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Effect of Premium Retention on Financial Performance of Life Assurance Companies in Kenya

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Abstract:
Background*: Most companies are seeking to improve their performance in any way possible. The winning card can be held by those who endeavor to innovate, to obtain and sustain performance. Thus, competing in a continuously changing environment is very necessary to comprehend and monitor performance. To survive in a competitive business environment, every firm should operate in conditions of performance. The insurance sector provides financial security and intermediation to individual and business in the economy, hence increasing the country's financial and economic development. One of the fundamental firm specific factor in insurance is the premium retention factor.Reinsurance helps to mitigate the impact of unexpected major loses, ensure stability of earning, and increase underwriting capacities; however, this comes at a cost. Therefore, there is a need for insurance management to determine an appropriate retention level and establish an equilibrium between decreasing insolvency risk and reducing profitability. The study aimed to determine the effect of premium retention on the financial performance of life assurance companies in Kenya. The study was anchored on the following theory: ruin theory.*
Material and Methods*:The study adopted a descriptive research design targeting a population of all the 27 life assurance companies in Kenya. Purposive sampling was used in selection of 17 life assurance firms which had complete financial reports and had not experienced mergers or acquisition.The main objective was to investigate the effect of premium retention on the financial performance of life assurance companies in Kenya. This was guided by this objective; Examining the effect of premium retention on the financial performance of life assurances in Kenya. Hypothesis testing was done on the null hypothesis; H_0: There is no significant relationship between premium retention and life assurance financial. The researcher collected secondary data comprising of the audited financial reports of the respective companies from Insurance Regulatory Authority of Kenya and respective company websites where applicable for the seven years of study from 2015-2021.The secondary data was collected using a secondary data collection sheet.*
Result: *The study found that premium retention had significant influence on financial performance. The study specifically found that premium retention has positive significant influence on financial performance of assurance companies in Kenya.*
Conclusion: *The study thus recommends life assurance companies to find effective ways of ensuring that their premium retention is maintained at optimal level; i.e. maintain the required equilibrium between premium retained and premium ceded. Premium retention can be improved by prudent underwriting procedures therefore insurance firms should strive to improve their underwriting to improve the risk underwritten.*
Key Words: *Premium, ROCE, retention, Premium, cedant,*

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I. Introduction

Most companies are seeking to improve their performance in any way possible. The winning card can be held by those who endeavor to innovate, to obtain and sustain performance. Thus, competing in a continuously changing environment is very necessary to comprehend and monitor performance. Successful firms represent a key ingredient for developing nations. Many economists consider them similar to an engine in determining their economic, social, and political development. To survive in a competitive business environment, every firm should operate in conditions of performance. This is because it is only through performance that companies are able to experience development and make progress. Consequently, assessing and measuring business performance is of significant importance, since companies are constantly seeking effective and efficient results (Taouab & Issor, 2019).

As the economy grows there is need for insurance as a tool for risk management in the economy. The importance role played by insurance industry is to protect the society against the risk they face, this ensures the

stability and national economic development by mitigating the financial risks to which the country is exposed to. Just like other financial service institutions, insurance contributes significantly to the economy, both at macro and micro level, at micro level, life insurance is a means of income protection to a family upon the death of the principal and reduces anxiety of policy owner in face of future uncertainties. At macro level premiums allocated to insurance forms part of the economy's financial capital, which is important resource for investment activities translating to long term economic development. Some of the insurance contracts are the life insurance contracts which are long term and uncertain in nature and therefore sustainability and profitability of the firms is paramount (Zainudin & Mahdzan, 2017). Without insurance the commercial activities maybe unsustainable since they will have to carry all the risk involved in business. Determinants of insurance company profitability are of great importance since they have direct implication on the policy holders, shareholders potential investors and even the employees (Kaya, 2015)

The insurance sector provides financial security and intermediation to individual and business in the economy, hence increasing the country's financial and economic development. A country with a well-developed insurance sector will have a better mechanism of risk transfer and facilitation of funds from surplus to deficit unit which supports economic growth. This stability cannot be achieved without looking at the main reason for existence of any business which is the maximization of the shareholders wealth and increasing the firms value usually achieved by increasing firms' financial performance. An important measure for this performance will be profitability which measure how much has been achieved. with knowledge of objectively researched determinants of profitability the insurance stakeholders will put measures in place to stabilize the industry and enable it to achieve its objective to the insuring (Olarewaju, Oladejo & olaoye,2018)

The growing development of insurance companies in Kenya will have an immediate economic impact on Kenyan economy. The Insurance penetration in Kenya stands at 2.34% which is low compared to global average 7.2% (IRA, 2018 report). Financial market stability relies entirely on Insurance for risk mitigation purposes. For the insurers to be able to cover these risks faced by the society, depends on their capability of profit making or value creation for shareholders(Mwangi & Murigu, 2015). However, there is an observed continuous decline in profit in Kenyan insurance which has affected profitability and sustainability. Amid these poor performance in the insurance industry the banking sector which relatively operates in the same macroeconomic environment has been making positive profit for instance in 2019 banking sector posted 97.3 billion before tax (central bank of kenya,2019). These crisis and profit decline in the insurance sector posed a need to research on the Claim loss ratio on the financial performance of the life assurance companies to establish what is ailing the insurance industry.

1.1 Premium Retentionand Financial Performance of Life Assurance Companies

Reinsurance helps to mitigate the impact of unexpected major loses, ensure stability of earning, and increase underwriting capacities; however, this comes at a cost. Therefore, there is a need for insurance management to determine an appropriate retention level and establish an equilibrium between decreasing insolvency risk and reducing profitability (Oner Kaya, 2015). Efficient and prudent underwriting gives the insurer an option to increase their retention which translates to higher profitability. Insurance companies make contract treaties with the reinsurance on how they will share the risk to reduce the chances of bankruptcy in case a catastrophic event occurs or a large claim occurs. While the reinsurance is pivotal in the insurers' stability, solvency and growth, it involves certain costs which may affect the profitability of the underwriter (Hasibuan, Sadalia &Muda,2020).

Reinsurance is very crucial since it increases insurances' operational efficiency and stability, but overdependence of reinsurance lowers the retention level, and impacts negatively the potential profitability. Therefore, it can be conjectured that the relationship between performance and the retention ratio would be negative (Mazviona, Dube, & Sakahuhwa, 2017),

An insurance firm with better underwriting guideline and enough resources will expect lower claims and is expected to have a higher premium retention. Companies with a higher retention premium and lower claim ratio usually performs well financially. Ideally company's which have efficient underwriting mechanism are expected to have growth in profit because of high retained premium which could be invested to bring more income(Mwangi & Murigu, 2015).

Performance of any company including insurance companies, usually is evaluated by the wealth maximization of the shareholders, shareholders wealth maximization is determined by the profitability of the firm.The key fundamental tenet of the modern financial theory is that managers should do all what is at theirdisposal to maximize the value of the owners' equity (Mutugi & Mwachiti, 2012). For the case of life assurance companies, the performance can be measured based on profit the company is making, the turnaround time of claim settlement and the ability to settle debts as they rise. However, the measure that is important to all the stake holders is profitability. The improvement of profitability generally helps the firm survival and continuity. Moreover, losses cause the deterioration of financial health and causes erosion of owners' wealth which may cause closure of the business. profitability has also been seen as an important gauge for measuring

the efficiency of management in utilization of available resources. Specifically for insurance companies, profitability improves solvency of the company of which is crucial in facing the risk and meeting the obligations towards policyholders and fulfil the insurance goals (Abdeljawad, Dwaikat & Oweidat, 2021).

Profitability for life assurance companies is a key ingredient for its success and competitiveness due to the nature of their business. Life assurance companies engage into obligation that go for over more than one year and can extend decades. Moreover, some of services offered include products which offer guarantee returns which obligates the insurer to honour whether it's making profit or not. The challenge posed by these products could be by relying only on the low interest earned by government securities and poorly performing capital market (Mutugi & Mwachiti, 2012). Profitability of life assurance company is a major concern to the management, regulators and policy holders. Profitability is important for continuity, expansion and competitive advantage for any insurer and the cheapest way to raise finance. Life assurance companies which do not make profit often finds it difficult to raise capital by either issue of debts or equity this hinders them from achieving their set goals. Profitability is an important aspect of insurance company since it improves solvency and acts as a key ingredient to entice the customers to take up policy and the investors to invest to the company (Mwangi & Murigu, 2015). Therefore, management are bestowed with the responsibility to efficiently use the available resources to maximize the output failure to which the company is at risk of closure. Profitability is important to the potential investors who uses it as a yardstick to check the value of the investment opportunity. Therefore, this research aims to study premium retentionon the financial performance of life assurance companies in Kenya.

An insurance company is a financial institution, that offers financial services byextendingproducts to individuals or organizationstrying to mitigate risks that are expected to take place in future. Firms which do insurance businesses possess peculiar characteristics from saccos, microcredits and microfinance, one of the peculiar characteristics are underwriting, claims and reinsurance activities.

1.2 Problem of The Study

Insurance like any other financial institution relies on profitability to sustain liquidity and continuity. Without profits insurance firms may not be able to attract external capital to strengthen its investments and co-existence with the competition. Glassman (2012) profitability is useful in increasing the insurance company's ability to attract potential investors as well as instill confidence and encourage the policyholders that the company will meet its obligation of settling claims whenever they occur. Therefore, insurers' management should prioritize profit attainment as their key objective in day to day (Murigu & Mwangi, 2015). One of the fundamentals underpinning this state of affairs is the instability in the sector arising from insolvency of many firms in Kenya over the last decades. Although the regulation, supervision and development of the Kenyan insurance sector is tasked to the Insurance Regulatory Authority (IRA), the detection and prevention of insurance company insolvencies still remain a great challenge.Regulators require the insurance companies be financially stable in accordance to the put regulation guidelines. The public at large requires a stable and resilient insurance industry. The goal for this regulatory requirement is to instill confidence in the public of the safety of moneyused to purchase insurance products. Also, the guarantee that the insurance company will honour its obligation to the customer (Hasibuan, Hadalia & Muda, 2020).

Despite the positive anticipation the insurance sector has been suffering profitability problems. The insurance industry profitability has been on decline both locally and globally (Nalimae,Wamugo& Simiyu, 2020). Kenyan insurance sector experienced a decline from16% ROA the year 2014 to 3.9% by the year 2020; also a decline trend of ROE from 5.5% 2014 to 1.3% by the year 2020 (IRA, Annual Report pg. 96, 2020) The declining profits is a big impediment in advancing sustained expansion in Kenyan insurance sector (Nalimae,Wamugo& Simiyu, 2020).

The increasingadvancement in the business of insurance and the constant dynamics have brought the importance the profitability and resource allocation in the insurance industry (Nalimae,Wamugo& Simiyu, 2020). However, the insurance industry in Kenya and other countries while providing critical interventions and creating wealth through investments, has had a fair share of company collapses (Kumba, 2011; Greene, 2000 and Hagel, Brown & Davison, 2010). Kenyan insurance industry is faced with a cut throat competition that has led to imprudent underwriting practices leading to losses (IRA Q1 2019). The Kenyan insurance sector has been experiencing a decline in profitability as shown by the trends in decrease of ROA from 16% in 2014 to 3.9% in 2020 and also a decrease in ROE from 5.5% in 2014 to 1.3% 2020. The declining profits remain a greaterchallenge in enhancingstabledevelopment in insurance sector in Kenya (Nalimae,Wamugo& Simiyu, 2020). This declining profit has made it difficult for insurers to get more customers who are important for collective large number of risks in which is fundamental to the insurance (Greene, 2004). Investors will lose confidence and we face the risk of losing foreign investors witnessed during the hay days of insurance sector. Profitability problem in insurance sector has thrown fear among the position of the policyholders and the potential clients have lost confidence on their money safety. The IRA which is mandated by the government to oversee the development of insurance industry have been left in the dark concerning the profitability and

sustainability of the insurance whose penetration has been lagging at 2.34%. If the population lacks confidence with the insurance there is a danger facing the country as a whole since insurance is one of key pillar of financial stability of any economy.

In 2021 the reinsurance market had to tighten cedants rates amid losses made by the insurance companies. This move was to make sure that the cedant were charging adequate premium for their retained risk.Thus, the current study seeks to examine the effect of premium retention on the financial performance of life assurance in Kenya.

1.3 Objective of the Study

To examine the effect of premium retention on the financial performance of life assurance companies in Kenya.

1.4 Research Hypothesis

H0: There is no significant relationship between premium retention and life assurance financial performance in Kenya.

1.5 Significance of the Study

The study provides all the stakeholders in the insurance industry with an insight on the effect of premium retention on the financial performance of the industry. This will make policy making and implementation over the insurance industry feasible by relying on well researched information. The research paper will benefit the following players, insurance regulatory authority, the policy holders and the researchers.

1.6 Scope of the Study

The study focuses on premium retentionand financial performance of life assurance companies in Kenya with the aim of establishing the model of explaining the relationship between them. The study considers seventeen(17) life assurance companies that have been consistently in operation between 2015 to 2021covering a study period of seven (7)years.

II. Literature Review

2.1 Ruin Theory

The theory was postulated by Swedish actuary Filip Lundberg (1903) Lundberg's work was later republished by herald Cramer (1930). The model described an insurance company as an entity that experience two opposing cash flows: an incoming cash premium from the client which arrive at a constant rate and a claim which arrive according to a Poisson distribution with intensity λ and are independent and identically distributed non-negative random variable. The explanation of the model is to see the probability that the insurers capital can eventually fall to zero and render the firm bankruptcy in cases of large claims. To avoid such scenarios insurers usually have an upper bound of the claim they can pay from their capital and reserve and the rest is reinsured with a reinsurance company, (Gerber & Loisel, 2012). The claim upper bound is set and determined by the ruin probability and the insurers management risk aversion degree which determines the amount of risk to be reinsured. The probability of ruin is usually important in pricing of the product since the reinsurer has to calculate the premium loading for the reinsurer and still make profit out of the business.

Surplus process is an essential element in the survival of insurance and the probability of ruin is much dependent on it. The insurance companies use the compound poison distribution to determine the upper bound of the claims the insurer can pay without the probability of ruin going below zero. Insurance companies have to determine the amount of risk that is supposed to be reinsured to enable the company still continue with the operation without the risk of ruin. Since the reinsured risk comes at a cost the probability of ruin is used to calculate the loading premium so that the insurance company still operates at profit. When the loading premium is correctly calculated the insurance company will still be able to make profit despite ceding some of its premium to the reinsurance companies (Vamsidhar, 2020)

Josten Paulsen pointed out that the ruin theory made a vague assumption that the premium the insurer receives is not invested which in the real world the premium received are usually invested, (Paulsen, 2008). One of the biggest incomes earning activity of insurance firms is investment. Some of the investment undertaken by the insurance companies are risky and relying on the assumption of probability of ruin can throw the company into financial difficulties in case the investment doesn't materialize. Therefore, reinsurance is an important aspect in the insurance as it reduces the solvency risk and enables the underwriter to underwrite more risks. This theory is expounding on the premium retention variable.

make meaning of subsequent findings.

Figure 2.1: Conceptual Framework(Author, 2022)

Insurance companies have treaties with reinsurances as a requirement where they cede the premium and share their risk which they cannot bear. A portion of premium is shared to the reinsurer and another portion is retained according to the treaty and depending on the financial strength of insurer. Insurance which has high strength of finances will always retain a higher proportion of insurance when underwriting their business. The retention ratio can be defined as the proportion of underwritten risk which remains in the books of the underwriter after the other proportion is ceded to the reinsurance. Prudent underwriting enables the insurer to have a higher retention ratio which translates to a better financial performance (Murigu & Mwangi, 2015).

Premium retention is proxied by the ratio given by premium retained divided by gross premium underwritten (Mwangi & Iraya, 2014;Soye, Adeyemo & Damola, 2017). For the companies which have a bigger proportion of retention level is an indication that the company has sufficient funds to efficient run its operations and the expected risk.If the retained risk is high this also translates to a higher retained premium so in case there is no large claim incurred this translates to higher profit. (Hisibuan, Sadalia & Muda, 2020)

2.1 Premium retention and Financial Performance Theoretical Review

Hasibuan, Sadalia and Muda (2020) operational ratio and retention ratio on profitability performance of insurance companies in Indonesia stock exchange. The study was conducted on insurance companies listed on the Indonesia Stock Exchange in the period 2011 - 2018. Samples of 9 companies' secondary data were obtained from the Indonesia Stock Exchange or the company's website. The study used Panel Data Regression Method analysis techniques to test hypotheses in research with the help of SPSS applications. The study established that the Retention Ratio is positive but has no significance to the financial performance of insurance companies in the Indonesia.

Burca and Batrinca (2014)studied the insurance industry in Romania by looking at the determinants which affected the insurance financial performance in a period of five years which covered the year 2008 to the year 2012.Targeting population of forty-one (41) insurance companies. The study used a sample of twenty-one (21) firms bycollecting the available secondary data mainly the financial statement from the supervisory body. Panel data analysis was performed and a descriptive research design adopted. The study found out that retained risk ratio had a positive influence on the financial performance.

Soye, Adeyemo and Damola (2017) did evaluation of impact of reinsurance mechanism on insurance companies' sustainability in Nigeria for the period 2009-2015 for seven years. The study used expo-facto research design and inferential statistics analysis; to test the sign and significance of the independent variable to the dependent variable. Secondary data was obtained from financial report of five randomly selected insurance companies from fifty-eight insurance companies. This study used correlation analysis, and an econometric model analysis, using ordinary least squares (OLS) estimation technique. The study concluded that net retention ratio has positively impact on ROA and positively correlated with ROA of insurance.

Mazviona, Dube, and Sakahuhwa, (2017) studied factors affecting the performance of insurance companies in Zimbabwe. They studied 20 short term insurance companies for the period 2010-2014 they used factor analysis and multiple linear regression models to determine the factors affecting performance. They found that the premium retention was positive but did not clarify whether it is statistically significant or insignificant.

Mwangi and Iraya (2014) did research on determinant of financial performance of general insurance underwriters in Kenya. The study adopted a descriptive research design. The study used multiple linear regression analysis by conducting a census study of the all general insurance firmsoperating between the year2010 to 2012 respectively. The data collected for the study was secondary data from Insurance Regulatory Authority of the audited financial statement for individual companies. The study found no relationship between the retention ratio and financial performance of the general insurance companies in Kenya.

Obonyo (2016) researched on the effect the reinsurance hadon the financial performance of insurance companies conducting business Kenya for three years spanning from 2013 to 2015. The researcher adopted analytical survey as well as correlational research design to establish any association between the dependent variable and independent variables. The study did a census study of all the general insurance firms that were conducting business in Kenya for the period between 2013 to 2015. The study used secondary data comprising all the financial reports published by the IRA. The study established that there is a negative relationship between retention level and underwriting profit but insignificant.

Mwangi and Murigu (2015) studied the determinants of financial performance in general insurance companies in Kenya between the period 2009-2012 using a sample of 23 general insurance companies the study employed descriptive research design. The finding was that premium retention was positive and significant related to insurance profitability in Kenya. The previous studies have established a positive relationship between premium retention and the profitability but there is a mixed result on the level of significance. The research will seek to establish the significance of the premium retention on the profitability of insurance firms.

III. Research Methodology

The choice of the research strategy is guided by the research questions and objectives the extent of existing knowledge, the amount of time and resources available (Olweny, Irungu & Aiyabei, 2021). The study employed descriptive research design because, if there is a statistically significant relationship between two variables, then using the information of one variable you can describe the trend of the other variable. A descriptive study is a quantitative method of research in which you have two or more quantitative variables from the same group of subjects, and you are trying to determine if there is a relationship between the variables (Kothari, 2004). The research looked at how premium retentionaffects the financial performance of life assurances in Kenya using a descriptive research design.Target population comprises of all members of a real or hypothetical set of people, events or objects from which a researcher wishes to generalize the results of their research while accessible population consists of all the individuals who realistically could be included in a study (Borg and Gall, 2007). Target population for the study was all the twenty-seven (27) life assurance companies operating in Kenya. Accessible population for this study comprised of the seventeen (17) life assurance companies in Kenya for the period 2015-2021.

A sample design is a definite plan for obtaining a sample from the sampling frame. It refers to the technique or the procedure the researcher would adopt in selecting some sampling units from which inferences about the population is drawn. Sampling design is determined before any data are collected (Kothari, 2004). In this study, the researcher useda purposive non-probability sampling where the life assurance companies with complete financial records and no mergers or acquisition had been done for the period of the study were considered. A sample of 17 life assurance companies operating in Kenya was arrived at. Therefore, this study consideredseventeen life assurance companies operating in Kenya between 2015 and 2021.The researcher collected annual audited and published financial statements for all seventeen (17) insurance companies for the seven-year period under study (2015 to 2021) using secondary data collecting sheet. The financial statements were obtained from IRA.

Data analysis is the process of developing answers to questions through the examination and interpretation of data. Data presentation involves answering the questions of interest, applying different evaluation methods summarizing and communicating the results, (Kothari, 2004).

The secondary data extracted from the financial statements were used to compute the relevant ratio. The secondary data encompassed panel data which consists of time series and cross-sections. The panel data obtained was analyzed using descriptive statistics, correlation analysis, and panel regression analysis. The data extracted from the financial statements wereconverted and processed using the STATA. The data was analyzed and presented in tables, figures and charts. Descriptive statistics were used to summarize and show firm specific factors for life insurance companies. Descriptive statistics to be used included the mean, minimum, maximum and standard deviation.

Heteroscedasticity Test

Table 3.1: Breusch-Pagan/Cook-Weisberg test

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. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of roce

         chi2(1)      =     1.51
         Prob > chi2  =   0.2185
```

The results show that the p-value (0.2185) was more than the significance level (0.05). This means we fail to reject the null hypothesis of constant variance. This shows that there was constant variance and hence there was homoscedasticity in the data.

Autocorrelation Test

Table 3.2: Breusch-Godfrey LM Autocorrelation Test

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. estat bgodfrey,

Breusch-Godfrey LM test for autocorrelation
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lags(p)	chi2	df	Prob > chi2
1	11.966	1	0.0005

H0: no serial correlation

To cater for serial correlation, the B. Godfrey (1978) test for autocorrelation was employed. Serial correlation is a common problem experienced in panel data analysis and has to be accounted for in order to achieve the correct model specification. Failure to identify and account for serial correlation in the error term in a panel model the coefficient will still be unbiased but inefficient and standard error estimate could be wrong, this can lead to wrong inferences. From the table 3.2 the p value is less than 0.05 significance level indicating there was no autocorrelation in the data.

IV. Research Findings And Discussion

Descriptive statistics are category of statistics that primarily describe the features and characteristics of a data set. The main aim of descriptive statistics is to provide summaries of a population as well as its measures. Further, descriptive statistics encompass, frequency distribution, percentage as a proportion of the population, measures of spread as well as measures of central tendency. Generally, the measures of spread comprise of minimum values, variance, standard deviation and maximum values. The measures of central tendency in a data set include mean, mode andmedian. In this study, descriptive statistics entailed calculation of standard deviation, mean, maximum and minimum of dependent variable and the independent variables. This sub-section entailed presentation of standard deviation, minimum, mean and maximum values of the premium retention and ROCE.

Table 4.1: Descriptive Statistics

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. sum roce premiumretention
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Variable	Obs	Mean	Std. Dev.	Min	Max
roce	119	.4351833	.78063	-1.180504	2.73
premiumret~n	119	.5213362	.2213144	.1	.99

The findings also show that the companies recorded an average of 0.5213362 in premium retention with the maximum ratio recorded being 0.99 and the minimum being 0.10000. The findings show that the deviation between the ratios recorded by each company was not too large as indicated by a standard deviation value of 0.2213144.

The findings also show that the companies recorded an average of 0.4343746 in ROCE with the maximum ratio recorded being 2.73 and the minimum being -1.180504. The findings show that the deviation between the ratios recorded by each company was huge as indicated by a standard deviation value of 0.781274. This was because of some companies which made high profit while other companies made losses as shown by a negative minimum and a positive maximum.

4.2 Trend Analysis

4.3.1Premium Retention

The retention ratio can be defined as the proportion of underwritten risk which remains in the books of the underwriter after the other proportion is ceded to the reinsurance.Premium retention is proxied by the ratio given by premium retained divided by gross premium underwritten (Mwangi & Iraya, 2014). In this study, premium retained, and gross premium underwritten were used to measure premium retention. Figure 4.4 presents the findings obtained.

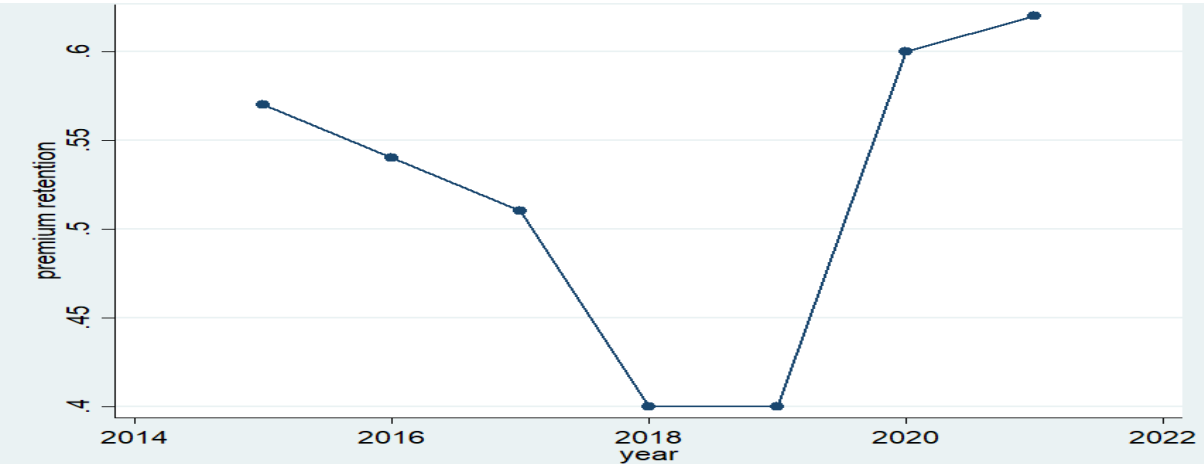

Figure 4.5: Trend Analysis for Premium Retention

The findings show that between 2015 to 2019, the insurance companies recorded a decline in their average premium retention but from 2019 to 2021, the ratio followed an upward trajectory an indication that premium retained increased. For the companies which have a bigger proportion of retention level is an indication that the company has sufficient funds to efficiently run its operations and the expected risk. This agrees with Hisibuan, Sadalia and Muda (2020) that if the retained risk is high this also translates to a higher retained premium so in case there is no large claim incurred this translates to higher profit.

Table 4.13: Panel Regression Model

R-sq:
within = 0.6083
between = 0.6331
overall = 0.6199

Obs per group:
min = 7
avg = 7.0
max = 7

Wald chi2(1) = 1197.88
corr(u_i, X) = 0 (assumed) Prob > chi2 = 0.0000

roce	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
premiumretention	0.438527	.0935707	34.61	0.000	3.055132	3.421922
_cons	0.253178	.0628716	19.93	0.000	1.376404	1.129952
sigma_u	.15033687					
sigma_e	.16572147					
rho	.4514386	(fraction of variance due to u_i)				

The model summary findings were used to show the amount of variation in the dependent variable that can be explained by changes in the independent variable. From the findings in Tableabove, the value of overall R-squared is 0.6199 which suggests that 61.99% variation in financial performance of assurance companies in Kenya can be explained by changes inpremium retention. If the probability is < 0.05 then the model is ok. The findings further showed that Prob>Chi^2= 0.000 was less than the selected level of significance (0.05). This suggested that the model was significant, and that premium retention is a predictor of financial performance of assurance companies in Kenya.

From the coefficients table above, the following regression model was fitted;

Y = 0.253173+0.438527Premium Retention

The findings also show that premium retention has positive influence on financial performance of assurance companies in Kenya (β= 0.438527). Also, the influence was found to be significant since the p-value (0.000) was less than the selected level of significance (0.05). This meant that premium retention had a positive significant influence on financial performance of assurance companies in Kenya. The study therefore rejected the second null hypothesis (**Ho**: There is no significant relationship between premium retention and life

assurance financial performance in Kenya) and concluded that premium retention has a positive significant influence on financial performance of assurance companies in Kenya. The findings agree with Burca and Batrinca (2014) who found out that retained risk ratio had a positive influence on the financial performance. Soye, Adeyemo and Damola (2017) concluded that net retention ratio has positively impact on ROA and positively correlated with ROA of insurance which agrees with the findings of current study.The study also is in agreement with the findings of Mwangi and Murigu (2015) who found out that premium retention had a positive and significant effect on the financial performance of insurance companies in Kenya.

V. Summary Of Findings, Conclusions And Recommendations

Premium retention, the study found that the companies recorded an average ratio which was fairly good. However, the finding on the maximum and minimums revealed that there was a great disparity. This is an indication that despite the good overall average there were companies which still ceded very high premium proportion to the reinsurance over the seven year period of the study. The study also found that between 2015 and 2016, the insurance companies recorded a decline in their average premium retention but from 2016 to 2019, the ratio followed deep decline an indication that premium retained reduced. For the companies which have a bigger proportion of retention level is an indication that the company has sufficient funds to efficient run its operations and the expected risk. Furthermore, the study established that premium retention has a strong positive relationship with financial performance of assurance companies in Kenya. The relationship is significant.

The findings showed that premium retention has a positive and significant influence on financial performance of assurance companies in Kenya. The influence was also found to be significant. From these findings, the study rejects the final research hypothesis (**Ho**: There is no significant relationship between premium retention and life assurance financial performance in Kenya) and concludes that premium retention has positive significant influence on financial performance of assurance companies in Kenya.

Premium retention had positive influence on financial performance of life assurance companies. The study thus recommends insurance companies to ensure that they have prudent underwritings; This is because prudent underwriting enables the insurer to have a higher retention ratio which translates to a better financial performance. However, retaining too much of the risk exposes the assurance company to a high liability risk in case of a large claim and retaining too low risk throws the assurance company to too little income premium which might be inadequate even to run the normal office overhead. Therefore, an equilibrium must be attained on the optimal risk to be reinsured.

In the year 2021 the reinsurance companies put in place the minimum rate for reinsuring life business at 3.5mile for unlisted risks and a minimum rate of 5.5 per mile for the listed risks a move that we expect will increase the profitability of the life assurance companies in Kenya.The Insurance Regulatory Authority should come in support of the reinsurers move and put in place the measures to curb the undercutting. It should also assist in claim ratio management of individual schemes to facilitate the listing of the schemes with bad claim experience which will help in the rating of such schemes for the purpose of reinsurance.

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