regard to underwriting risk. Large firms have more layers of management, greater number of departments, increased specialization of skills and functions, greater formalization, greater centralization, and greater bureaucracy than smaller firms (Hendricks &Singhal, 2018) and Christophersen&Jakubik (2021), who found that there is a strong correlation between insurance company premiums and economic expansion. However, the research found neutral to the statement the extent to which Premium Growth affects financial performance of the insurance companies in Zambia as shown by mean value of 3.01. The standard deviation ranged from 0.246 to 0.701 implying that the data followed normal distribution pattern. This is slightly different from those of NazishIshtiaq& Siddiqui (2018) who found that measuring the growth of life insurance companies is based on the premium. The variable of growth indicates the premium growth of long-term insurance firms, which vary year to year.

Despite two of the six hypotheses (Underwriting Risk and GDP) of the study being rejected, the effect that the two factors have on financial performance cannot be understated. Findings through one of the respondents revealed that;

"GDP growth rate generally drives demand for goods and services and also reflects the state of the economic cycle. Increasing GDP growth is expected to drive demand for insurance products by businesses and households thereby generally being expected to impact profitability positively"

The above statement is in line with the findings of Alshammari et al. (2019) whose findings concluded that there exists a positive relationship between GDP growth and the efficiency of insurance sector in the Gulf Cooperation Council countries.

The findings further revealed that;

"Underwriting risk have adverse effect on the firm's profitability the increase of loss ratio indicates the efficiency of the insurer's underwriting activity and the exposure to financial loss resulting from the selection and approval of risks to be insured"

The above statement is similar to the findings of Xu (2015), in her paper "An Analysis of the Effect of Underwriting Risk on the Performance of Property and Casualty Insurance Companies in China." Xu (2015) found that underwriting risk has a significant negative effect on the profitability of property and casualty insurance companies, and that an increase in the loss ratio is an indicator of higher exposure to financial loss resulting from underwriting activities.

IMPLICATION TO RESEARCH AND PRACTICE

The research suggests that insurers in Zambia increase their leverage in order to perform better in terms of their return on assets. However, insurance companies should exercise caution when using excessive debt as this can potentially harm their long-term viability. If they are unable to meet their loan payments, heavily leveraged businesses could face insolvency.

The study also suggests that enterprises should raise their capital in order to perform better. The companies should also improve the staff's managerial skills because they are favourably associated to output.

The negative impact of liquidity on the profitability of insurance companies leads to the recommendation that the optimal level of liquidity holding is an important issue for financial decision-making insurance companies. The companies must find a balance between the need to keep funds in the form of liquidity to pay their short-term liabilities and those that may engage in investment.

The growth rate of insurance companies, reflecting the change in the level of gross premiums from one year to another, has a positive impact on the profitability of insurance companies. Nonetheless, the increase in premiums must be accompanied by investing capacity, providing suitable products for both businesses and individuals, education and advice to the public about the importance of insurance, whether mandatory or voluntary, and not through price competition between companies operating in the market.

Companies need to assess risky policies in order protect themselves from such policies by reinsurance and pricing them accordingly

CONCLUSION

This research sought to assess the factors affecting financial performance of both life and non-life insurance companies in Zambia. In addition, the study sort to examine the extent to which the factors affect the performance of the insurance companies and find solutions to mitigate the factors that affect financial performance respectively. Having examined the 6 factors Liquidity, Inflation, GDP, Premium Growth, underwriting risk and Company size in line with the three objectives of this study, it can be concluded that insurance companies are very much aware that the above-mentioned factors affect their financial performance. Despite the above-mentioned knowledge, a good number of people still lack the proper understanding on the various factors affecting financial performance which is a huge gap in the quest to address the challenge. Further the factors are cross cutting to all insurance companies regardless of size or type of insurance company. The study also revealed that due to the complexity of the factors as isolated factors or grouped brought to light the fact that there exist no one size fits all kind of mitigation measures to the factors under investigation.

FUTURE RESEARCH

It is advised that scholars broaden their information gathering efforts or evaluate Zambia's industry to those of other nations to better understand the relationship between internal and external parameters to ensure the

validity and reliability of the results. Finding endogenous and exogenous factors that might directly or indirectly affect the model is also crucial. The scholars can also perform crucial study, including differentiating behavior aspects that may affect the insurer's advantage

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