Gusau Journal of Accounting and Finance (GUJAF)

Vol. 1 Issue 2, October, 2020 ISSN: 2756-665X

A Publication of
Department of Accounting and Finance,
Faculty of Management and Social Sciences,
Federal University Gusau, Zamfara State –Nigeria

Gusau Journal of Accounting and Finance, Vol. I, Issue 2, October, 2020

FIRM SPECIFIC ATTRIBUTES AND FINANCIAL PERFORMANCE OF LISTED INSURANCE COMPANIES IN NIGERIA

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Abstract
The financial performance of Nigerian insurance firms has been seen as weak and poor. Owing to the weakness of the insurance sector, the study therefore examined the effect of insurance specific attributes on financial performance of listed insurance firms in Nigeria. The study covered a period of eleven years from 2008 to 2018. The research used correlation research design and secondary data obtained from the annual reports and accounts of firms from 2008-2018. The population of the study is all the 27 insurance firms listed on the Nigerian Stock Exchange as at 31st December 2018, eighteen (18) of these firms were selected as sample. Multiple regression analysis was used in estimating the research model. The result of the study shows that underwriting risk and operating expenses have negative and significant impacts on financial performance and Premium growth reveal a positive and significant impact on financial performance of the study firms. The study concludes that underwriting risk and operating expenses inversely affect the financial performance of listed insurance firms. The study recommends among others that the management of the listed insurance firm should focus more on reducing the level of their underwriting operation and cut their present level of operational cost drastically to improve financial performance.

Keyword: *Financial performance, underwriting risk, Premium Growth, Operating Expenses, Re-Insurance risk*

1. Introduction

Insurance plays very important role in the development of the economy, efficient allocation of resources, reduction of transaction costs, creating liquidity,

promoting investments and distribution of financial losses. It also plays a prominent role in the country's economy through risk bearing and payment of taxes (Hamadu & Mojekwu, 2010). Insurance business is arguably the lead player in the Nigeria's risk management system. Aside ensuring financial security, the insurance industry contributes significantly to the financial intermediation chain, and offers a ready source of long term capital for infrastructural projects (Augustine & Nwameka, 2011).

The risk businesses include the insurance companies and as such encompass all sorts of risks ranging from individuals, businesses and companies. In order to avoid losses due to the compensation claims made by the insured, it is necessary that insurance companies manage their likelihood of negative outcome and conduct the right analysis to avoid losses due to the compensation claims made by the insured. However, Saeed and Khurram (2015) argued that the role of insurance companies and other financial institutions is to create an effective and efficient monetary framework through risk transfer, intermediation and mobilization of savings in the economy.

There are factors that influence firm's performance which includes firm's specific factors. Insurance firm's specific factors are those attributes that are peculiar to insurance firms that have effect on the performance of a firm. Firm characteristics affect insurance companies' financial performance. These characteristics are underwriting, re-insurance, operating costs, premium growth, firm size, loss ratio and leverage among others which plays vital roles on performance. This specific characteristic is peculiar to a specific asset or company.

According to NAICOM, before 2005 the Nigerian insurance industry was undercapitalized, weak and indeed not performing its exact roles for economic transformation. Adeosun, (2016) stated that insurance firms contribute lower than 1.5% to GDP annually of what it should and by implication 70,000 employment opportunity is being loss annually and the sector is due for recapitalization. These necessitate a better understanding of the financial risk exposure of these firms to their performance to prevent the future reoccurrence of these problems.

Literature reviewed reveal that most of the previous studies carried out on determinants of financial performance of listed firms in Nigeria, Akindele (2012), Olusanmi, Uwuigbe and Uwuigbe (2015) and other countries of the world, Arif and Anees (2012), Khidmat and Rehman (2014), Otieno & Nyagol, 2016 focuses

more attention on the banking and other sector while neglecting the strategic importance of insurance firms to the Nigeria economy. Also, the previous studies in Nigeria on financial performance such as, Soyemi, (2014), Epetimehin and Obafemi (2015) used solvency and liquidity as a proxy without including re-insurance and underwriting as variables to proxy determinants of financial performance as an independent variable of the study. The only few studies found are foreign based studies such as the work of Patrick (2015) and Suheyli (2015). These creates a gap for further study in Nigeria by including re-insurance and underwriting as a proxy of insurance specific attribute on financial performance using insurance firms as a domain of the study.

The following section is structured into four. The first part is the literature review which provide review on related studies and theory. It is followed by methodology adopted in the study. the Fourth deals with the result and discussion of finding and the final part deals with conclusion and Recommendation.

2. Literature Review

Underwriting and Financial Performance

Daare (2016) identified factors that determine non-life insurance companies performance in India. The result of the study revealed loss ratio found statistically insignificant and negative impact on performance of insurance companies` in India. Saeed and Khurram (2015) in their study indicated that the loss ratio has a significant and negative impact on the profitability of insurance companies in Pakistan. This research is confined to the context of international relations. In addition, Ijaz (2015) study found that underwriting risk is significantly related to financial performance of insurance firms and the relationship is negative. The researcher concluded that underwriting has negative significant effect on performance. This study was on Pakistan economy and need to be localized, the period of the study was 2014 which has left some period gap for research. Arif and Showket (2015) conducted a research on effect of financial risk and financial performance of24 life insurance companies in Indian from 2005 to 2013. The result of the study revealed a negative and insignificant impact between underwriting risk and financial performance of the firms. Finally, a research carried out by Mehari and Aemiro (2013) on firm unique features that decide the outcome of the results of insurance companies in Ethiopia. The findings of the regression analysis showed that the loss ratio for insurance firms in Ethiopia was statistically important and negatively linked to the ROA. Fali et al. (2020) added

to the current empirical evidence that the underwriting of risks decreases the low profitability of Nigerian-listed insurance firms.

Premium Growth and Financial Performance

Lasisi (2018) has selected twelve (12) insurance companies listed in Nigeria for the period 2011-2015 to determine how liquidity risk affects the firm's results. The random findings showed that premium growth does not influence firm performance of the insurance companies listed in Nigeria. Saeed and Khurram (2015) found that premium growth is negligible and negatively impacts the performance of Pakistani non-life insurance companies. The firm-specific factors affecting the profitability of non-life insurance companies operating in Turkey were discussed by Kaya (2015). For the period 2006-2013 using 192 panel data sets. The study discovered that premium growth has had a clear and substantial impact on the profitability of insurance companies. In their work on firm specific factors that decide the success of insurance companies in Ethiopia, Mehari and Aemiro (2013) have found that growth in the written premium has a statistically insignificant relationship with ROA. A research by Sumaria and Amjad (2013) revealed a favorable and insignificant relationship between premium growth and the financial performance of insurance companies. Although Daniel and Tilahun (2012) concluded that there is a favorable and insignificant relationship between premium growth and the financial performance of insurance companies in Ethiopia.

Reinsurance and Financial Performance

Pavic et al. (2017) The study employing static panel model and the results of the analysis reveal that reinsurance has a negative and insignificant effect on performance when measured with both ROA and ROE. Suheyli (2015) investigated the determinants of insurance companies' profitability using firms in Ethiopia. The period of the study was from 2004 to 2014. The study concluded that financial performance and re-insurance have negative relation and their relationship is significant. This study uses just 9 firms, the study period only covered 2004 to 2014 and was not conducted in Nigeria.

Mistre (2015) examined the determinants of profitability in Insurance firms in Ethiopia. Regression analysis was used to analyze the data, the result of the study illustrated re-insurance ratio to be positively related to performance, though not significant. The research concluded that re-insurance impact is positive to performance though the impact is insignificant on financial performance.

Operational Expenses and Financial Performance

Lasisi et al. (2017) The results of the study show that the productivity of operating costs has shown an insignificant negative impact on profitability. Odunga (2016) conducted a report on basic performance metrics, market share and operating efficiency of commercial banks in Kenya. As a consequence, the bank's operating efficiency is well illustrated by the bank 's unique performance metrics. Never less so, market share is a matter of assessing the operating performance of the bank. The research was conducted in the banking sector in Kenya and the findings of the study do not apply to other sectors in Nigeria. Saeed and Khurram (2015) revealed that expense ratio proved insignificant on the performance of the insurance companies. The study reveals that insurance company is maintaining a good operating expense. Lasisi and Nuhu (2015) in their study found that the problem of the manufacturing industry is the high level of overhead costs incurred by the company. Warganegar et al. (2014) found evidence of the impact of sticky operating expenses (SG&A) on the profitability of firms. They study concludes that sticky costs have a detrimental effect on results and therefore companies should be versatile in designing the cost structure of their companies. In addition, Oluwagbemiga, Olugbenga and Zaccheaus (2014) study showed a positive and important relationship between operating costs and the output of firms.

3. Methodology

Correlational research design is adopted for the study this because the researcher attempts to measure the effect of Insurance firm's specific attributes on financial performance of listed insurance firms in Nigeria over the period of 2008 to 2018. The choice for this design was informed by the research paradigm which is of the positivist philosophical research paradigm. The population for the study is all the twenty-seven (27) insurance firms trading on Nigerian Stock Exchange as at December 31st 2018. The sample size is eighteen (18) drawn from the total population of twenty-seven (27) listed insurance firms by 31st December 2018. The size of the sample covers 67% of the population. The sample size consists of firms that were listed on or before 31st December 2008 and remain listed till the end of 31st December 2018.

Model Specification

In bid to ascertain the effect of Insurance firm's specific attributes on financial performance of listed insurance firms in Nigeria, a multiple linear regression mode was built. The model encapsulates the contribution of Underwriting,

Premium growth, Reinsurance and operating expenses on Financial Performance of listed insurance firms in Nigeria.

$FP_{it} = \infty + \beta FC_{it} + \varepsilon_{it}$
$FP_{it} = (ROA_{it},)$
Insurance firms specific attributes $_{it} = (UW_{it} + PG_{it} + RI_{it} + OPE_{it})$
$ROA_{it} = \beta_{0it} + \beta_1 UW_{it} + \beta_2 PG_{it} + \beta_3 RI_{it} + \beta_4 OPE_{it} + \varepsilon_{it}$Where,
FP = Financial Performance
FC = Firm Characteistics
ROA = Return on Assets
UW = Underwriting
PG = Premium Growth
RI = Reinsurance
OPE = Operating Expenses
i= 18firms
t= 11years
E= error term and
β_0= Intercept of the model "Constant"

Table1: Variables, Definitions and Measurements

S/No	Variables	Measurement	Variable Specification	Source
1	Return on Assets	Profit after tax divided by total assets	Dependent	Daare (2016)
2	Underwriting Risk	Loss or Claim incurred /premium earned	Independent	Dey et al. (2015)
3	Premium growth	Current Premium–Previous Premium/Previous Premium	Independent	Lasisi (2018)
4.	Reinsurance	Premium cede/ total assets	Independent	Ana-Maria and Ghiorghe, (2014)
5.	Firm size	Log of Total Asset	Independent	Kaya (2015)
6	Operating Expenses	Operating expenses / Gross premium earned	Independent	Krishnan (2006)

Source: Researcher's Computation, 2020

Result and Discussion

Table 2

Descriptive Statistics

Variables	Obs	Mean	Std Dev.	Minimum	Maximum
ROA	198	0.01	0.11	-0.78	0.259
UWR	198	0.37	0.24	0.78	1.70
RIR	198	0.11	0.11	0.000	0.51
OPE	198	0.87	0.50	0.17	5.27
PG	198	0.30	1.32	-1.00	14.17

Sources: Output Generated Using Stata 13

Table 2 shows a mean value of 0.01 it indicates that the sample of Insurance firm performance measured by return on asset achieved 1% on average after tax profit in the last 11 years from 2008 to 2018 and the return on asset value deviate from the average by 0.11 is wide as the standard deviation is higher. The minimum and maximum value of return on assets (ROA) is -0.78 and 0.26 respectively from the sample. This means that the most profitable of the sample realized 22% profit after tax on 1naira investment in the firm's asset, while the firm that did not make profit had the least loss of 78% of 1 naira invested the asset of the firms.

The underwriting risk has an average value of 0.37, this indicate that on average the sampled firms paid 37% claim out of their total premium within that period, the minimum claim paid to earn premium was 7.84% and highest loss incurred to earn premium was 170% to earn a premium of 1 naira. Reinsurance risk has a minimum and maximum value of 0.000 and 0.51 respectively. This mean that the least premium ceded to insurance to their asset among the sampled is insignificant due to approximation to two decimal place and the highest is 51%. The average value of the re-insurance risk is 0.11. this implies that the sampled insurance firms ceded 11% of their premium to re-insurance, and the standard deviation from the mean is 11%, this implies deviation level of the data to the mean is relatively moderate.

Operational expense has a minimum and maximum value of 0.17 and 5.27 respectively, this means that the firm with the least operational cost to gross premium earn was 17%, while the firm that has the highest operational expense to gross premium earn was 527%. The mean operational cost of the sampled firm to

gross premium was 87%. This implies that most of the insurance firms have high operating cost compare to gross premium earned (87%). The average mean value of the premium growth is 0.30 this indicates that on average the premium grows by 30%. The standard deviation is 1.32, this signifies a wide deviation from the mean. the sample firm's premium does not grow in similar pattern. The premium growth has a minimum and maximum value of –1.000 and 14.17 respectively.

Robustness Test

Table 3

Multicolinearity Test

Variables	**VIF**	**1/VIF**
UWR	1.03	0.97
RIR	1.11	0.90
OPE	1.11	0.90
PG	1.02	0.98
	1.07	

High multi-coleanrity may lead to distortion of inferences to be made. The VIF of one (1) show that there is no correlation among the predictors and hence the variance is not inflated and VIFs more than 10 indicates serious multi-collinearity needing further adjustment (Guajarati, 2014).

Table 4

Test for heteroskedasticity

White Test	**Chi-Square**	**P-value**
ROA	**13.41**	**0.495**

Source: Stata Output, (2020)

The study tested for another assumption of least square regression referred to homokedasticity. This assumption stated that the variance of error terms is the same across the values of the independent variables. the study used the Cameron & Trivedi's decomposition of Imtest also refers to as white general test for heteroscedasticity. The null hypothesis for the test was "constant variance" (presence of homokedasticity) at 5% level of significance. if the P-value is at 5% or less, the null hypothesis is rejecting indicating heteroscedasticity. The result of

ROA model revealed that the residuals are homokedastic as the ROA P-value is 0.495 This shows that the assumption is satisfied.

Panel Effect Test

Table 5

Panel effect Test

LM-Test	**ROA**
chi^2	58.55
Prob > chi^2	0.000

Source: Stata output, (2020)

Furthermore, the study carried out panel effect test using Breusch and Pagan Lagrangian multiplier test for random effects to check if there was a panel effect. The null hypothesis states that there is a panel effect at 5% level of signifcance. The result both models reveals of P-value < 0.000 which is less than 5% level. This shows that there is a panel effect

Hausman Specification Test

Due to the presence of panel effect, hausman specification test was conducted

Table 6

Hausman Specification Test

	ROA
chi^2	5.11
Prob > chi^2	.276

Source: Stata Output, (2020)

The Table 8 shows the result of hausman test conducted to select between fixed effect or random effect regression. The null hypothesis is that there is a random effect at 5% level of significance. the result the Hausman fixed and random effect test revealed a P-value of 0.276 and 0.311 for ROA and ROE which is insignificant at 5% level. this means random effect is preferred as the most appropriate estimator for the study. however, due to non-normality of the residual and to improve the inference to be made, the study interpreted and test the hypotheses using the random effect regression with robust standard error.

Presentation and Interpretation of Regression Results

Table 7

ROA Robust Random Effect Regression

	Random-Model 1 ROA			
Variables	**COEFF**	**RBT. Std Error**	**T-value**	**P-value**
UWR	-.01	.00	-6.45	0.000*
RIR	.05	.04	1.36	0.174
OPE	-.01	.00	-6.80	0.000*
PG	.02	.01	2.86	0.004*
Constant	.02	.02	0.93	0.351
R2	.291			
F-stat	182.95			0.000

*** Significant at 5%. Source: Stata output, 2020**

Interpretation

Table 7 presented the random effect regression result of the variables used in the study based on the Hausman test for ROA. The result of the robust random effect regression in table 7 shows that the Wald - chi-square is 182.95 and is statistically significant at less than 5% (0.000) indicating that the model for the study is fit. Further it also shows that the variables selected for this study jointly have effect on financial performance of listed insurance firms in Nigeria. Also, the table shows that the R2 value is 0.291 indicating that the firm characteristic variables selected in this study is able to explain the changes in ROA to a tune of 29.1 %, while the remaining is explained by other factors that are not included in the model.

Hypothesis Testing and Discussion of Findings

Underwriting Risk and Financial performance

The study findings show negative and significant impact of underwriting risk on ROA of the insurance firms on Nigeria stock market. In table 7, Underwriting risk beta coefficient is -0.01 and P-value of 0.000. This reveals that underwriting risk has a significant impact on ROA. Therefore, the study rejected the null hypothesis (H_{01}) of the study that stated that underwriting risk has no significant impact on financial performance of listed insurance firms in Nigeria.

This implies that an increase in underwriting risk will lead to a decrease in ROA by 0.01. This means when loss or claim incurred increase against premium earned, insurance firm may not get enough revenue from premium that can take care of claims which will deteriorate financial performance. The reality is that the inefficient underwriting risk taken may affect the performance of the study firm negatively. Underwriting of the firms affects the financial performance of insurance firms in Nigeria. The study is supported by extreme value theory**.** Extreme value theory watches out for risk with small probability of occurrence and underwriting different risks with little probabilities. The result supports the findings of Ijaz (2015) and Saeed and Khurram (2015) and Daniel and Tilahun, (2013) who provide evidence that underwriting risk reduces financial performance. the finding is contrary to the study of Daare (2016) who found that loss ratio does not affect financial performance.

Premium Growth and Financial Performance

Table 10 shows that premium growth has a positive coefficient of 0.02 and a P-value of 0.004 which significant at 5% level of significance. This reveals that premium growth (PG) has a positive and significant impact on return on assets. This assumes that a 1% rise in premium growth would result in an increase in return on assets of 2 percent. This means that the greater the growth of the premium over the study period, the greater the ROA. The study thus rejects the study's null hypothesis (H02) that claimed that premium growth did not have an impact on the financial performance of Nigeria's listed insurance companies. This further suggests that financial performance increases when the insurance firms have high revenue (premium) to settle policy holder when due, to boost client confidence which is one of the major drawback of the sector. this suggests that premium growth enhance the financial performance of the listed insurance firms in Nigeria. the result is in line with extreme value theory and also conforms to the findings prior studies by Hussanie and Joo (2019) and Kay (2015) . The result is also contrary to prior studies by Lasisi (2018) and Mehari and Aemiro, (2013) who provide evidence that premium dos not affect financial performance.

Re-insurance risk and Financial Performance

Re-insurance risk revealed a positive and insignificant impact on return on assets with a coefficient value of -0.05 and P-value of 0.173. This means that any increase or decrease in re-insurance will not affect return on asset of listed insurance firms. Hence, re-insurance risk has no significant impact on financial performance. this shows that re-insurance risk does not determine the financial

performance of listed insurance firms in Nigeria. however, the study does conform to Extreme value theory, but it corroborated with the findings of Pavic et al. (2017), Mistre (2015) and Falli, et al. (2020) who discovered that re-insurance firms does not impact on financial performance. however, the study contradicts the studies by Suheyli (2015) and Lee (2012) who found that re-insurance risk adversely affects financial performance.

Operating Expenses and Financial Performance

Finally, the operational expense has a beta coefficient of -0.01 and a P-value OF 0.000 which is significant at less than 5% level of significance. The finding shows that operational expense has a negative and significant impact on financial performance (ROA) of listed insurance firms in Nigeria. This means that one-point increase in operational expense will lead to 1% decrease in ROA. Therefore, a high operational cost incurred by the firm to the gross premium earned reduces the return on asset on the firms. The expectation is high operational expense will have negative effect on performance. Increased operating expenses, unless followed by a rise in net premium will lead to a decrease financial performance in the listed insurance firms in Nigeria. The study is supported by extreme value theory and also in line with the studies of Hasibuan et al. (2020) and Odunga (2016) which which revealed that operating cost affect performance negatively but contradict the study of Saeed and Khurram,(2015) who found that operating cost improve financial performance.

Conclusion and Recommendations

The research reviews the effect of insurance firm specific attributes on financial performance proxy by ROA of insurance firms listed on Nigerian Stock Exchange for the period of 2008-2018. The study employed a sample of 18 firms using Random effect regression. The study found that underwriting risk and operating cost has negative and significant effect on financial performance, premium growth has positive and significant effect on financial performance while re-insurance risk has insignificant effect on financial performance of listed insurance firms in Nigeria. The study concludes that underwriting risk, operating cost and premium growth influence financial performance of listed insurance firms in Nigeria while re-insurance risk does not determine the financial performance of listed insurance firms in Nigeria. Based on the research findings and the conclusion that followed, the following recommendations were made:

i. The management of the listed insurance firm in Nigeria should focus more on reducing the level of their underwriting operations. They are too selective in their underwriting business; they should be more risk taker to earn more profit. The current level of their net claim to premium is contributing negatively to their performance measured by return on asset at insignificant level. They should reduce their risk by reducing their underwriting operation.

ii. The management of listed insurance firm is advice to see how they can cut their present level of operational cost drastically. The firms are operating at a very high cost.

iii. The management of listed insurance firms in Nigeria should increase their marketing strategies to encourage premium growth and invest idle cash in more profitable investment to increase their return on asset position.

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