
Effect of Financial Risk on Financial Performance of Insurance Companies in Rwanda

Wilson Bashaija

Department of Finance, Faculty of Accounting and Finance, University of Kigali, Kigali, Rwanda

Email address:

wilsonbashaija17@gmail.com

To cite this article:

Wilson Bashaija. Effect of Financial Risk on Financial Performance of Insurance Companies in Rwanda. *Journal of Finance and Accounting*. Vol. 10, No. 5, 2022, pp. 230-237. doi: 10.11648/j.jfa.20221005.15

Received: April 12, 2022; **Accepted:** May 27, 2022; **Published:** October 27, 2022

Abstract: Financial risks, cover credit, liquidity, and operational risks, are the risks which Insurance face during their operations and all these risks have severe impact on the profitability of Insurance companies. Insurance businesses, agents, and brokers face numerous problems in less developed cultures where political and socioeconomic systems are still in flux. The study's goal is to examine the impact of Claims Management Policies on the financial performance of Rwandan insurance companies, as well as the impact of working capital management on the financial performance of Rwandan insurance companies. The research design was based on the Theory of Financial Distress. The research used a descriptive research design that included quantitative and qualitative methods. The study adopted target population of 60 and multi-level random sampling of 45. Survey data was collected by use of a structured questionnaire. The data obtained was analysed using both qualitative and quantitative analysis. The results showed that the total model had a significant F statistic of 5.976, which was greater than the essential F value of 3.88 with (1, 219) degrees of freedom at the $P = 0.05$ level of significance. The F-p statistic's value was more than 0.05, indicating that the coefficient in the fitted equation was not equal to zero, implying a good fit. This implied that considering the simple regression fitted, working capital management had a little effect on ROE. The study recommended that the insurance companies should maintain optimal capital structure and ensure that the companies fully utilize their debt facility according to their capabilities. Financial managers should increase investment in working capital by extending the days in the time for the average payment period so that they can also improve the profitability of the firms.

Keywords: Financial Risk, Financial Performance, Insurance Companies in Rwanda

1. Introduction

Financial risk is any of various types of risk associated with financing, including financial transactions that include company loans in risk of default [1]. It is frequently misunderstood to refer only to downside risk, which refers to the possibility of financial loss and the uncertainty surrounding its magnitude. The danger of losing money on an investment or business endeavor is referred to as financial risk. Some more common and distinct financial risks include credit risk, liquidity risk, and operational risk. Risk management is the identification, assessment, and prioritization of risk (whether positive or negative) followed by coordination and economical application of resources to minimize, monitor, and control the probability or impact or unfortunate or to maximize the realization of opportunities [2]. Risk can come from uncertainty in financial markets, project failures, legal

liabilities, credit risk, accident, natural causes, and disasters as well as deliberate attack from adversary. The IMF has an extensive risk-management framework in place, including procedures to mitigate traditional financial risks as well as strategic and operational risks. The latter risks are addressed by a variety of processes, including surveillance reviews, lending policies and operations, capacity building, standards, and codes of conduct for economic policies, the communications strategy, and others [3].

Operational risk is a term that describes the risks and uncertainties that a corporation faces when doing day-to-day business activities in a specific field or industry. Operational risk focuses on how things are accomplished within an organization and not necessarily what is produced or inherent within an industry [4]. These risks are often associated with active decisions relating to how the organization functions and what it prioritizes.

Financial performance is a subjective indicator of a company's ability to earn revenue from its principal way of operation. The phrase is frequently employed as a broad indicator of a company's overall financial health over time. Financial risk is any of various types of risk associated with financing, including financial transactions that include company loans in risk of default [5]. Often it is understood to include only downside risk, meaning the potential for financial loss and uncertainty about its extent.

Return on equity (ROE) is a financial performance metric that is calculated by dividing a company's net income by shareholders' equity. In simple terms, ROE tells you how efficiently a company uses its net assets to produce profits. Shareholders' equity is calculated as total assets minus total liabilities. The return on equity gives investors an idea of how effectively a company's management is using the money invested in it to produce profits [6]. Insurance is a means of protection from financial loss. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss. An entity which provides insurance is known as an insurer, an insurance company, an insurance carrier or an underwriter. [7].

Globally, the insurance industry in the United States employs more than 2.8 million people across nearly 6,000 companies with net premiums written totaling to \$1.28 trillion in 2020 according to S&P Global Market Intelligence. Covid-19 had a significant impact on the insurance sector in the United States, as it has on most of the world economy [8]. From rising digitalization to a greater awareness of mortality, the insurance sector has been pushed to adapt as companies and their workforces strive to service customers across a wide range of products, including auto, homeowners, renters, pet, dentistry, and term and permanent life insurance.

In recent years, the Chinese insurance sector has expanded at a breakneck speed. According to the Swiss Re Institute, China's share of worldwide premiums would rise from 11% in 2018 to 20% by 2029, easily surpassing the US, which is presently the market leader in the \$5 trillion global market [9]. China's strong economy, high levels of government spending, consumer awareness, and technological innovations are driving the nation's growth in the insurance sector. International Financial Institutions (IFIs) are international institutions that provide financing to governments and private companies for social and human development, physical infrastructure projects, trade, investment, establishing new businesses, and service delivery [10]. Chinese financial institutions have a vital role to play in decarbonizing the global economy and must act fast to avoid the economic and environmental risks of climate change, and to support China's new 2060 carbon neutral target.

In Regional perspective, Kenya has a slew of illicit financial threats that put its society at danger of crime and deprive it of basic services. Domestic corruption, terrorist financing, environmental crimes, unlawful trafficking, tax evasion, and the misuse of digital finance like mobile banking and cryptocurrencies are among the dangers. Financial risk comprises credit risk, liquidity risk, interest

rate risk and exchange rate risk; all of them contribute to the volatility of financial performance [11]. The credit risk is the core of financial risk that hinders corporate performance mostly in Africa. This risk varies net worth of assets due to the failure of the contractual debt of the counterpart to meet the regulations.

In Kenya, almost all the premium income generated is through intermediaries like agents and brokers. The sales made by these professionals' impact positively on the financial performance. On the other hand, the delay by these groups in remitting proceeds from sales made to the parent insurance company impact negatively on the financial performance. Feedbacks from these groups serve as a basis for innovation in product, business portfolio balance and formulation of organizational policies [12].

The insurance sector is one of the most thriving, not only in Kenya but across the world. Today, the insurance industry is faced with working in an environment that's rapidly changing and increasing in its complexity. Though personal insurance penetration is modest to some extent, entities and government agencies from all sectors are large insurers. More and more coverage are being given out to cater for the ever-expanding market as the country's economy continues to thrive, which is the essential underpinning of insurance uptake [13]. Insurance companies in Kenya, are licensed by the Insurance Regulatory Authority (IRA). Insurance's primary function is to protect you from unforeseen events, but it also serves as a social arm to reduce life and property hazards. Insurance facilities transfer risks from the insured to the insurer, which implies that if you suffer a loss, you will be compensated from the insurer's money. Additionally, the life insurance policy of insurance provides an insurance channel in that when you save, the insurer enables systematic savings due to the payment of regular premiums [14].

National perspective, A few years ago, insurance companies had suddenly increased motor vehicle premiums by up to 73 per cent, a move that was explained as correcting price undercutting [15]. In 2021, the prices of general insurance went up, a move approved by the Association of Insurers' Rwanda (ASSAR) in October 2020 and was binding to all operators in the general insurance business. Consequently, insurance prices for non-motor and non-health coverage across the market went up as clients with no prior communication to clients. Motorbike taxi operators have also been known to be singled out for certain risks, making them less appealing to insurance companies.

Kigali Bank is considering entering the life insurance sector [16]. The bank intends to inject \$22.6 million into the capital of its subsidiaries in order to generate a new source of income and so compensate for the decline in its shareholders' returns. Bank of Kigali will invest 15 billion FRW (17 million USD) in its subsidiary BK General Insurance, which is estimated to dominate 30% of the life market. Rwanda has only four life insurers, none of which have the resources to cover a growing population. In addition, the growth of the middle class and the low penetration rate offer a considerable growth margin for this segment.

1.1. Statement of the Problem

In the local market, there have also been practices such as price wars leading to liquidity challenges and inability to pay claims. Insurance claims have also gone unpaid for years with some ending in court battles. Such unending challenges and incidents continue to erode any confidence members of the public might have had in the sector's services and see further hesitance for uptake across the market. The risks that insurance firms confront are much too numerous to enumerate. A cyber-attack is one of these dangers. The cost of securing your company's network is not trivial. Insurers must conduct thorough research and analysis on cybercrime, as well as strengthen their own systems. Established insurers face a few business issues as they endeavor to meet new client needs while strengthening core insurance activities. Insurance businesses face enormous challenges in these emerging countries' social, economic, and political systems. Africa, Asia, the Caribbean, and Latin America are just a few of the countries where the insurance industry is in jeopardy.

Insurance companies in Rwanda, as at end June 2015, the total assets increased by 11% reaching Frw 295 billion from Frw 267 billion, end June 2014 and Frw 272 billion (end December 2014); capital and reserves increased by 9% to Frw 218 billion from Frw 200 billion, end June 2014 [16]. The growth in total assets and capital was primarily due to several insurers' capital restructuring, which included additional money injections to align with/implement their business plans. The industry is well funded, as seen by a total solvency margin ratio of 941%, which is significantly more than the necessary solvency margin of 100%.

Sonarwa's total assets grew from Rwf21b in 2008 to Rwf25b by 2010 while shareholder funds stand at Rwf 8b up from Rwf 6b under the period of review. Gross Premium Income shot to Rwf10b from Rwf 6b. The actuarial valuation report by Alexander Forbes shows that Sonarwa recorded a solvency margin of Rwf544m in 2010. The figure shot up to Rwf2.6b by third quarter of 2011. The superior capital position of Sonarwa raises questions about the fate of the government's 23% shareholding, specifically whether the government intends to sell its holdings to the general public through the Rwanda Stock Exchange or whether IGI will be allowed to buy them.

Additionally, no studies have ever been conducted in which the effects of the independent variables on performance were combined. As previously said, financial performance continues to necessitate strategic approaches to financial management. For developing nations, empirical data on financial management techniques and financial performance of insurance businesses appears to be inadequate, and this study will add to the current knowledge in Rwanda.

1.2. Objectives of the Study

1. To assess the claim management policies on the financial performance of Insurance Companies in Rwanda.

2. To determine the effect of working capital management on the financial performance of Insurance Companies in Rwanda.

1.3. Research Hypotheses

1. Ho1. There is on Claim Management Policies on the financial performance of Insurance Companies in Rwanda.
2. Ho2. There is no effect of working capital management on the financial performance of Insurance Companies in Rwanda.

2. Theory

Theory of Financial Distress

When a company's business declines to the point where it can no longer satisfy its financial obligations, it is said to be in financial difficulty [17]. Violations of debt payments and the failure or reduction of dividend payouts are the first signs of financial hardship. Whitaker (1999) defines financial distress as the first year in which cashflows are less than the long-term debt of current maturities. As long as the cashflows surpass the present debt commitments, the company will be able to pay its creditors. The key factor in identifying firms in financial distress is their inability to meet contractual debt obligations. The wrecker's theory was developed initially [18] suggested that stocks of distressed firms perform in a manner which is vastly inferior to stocks of financially healthy firms. The wreckers' theory of financial distress seeks to explain the benefits that may step out of financial distress to stakeholders [19]. This theory contributes to an efficient-market interpretation of a stock market, and usually, it links work on private benefits to the literature on the empirics of asset pricing and that the financial structure and the probability of default may be essential for determining the size of private benefits of control [20].

The theory of financial hardship is based on a company's liquidity and credit risk. This theory presents a non-biased viewpoint on the relationship between credit risk and the study's financial performance factors. The theory provides a neutral framework for conducting an incisive empirical investigation of this relationship within commercial banks by providing information that the influence of financial distress occurs prior to default risk. [21].

This theory was propounded by [22] whereby they postulated that firms enter states of financial distress when they fail to honor their debt commitments as and when required. The failure is due to deterioration in their profitable activities. The failure to meet debt obligations and the failure to pay or a reduction in dividends given to shareholders are the first signs of financial difficulty [23]. Financial distress impacts are felt before default risk is acknowledged, according to the notion. Default is linked to credit risk and can be evaluated by the duration of time a debt is left unpaid beyond its due date [24].

3. Methodology

3.1. Research Design

A research design outlines how the problem will be addressed. A research design's purpose is to make sure that the evidence gathered allows the study to answer the research question as clearly as feasible. The mixed research design, which combines qualitative and quantitative methodologies, was used [25]. The study intends to collect information from respondents on their attitudes and opinions on determinants of financial risk, therefore cross-sectional survey method was used. This was most suitable because it involves collecting

information from the people on their habits, opinions, attitudes and any other educational or social issues [26]. The quantitative design was also used. This data was extracted from the questionnaires as well as from the insurance database, the profit and loss accounts and balance sheets of the selected listed insurance companies in Rwanda.

3.2. Target Population of the Study

Individuals, events, or objects that all share a same observable quality [27]. In other terms, population is the total of everything that meets a set of criteria. The cooperatives listed have a target population of 60 people.

Table 1. Target population.

Sn	Name of Cooperatives	Population
1	RWANDA SOCIAL SECURITY BOARD (RSSB)	4
2	MILITARY MEDICAL INSURANCE (MMI)	4
3	SONARWA LIFE ASSURANCES GENERAL LTD	4
4	SANLEM ASSURANCES VIE LTD	5
5	PRIME LIFE INSURANCE	5
6	MUA RWANDA	6
7	PRIME LIFE ASSURANCE RWANDA LIMITED	6
8	RADIANT INSURANCE COMPANY	6
9	BRITAM INSURANCE COMPANY RWANDA LTD	6
10	BK GENERAL INSURANCE COMPANY LTD	5
11	MAY FAIR INSURANCE COMPANY RWANDA LTD	6
12	RADIANT YACU LTD	3
	TOTAL	60

3.3. Sample Size

The researcher used a stratified random sampling technique, which means that every unit in the sampling frame has an equal chance of being drawn and appearing in the sample. To ensure equitable representation, the researcher employed a sample representative from each of the strata indicated.

Table 2. Sample Size.

Sn	Name of Cooperatives	Population	Sample size
1	RWANDA SOCIAL SECURITY BOARD (RSSB)	4	4
2	MILITARY MEDICAL INSURANCE (MMI)	4	4
3	SONARWA LIFE ASSURANCES GENERAL LTD	4	4
4	SANLEM ASSURANCES VIE LTD	5	5
5	PRIME LIFE INSURANCE	5	5
6	MUA RWANDA	6	4
7	PRIME LIFE ASSURANCE RWANDA LIMITED	6	4
8	RADIANT INSURANCE COMPANY	6	4
9	BRITAM INSURANCE COMPANY RWANDA LTD	6	3
10	BK GENERAL INSURANCE COMPANY LTD	5	4
11	MAY FAIR INSURANCE COMPANY RWANDA LTD	6	3
12	RADIANT YACU LTD	3	1
	TOTAL	60	45

3.4. Sample and Sampling Techniques

The Insurance businesses whose financial accounts were studied and analyzed were chosen at random. This ruled out any possibility of doing business because the chosen group comprised aspects that were reflective of the complete group's traits. Because it was evident which personnel in the

organization had knowledge and access to the information required in the study, purposive sampling was employed to determine the individual respondents in the Insurance companies. Listed insurance companies were selected for this study because they are believed to be information rich due to their diversity hence a source of an in-depth analysis. The sample size was computed using a percentage of 75 percent

and 30 percent sample size, which is a decent representation of the target population, out of the sixty (60) insurance businesses listed on the National Bank of Rwanda as of January 2012.

$$S = 75\% \times N$$

S = required sample size

N = the population size

$$S = 75\% \times 60 = 45$$

4. Data Processing and Analysis

The data was collected and analyzed using descriptive and inferential statistics to meet the study's objectives. In this study, descriptive data was analyzed using the Statistical Package for Social Sciences (SPSS) version 21 while quantitative data was analyzed using advanced Microsoft Excel. Descriptive statistics such as mode, median, mean, and standard deviation were used to analyze the data.

The findings in Table 3 illustrates that 50% of the respondents had Bachelor' level of education, while 30% of

the respondents had master's level of Education and 20% had attained Secondary level. The findings imply that most of the respondents had high level of education which could have contributed to accurate responses. The high level of education of respondent indicates that many managers in the insurance sector have attained a given level of education hence more knowledge on financial management practices in the organizations.

Table 3. Level of Education.

Level of education	Frequency	Percentage
Secondary level	12	20
Bachelor level	30	50
Post graduate level	18	30
Total	60	100

4.1. Claims Management Policies

This section aims at finding out whether claims management policies affect organizational performance of insurance companies in Rwanda. Please indicate your agreement or otherwise with the following statements using the following likert scale. Key: 1=strongly disagree, 2= disagree; 3=neutral; 4= agree; 5= strongly agree.

Table 4. Claims Management Policies.

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1 Monthly targets for each department, directed by departmental targets, are very important to our corporate management.	31.7%	43%	20.4%	3.2%	1.8%
2 Claims management procedures are a major factor in a company's financial success.	34%	32%	20%	8%	8%
3 Every month, the company does a variance analysis to check performance.	33%	37%	15%	8%	7%
4 In paying claims, the company ensures that the proper procedures are followed.	35%	40%	15%	5%	5%
5 To combat fraud, our organization has implemented claim settlement policies.	40%	35%	10%	10%	5%
6 The production of monthly financial statements is critical in the company's claim management.	38%	32%	12%	10%	8%

Our company's management is quite strict about each employee's monthly goals. Most respondents strongly agree (31.7%) that firm management is particular about monthly targets for each department as guided by departmental targets, whereas 20.4% were indifferent, 3.2% disagree, and 1.8% disagree. Putting in place performance measurement systems can be a valuable tool for keeping track of a company's success. Any successful business relies on strong management [28]. Employees are crucial, but it is management who takes the strategic decisions in the end.

Most respondents strongly agree (34%) that claims management practices are a crucial driver of a company's financial performance, with 32% agreeing, 20% neutral, 8% disagreeing, and 8% strongly disagreeing. In most sectors of the economy, insurance companies play a critical role in contributing to effective resource allocation through risk management. Since the dawn of civilization, insurance has existed in the form of mutual assistance. Majority of respondents (33%), strongly agree that company conduct variance analysis every month as a way of monitoring performance, 37% agree with the statement, 15% were

neutral, 8% disagree and 7% strongly disagree. One method of budget monitoring is variance analysis. It identifies the source of the deviation and aids in the implementation of management actions to bring the budget back online. Majority of respondents (35%) agreed that results agree with those of [29] who studied company ensures that the correct procedures are followed in settling claims, while 40% agreed with the statement, 15% were neutral, 5% disagree and 5% strongly disagree with the statement. Claim Procedures and the Claim Adjustment Process, according to the author, the process of determining coverage, legal culpability, and settling a claim is known as claims adjusting.

4.2. Working Capital Management

This section aims at establishing the effect of working capital management on financial performance of insurance companies in Rwanda. Please indicate your agreement or otherwise with the following statements using the following likert scale. Key: 1=strongly disagree, 2= disagree; 3=neutral; 4= agree; 5= strongly agree.

Table 5. Working Capital Management.

SN	Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	The handling of premiums in arrears is critical to the company's ability to increase gross premiums.	31.7%	43%	20.4%	3.2%	1.8%
2	Creditors are used to manage cash flow deficits and keep strong performance from slipping away.	34%	32%	20%	8%	8%
3	The organization always maintains optimal cash levels.	33%	37%	15%	8%	7%
4	Prepares cash flow estimates in order to detect potential surpluses and shortfalls in the future.	40%	30%	10%	10%	10%
5	The importance of working capital in attaining high profits cannot be overstated.	35%	40%	15%	5%	5%
6	Our organization has adequate cash on hand to satisfy its obligations as they become due.	37%	43%	10%	6%	4%

The study conducted strongly agreed and agreed (74.7%) that good management of premium in arrears is key to having increased gross premiums for the company, 20.4% were neutral while 5% disagreed with the statement. Arrears is a financial and legal phrase that refers to an obligation or debt that has not been paid by the due date. [30].

According to the study, 34% of respondents strongly agree that creditors are employed to control cash flow deficits and avoid loss of good performance, while 36% agree, 20% are neutral, 8% disagree, and 8% severely disagree. Credit as a payment option allows clients to buy things or services without having to pay in advance. [31].

The study indicated that 33% strongly agree that Optimal cash balances are always maintained by the company, 37% agree, 15% are neutral, 8% disagree while 7% strongly disagree. Most of the respondents (37%) agree that well optimal cash balances are always maintained by the company.

The study indicated that 40% of respondents strongly agree and prepares cash flow forecasts, identify future surpluses and deficits, 30% agree, 10% neither agree nor disagree, 10% disagree and 10% strongly disagree. Cash flow predictions are an important approach in the financial management of any non-profit organization, according to the majority of respondents (70%), since they assist non-profit organizations better plan.

The study indicated that 35% of the respondents strongly

agree that the working capital is key to achieving high profits, while 40% agree, while 15% are neutral while 5% disagree and strongly 5% disagree with the statement. The majority of respondents (75%) agree that having adequate working capital is critical to earning high profits. The study indicated that 37% of the respondents strongly agree that institution has enough cash to meet its obligations effectively as and when they fall due, while 43% agree, 10% neither agree nor disagree, 6% disagree while 4% strongly disagree. Most respondents (80%) think that the high company must be able to earn enough cash to pay its immediate obligations and hence continue trading.

4.3. Relationship Between Claims Management Policies and Financial Performance

The association between claims management policies and ROA was determined using simple regression. The data was thus fitted with the regression model $Y=0 + 4X4+$, and the model was found to be significant. R and R² were 0.248 and 0.062, respectively, according to Table 6. There was a positive linear link between claims management policies and insurance firm ROA, as indicated by the R value of 0.248. The independent variables' explanatory power was 0.062, according to the R² value. This suggests that the model $Y=0 + 4X4+$ explained 6.2% of the variation in ROA.

Table 6. Model Summary.

Model	R R Square	Adjusted R	square	Std. Error of the Estimate
1	.396.157	.154	32.994	.48760

a. Predictors: (Constant), Claims Management Policies

The findings of the analysis of variance were presented in Table 6 (ANOVA). The total model was significant because the F statistic of 5.976 was greater than the threshold F value of 3.88 with (1, 219) degrees of freedom at the P=0.05 level of significance. The reported p value of 0.000 was less than

0.05, indicating that the coefficient in the fitted equation was not equal to zero, signifying a good fit, and so claims management procedures influenced financial performance, according to the simple regression fitted.

Table 7. ANOVA.

Model	Sum of square	df	Mean square	f	sig
Regression	32.994	1	32.994	7.487	0.015
Residual	45.935	219	.210		
Total	78.929	220			

a. Dependent Variable: ROE

b. Predictors: (Constant), working capital management

4.4. ANOVA

The findings of the analysis of variance were presented in Table 7. (ANOVA). The overall model was not significant since the F statistic of 2.396 was less than the required F value of 3.88 with (1, 219) degrees of freedom at the P=0.05 level of significance. The reported p value of 0.123 was more than 0.05, indicating that the coefficient in the fitted equation was not equal to zero, signifying a decent fit. However, based on the basic regression fitted, working capital management had no effect on ROE.

As shown in Table 7, the coefficients to the model $Y = 0.427 + 0.0109X_5$ estimations were significant at the 0.05 level of significance. Because the significance was 0.015, which was less than 0.05, this was the case. The constant term implied that the ROA of insurance businesses in Rwanda is 0.427 units at 0% working capital management. The coefficient of 0.109 indicates that a one-unit increase in working capital management boosts ROA by 0.109 units.

The F statistic, which had a p value of 0.123, was also shown in Table 7's results. The F-p statistic's value was more than 0.05, indicating that the coefficient in the fitted equation was not equal to zero, implying a good fit. This meant that, based on the simple regression model, working capital management had just a minor impact on ROE.

5. Recommendation

5.1. Claims Management Policies and Financial Performance

Insurance businesses should maintain an optimal capital structure and make sure that their financing facilities are fully utilized in accordance with their capabilities. Furthermore, it is recommended that insurance businesses create capital structure decisions that will result in increased tax savings. A claims manager should develop strategic strategies to ensure that insurance claim complaint files are appropriately maintained, monitored, and handled for future demands that may need their utilization. Second, state-of-the-art training mechanisms should be put in place to enhance and improve a claim officer's working pattern, which will definitely affect insurance businesses' organizational efficiency. These best practices will aid the company in establishing a strong basis for achieving its policy and process management objectives.

5.2. Working Capital Management

The findings revealed that the combined effect of working capital management, capital budgeting techniques, capital structure decisions, claims management policies, and corporate governance on the financial performance of Rwandan insurance companies is greater than the individual effect of financial management practices. Working capital management is critical since it affects a company's profitability, risk, and, ultimately, value. A more aggressive

working capital strategy with a low working capital investment is associated with a higher return and risk, whereas a conservative working capital strategy with a high working capital investment is associated with a lower return and risk. Financial managers should enhance working capital investment by extending the time for the average payment period to improve the profitability of their companies. Financial managers should aim for an ideal working capital balance that balances costs and benefits while optimizing profitability and, by extension, shareholder value. Financial managers should strive for optimal working capital that balances costs and benefits while increasing profitability and, by extension, shareholder value.

6. Conclusion

6.1. Working Capital Management and Financial Performance

Management and financial management actions, such as budgeting and revenue management, include ways to ensure that government decisions and actions affect the country. Public financial performance management is seen as an integral part of successful governance and needs to lead to cultural, operational, and people change. The results show that working capital management had a positive and statistically significant impact on the financial performance of Rwandan insurers. The coefficient results show that the characteristics of the company had a moderate impact on the relationship between working capital management and financial performance of Rwandan insurers.

6.2. Claims Management Policies and Financial Performance

Performance assessment, on the other hand, helps companies understand different aspects of their business by helping them analyze their performance over a period and predict future performance. Regression analysis results show that leverage, size, capital, growth, and liquidity are the most important determinants of performance in the life insurance sector, while ROA is not statistically significant with age or tangibility. It shows that. As the results show, liquidity negatively impacts profitability and further impacts a company's effective risk management practices. In addition, the test results provided sufficient statistical evidence for moderation. It is the policy of claim management that can sustainably bring excellent financial performance to insurance companies.

References

-
- [1] Al Rahaleh, N., Ishaq Bhatti, M., & Najuna Mismar, F. (2019). Developments in risk management in Islamic finance: A review. *Journal of Risk and Financial Management*, 12 (1), 37.

- [2] Choo, B. S. Y., & Goh, J. C. L. (2015). Pragmatic adaptation of the ISO 31000: 2009 enterprise risk management framework in a high-tech organization using Six Sigma. *International Journal of Accounting & Information Management*.
- [3] Sadgrove, K. (2016). *The complete guide to business risk management*. Routledge.
- [4] Girling, P. X. (2022). *Operational Risk Management: A Complete Guide for Banking and Fintech*. John Wiley & Sons.
- [5] Everett, C. R. (2015). Group membership, relationship banking and loan default risk: The case of online social lending. *Banking and Finance Review*, 7 (2).
- [6] Ugwu, C. C., Aikpitanyi, L. N., & Idemudia, S. (2020). The effect of audit quality on financial performance of deposit money banks (evidence from Nigeria). *Journal of Economics and Business*, 3 (1).
- [7] Zahariev, A., Prodanov, S., Zaharieva, G., Krastev, L., Kostov, D., Pavlov, T.,... & Zdravkov, N. (2020). The Brokerage Insurance Companies Under COVID-19 Framework (The Bulgarian Experience). *Economic and Social Development*, 58.
- [8] Tsukhlo, S. V., Gataulina, E. A., Ternovsky, D. S., Shagaida, N. I., Shishkina, E. A., Borzykh, K. A.,... & Baeva, M. A. (2019). Section 4. The real sector of the economy. *Russian Economy: Trends and Perspectives*, (41).
- [9] Rondeaux, C. (2019). *Decoding the Wagner group: Analyzing the role of private military security contractors in Russian proxy warfare*. New America.
- [10] Davradakis, E., & Santos, R. (2019). Blockchain, FinTechs and their relevance for international financial institutions (No. 2019/01). EIB Working Papers.
- [11] Lelgo, K. J., & Obwogi, J. (2018). Effect of financial risk on financial performance of micro finance institutions in Kenya. *International Academic Journal of Economics and Finance*, 3 (2), 357-369.
- [12] Gitman, L. J., Juchau, R., & Flanagan, J. (2015). *Principles of managerial finance*. Pearson Higher Education AU.
- [13] Brown, W. (2019). *In the ruins of neoliberalism*. Columbia University Press.
- [14] Weisbart, S. (2018). *How insurance drives economic growth*. Insurance Information Institute, June.
- [15] Barley, S. R. (2015). Why the internet makes buying a car less loathsome: How technologies change role relations. *Academy of Management Discoveries*, 1 (1), 5-35.
- [16] Berthilde, M., & Rusibana, C. (2020). Financial Statement Analysis and Investment Decision Making in Commercial Banks: A Case of Bank of Kigali, Rwanda. *Journal of Financial Risk Management*, 9 (04), 355.
- [17] FELIX, Z. (2017). *Operations Management and Financial Performance of Insurance Companies: a Case Study of Prime Insurance Ltd in Kigali Rwanda* (Doctoral dissertation, Mount Kenya University).
- [18] Muriithi, J. G., Waweru, K. M., & Muturi, W. M. (2016). Effect of credit risk on financial performance of commercial banks Kenya.
- [19] Sporta, F. O. (2018). *Effect of financial distress factors on performance of commercial banks in Kenya* (Doctoral dissertation, JKUAT).
- [20] Munguti, H. M. (2019). *Effect Of Financial factors on Financial Distress Of Tier Two Commercial Banks In Kenya* (Doctoral dissertation, Kca University).
- [21] Maggiore, S., Laes, E., Kessels, K., Valkering, P., Kleine-Hegemann, K., Reiß, P.,... & Castanheira, C. (2015). S3C D2. 1-Description of the candidates to form the "Family of Projects".
- [22] Olalekan, L. I., Olumide, M. L., & Irom, I. M. (2018). Financial risk management and the profitability: an empirical evidence from commercial banks in Nigeria. *Samuel Analyst Journal of Management Sciences*, 16 (2), 56-67.
- [23] Akinsomi, O. (2020). How resilient are REITs to a pandemic? The COVID-19 effect. *Journal of Property Investment & Finance*.
- [24] Emekter, R., Tu, Y., Jirasakuldech, B., & Lu, M. (2015). Evaluating credit risk and loan performance in online Peer-to-Peer (P2P) lending. *Applied Economics*, 47 (1), 54-70.
- [25] McNeil, A. J., Frey, R., & Embrechts, P. (2015). *Quantitative risk management: concepts, techniques and tools-revised edition*. Princeton university press.
- [26] Sirriyeh, R., Lawton, R., Gardner, P., & Armitage, G. (2012). Reviewing studies with diverse designs: the development and evaluation of a new tool. *Journal of evaluation in clinical practice*, 18 (4), 746-752.
- [27] Al-Hanawi, M. K., Angawi, K., Alshareef, N., Qattan, A., Helmy, H. Z., Abudawood, Y.,... & Alsharqi, O. (2020). Knowledge, attitude and practice toward COVID-19 among the public in the Kingdom of Saudi Arabia: a cross-sectional study. *Frontiers in public health*, 8, 217.
- [28] Wambugu, L. (2014). *Effects of Organizational Culture on Employee Performance (Case Study of Wartsila-Kipevu Ii Power Plant)*. *European Journal of business and management*, 6 (32).
- [29] Stahl, G., Björkman, I., Farndale, E., Morris, S. S., Paauwe, J., Stiles, P.,... & Wright, P. (2012). Six principles of effective global talent management. *Sloan Management Review*, 53 (2), 25-42.
- [30] Nyongesa, M. N. (2017). *Effect of financial management practices on financial performance of insurance companies in Kenya* (Doctoral dissertation, COHRED-JKUAT).
- [31] Warlenius, R., Pierce, G., & Ramasar, V. (2015). Reversing the arrow of arrears: The concept of "ecological debt" and its value for environmental justice. *Global Environmental Change*, 30, 21-30.