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**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE BACHELOR OF  
COMMERCE ACCOUNTING HONORS DEGREE**

**AN INVESTIGATION OF THE RESPONSIVENESS BY INSURANCE COMPANIES  
TO REGULATIONS AFFECTING THEIR FINANCIAL PERFORMANCE: A CASE OF  
OLD MUTUAL LIFE ASSURANCE COMPANY ZIMBABWE.**

## DECLARATION FORM

I Thandeka S. Dube declare that this project is my own piece of work has not been copied from any source without the acknowledgements of the source

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## APPROVAL FORM

The undersigned people certify that they have supervised Thandeka S. Dube's dissertation entitled, **An investigation on the responsiveness by insurance companies to regulations affecting their financial performance. (A case of Old Mutual Life Assurance Company).**

The dissertation is submitted by Thandeka S. Dube (R136743M) in partial fulfilment of the Bachelor of Commerce Accounting (Honours) Degree at Midlands State University.

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## **DEDICATION**

This piece of work is dedicated to my lovely grandmother Ms Malgas who nurtured me into a good girl.

## ACKNOWLEDGEMENTS

Firstly, I would like to thank the Almighty God for granting me this opportunity, as my success lies in the hands of the Lord, given the wisdom and strength, I managed to progress with my studies. I would like to express my gratitude to the entire Midlands State University staff working with me well since enrolment to date. I also would like to thank the Faculty of Commerce for granting me the University knowledge which I acquired since the commencement of my studies at the institution up to the end of my degree programme. Special thanks goes to my supervisor Mr C. Kazembe who helped me in making my research a success.

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## **ABSTRACT**

The aim of this study was to investigate the responsiveness by insurance companies to regulations affecting their financial performance. More specifically the study sought to investigate the effect of profitability, capital adequacy, return on assets, capital requirements and non- financial factors on the financial performance of insurance entities. Primary data was used in this study, where a census survey was preferred as the population of the study was small. A likert scale questionnaire and interviews were used to gather data relation to OMLAC's performance. The data was sorted and presented on graphs, tables and pie charts to enable descriptive statistics. The results indicated that regulations improves financial performance of an entity. From the findings the study concluded that return on assets, capital adequacy ratio, minimum capital requirements and non- financial factors through regulations significantly influence financial performance of insurance entities. The study recommends that further research should be done on the effect of regulations on profitability determinants, such as size, age and structure of the organisation.

## LIST OF ACRONYMS

OMLAC	Old Mutual Life Assurance
ROA	Return on Assets
CAR	Capital Adequacy Ratio
IPEC	Insurance Pensions Commission



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# **Chapter 1**

## **Introduction**

### **1.0 Introduction**

The research intends to investigate the effect of legislation on the financial performance of Old Mutual Life Assurance (OMLAC). The company has not been spared the effects of different legislation both current and historical which are applied to the industry. This has resulted in legislation affecting the performance indicators of the insurance industry in particular OMLAC.

### **1.1 Background to the study.**

Researches have been made on the relationship between legislation and business performance. Banerjee (2012) assert that the industry should be given time to adjust to regulatory changes in a phased manner aligned with a regulatory impact assessment. Melbourne (2013) states that compulsory insurance regulations solutions can have significant negative effects on the efficiency of insurance markets. This holds particularly fair where very different liability risks are to be covered, as is often the case in business insurance. According to Vaughan (2014) overly restrictive regulations reduce companies' ability to design new product, thereby lessening the range of products available in the market and regulatory measures often affect the financial performance of existing players and new participants penetrating the insurance market thus affecting competition. In many cases, this is caused by unintended side effects of regulation which may result in an undesirable reduction in the diversity of insurance offerings in the market resulting in reduced efficiency and flexibility in investment activities.



The Zimbabwean economy is currently facing challenges related to liquidity, low foreign direct investment and various other instabilities. The Insurance industry has not been spared from the effects of economic factors. The current situation has also resulted in a number of changes to the law and a number of subsidiary legislation affecting different sectors across the Zimbabwean business landscape. Long Term Insurance Industry in Zimbabwe is regulated through a number of Acts of Parliament namely the Companies Act (Chapter 24:03), The Pensions and Provident Act (Chapter 24:07) and Insurance and Pensions Commission Act (Chapter 24:21). In addition to legislation that regulates the industry there is also legislation that indirectly affects the industry for example the Labour Act. An interesting point when looking at the issue of legislation is the introduction of the Labour Amendment Bill 2015 which introduced compulsory 3 month notice of retrenchment which led to massive retrenchments in the Zimbabwe Industry. The Insurance and Pensions Commission (IPEC) passed new legislation to deal with aspects of the industry that had been brought about by the multi-currency system.

Due to enactment of regulations long term insurance companies namely OMLAC were heavily affected in terms of client cash flow and profitability. According to The Insurance and Pensions Commissions Act 24:21 statutory instrument 21 of 2016 IPEC doubled the registration fees and IPEC levies of insurance companies which resulted in increased operational costs for OMLAC resulting in deteriorating premiums and client base. Bancassurance, credit life and mortgage clients namely Stanchart and MBCA invalidated their contract with OMLAC as the commission remitted to OMLAC was inadequate to deduct IPEC levies due to the regulator as per contractual obligation which led to net client cash flow decreasing drastically.

In 2014, according to ([www.theherald.co.zw2014/6/10,06:00](http://www.theherald.co.zw2014/6/10,06:00)) IPEC doubled the minimum capital requirements for the sector, with short-term insurers required to achieve a minimum capital level of US\$1,5 million and life assurers having to achieve US\$2 million. In 2016 IPEC increased the capital requirements for life assurers from \$2 million to \$5million and short term and funeral from \$1,5million to \$2million according to ([www.theindependent.co.zw2016/11/15,14:10](http://www.theindependent.co.zw2016/11/15,14:10)) in light of the capital requirements IPEC revealed, that at least 8 insurance companies were able to meet the requirements out of 33 leaving others in question to compliance. Table 1.1 below shows the capital requirements for the past 3years.

**Table 1.1 Statistics on Capital requirements trend (2014-2016)**

<b>CAPITAL REQUIREMENTS</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>LIFE ASSURERS</b>	\$ 500,000.00	\$ 2,000,000.00	\$ 5,000,000.00
<b>SHORT TERM AND FUNERAL</b>	\$ 300,000.00	\$ 1,500,000.00	\$ 2,000,000.00

*Source:* IPEC report extract (2016).

This came to pass as the insurance industry was still recovering from challenging times and currently weighed down by regulatory and political uncertainties. The performance of the insurance and pension sector has largely remained depressed owing to low economic activity, legacy issues emanating from the conversion of insurance and pension policies from liquidity challenges.

## **1.2 Statement of the problem**

The Zimbabwean government periodically introduced legislation through Acts of Parliament, bills and statutory instruments that affected the long term insurance industry in Zimbabwe. The blanket legislation affected premium income, market share, profitability and accounting reporting requirements which are all crucial accounting variables .The primary problem has been the effect of legislation on key performance indicators and financial reporting.

## **1.3 Research objectives**

- ✓ To explain the effect of the regulations on financial performance of long term insurance business.
- ✓ To identify the elements of regulations that effectively enhance financial performance of long term insurance business.
- ✓ To determine the challenges that affect organisational performance in complying with regulations.
- ✓ To identify the effect of regulations on the non-financial factors of long term insurance business.

## **1.4 Research questions.**

- ✓ What has been the effect of regulations on the financial performance of long term insurance business?
- ✓ What are the elements of regulations that enhance financial performance of long term insurance business?
- ✓ What are the challenges that affect organisational performance in complying with regulations?

- ✓ What has been the effect of regulations on the nonfinancial factors of financial performance?

## **1.5 Significance of the study**

### **To the student.**

Even though the research has been submitted in partial fulfilment of the Bachelor of Commerce Accounting (Honours) Degree, it will also accomplish a pivotal role in enlightening the student on the significance of legislation compliance in an organisation. Furthermore, equip the student on the relationship between legislation and performance of the insurance industry.

### **To the university**

The research will become a point of reference to other scholars as it will be made available in the university library. It is also vital in bridging the gap between the theory taught in class and industrial reality thus enlightening successive students.

### **To the organisation**

The research findings and recommendations has helped the organisation appreciate the significance of legislation on company performance.

## **1.6 Limitations of the study**

Just like any research, the current study is prone to some limitations. Despite the fact that this study will contribute meaningfully to the understanding of compliance with the legislation in the insurance industry, there are limitations which must be highlighted. The study will be undertaken in a life assurance company leaving other aspects of the insurance industry.

Access to information: organisational data is private and confidential and such access to it is restricted therefore might be unwilling to give data that they feel is private and confidential thereby limiting the researcher. Therefore the researcher will make use of abridged financial statements and scholarly journals.

### **1.7 Delimitations of the study.**

- ✓ The research will be undertaken basing on data found at Old Mutual Life Assurance Company (Pvt) Ltd head office in Harare where the researcher was attached, hence it might not be applicable to other Old Mutual Life Assurance branches.
- ✓ The study will only cover the period 2014 to 2016.
- ✓ The study will be focusing on the finance department as well as the top management from other sections of the organisation and incorporate those who have a knowledge on business performance, risk and compliance issues and the management thereof.

### **1.8 Definition key terms and acronyms**

**Insurance:** According to Wahome (2013) is an arrangement by which a company undertakes to provide a guarantee of compensation for specified loss, damage, illness or death in return for payment of a specified premium.

**Performance:** Kerubo (2012) defines performance as is the accomplishment of a given task measured against present known standards of accuracy, completeness, cost and speed in a contract it is deemed to be a fulfilment of an obligation in a manner that releases the performer from liabilities under the contract.

**Premium:** Thakar (2013) defines premium as the money paid to the insurer in exchange for insurance protection. The money received is then put into the pool from which claims will be met.

**Regulation:** According to Marynanne (2012) regulation is the process of enacting or making laws.

**OMLAC:** Old Mutual Life Assurance Company.

## **1.9 Summary**

This chapter outlined the background of the study, statement of the problem, main research question, sub research questions, research objectives, limitations of the study, delimitations as well as definition of terms and abbreviations. The next chapter will be based on literature review.

## **Chapter 2**

### **Literature Review**

#### **2.0 Introduction**

The purpose of this chapter is to explore all literature on hand in regards to the effect of regulations on financial performance of insurance companies. It is the mandate of this chapter to give an insight on the opinions and ideas propounded by various authors pertaining to the study. The chapter will give a comprehensive review on literature, anchoring the study from different schools of thought from other authors regarding the subject at hand, so as to enable the researcher to highlight significant areas to focus on during the research.

#### **2.1 Overview of financial performance and regulations.**

The responsiveness in business activities to changes in regulations has been under investigation in many academic circles of many articles. Winston (2012) provides information on business regulations as it affects large and most concentrated industries and is sector-specific. Caprio (2012) acknowledges that a well-structured insurance system, is defined by its supervisory practices, risk taking, and regulations, promotes greater financial performance and economic stability. Gully, (2012) is of the view that the wave of deregulation of the financial services and globalization of the industry have both counterbalanced by a rise in regulations and enforcement actions to protect private interests of depositors, investors, and creditors and safeguard public or collective interest by promoting the integrity and reputation of financial services markets.

On the other side other scholars are of a different school of thought. Vaughan (2014) asserts that overregulated financial sectors can lead to a large informal economy and high unemployment because they increase barriers to formal employment and make markets too rigid to adjust to changing conditions in an economy. Subsequently, Besley and Burgess (2014) find that Indian states which imposed tighter labour regulations experienced reduced manufacturing output, employment, investment and productivity in the formal sector manufacturing. Loayza et al. (2013) suggest that a heavier regulatory burden reduces growth and increase the size of the informal sector. The negative effects of excessive regulation are aggravated in countries with poor governance. Furthermore, Dreher and Gassebner (2013) are of the assertion that high levels of regulation go hand in hand with corruption. The authors find that corruption is used to grease the wheels reducing the burdensome impact of regulations. Nevertheless, these contradicting views from previous researches indicate that there is a research gap that requires further research by addressing business regulatory reforms that impact on financial performance on organisations that provide financial services.

### **2.1.1 Regulations and Profitability**

Chen (2013) states that a successful and an effective regulatory system is one that balances accountability, transparency and consistency in a bid to improve quality information subjected to an entity for compliance purposes. Matara (2012) suggests that there is need to establish a regulatory framework in the insurance industry that is efficient and able to stimulate competition in the industry in a manner that will stir growth thus improve profitability. Averch and Johnson (2012) are of the notion that a regulations should be transparent to eliminate misinterpretations as well as eliminate inconsistency. Malik (2013) emphasizes that with lost inconsistency and clear enacted policies stakeholders interests is enhanced, thus improves the overall profitability of the business. Hardwick and Adams (2012) assert that regulations need



to drive transparency and simplification of products and services .Insurance being a long-term product, customer servicing also becomes important as the client is the bearing to high premium generation and increased market share result in increased profit margins.

However, Barca (2014) is of the notion that there is no relationship between regulations and financial performance of an entity. Agbomdakaw (2012) and Akoeve (2013) conducted researches in Tanzania and Rwanda on the effect of regulations on profitability, came up with different schools of thought as their findings indicated that profitability of an entity is determined by age, size and economic environment hence regulations do not affect profitability of an entity. PWC (2013) asserts that the industry should be given time to adjust to regulatory changes in a phased manner aligned with a regulatory impact assessment ,since quick and frequent changes in regulations disrupt the business models of the insurers and increase business costs thus profitability is compromised.

### **2.1.2 Effect of regulations on Capital adequacy ratio.**

Capital adequacy is defined by Jansen (2012) as a relative measure that establishes the maximum level of leverage that a financial institution is allowed to reach on its operations. According to Dang (2012), the adequacy of capital is judged on the basis of capital adequacy ratio (CAR). Sangmi and Nazir (2012) suggests that capital adequacy ratio is directly proportional to the resilience of the insurance to crisis situations, also has a direct effect on the profitability of insurance companies by determining its development and exposure to risky, but profitable ventures. According to Oladejo and Oladipupo (2013) the relevance of regulation of financial institutions with regard to financial performance cannot be over emphasized since they constitute the main drivers for growth and financial development. In most cases financial regulators find capital adequacy regulation as a means of strengthening the safety and soundness of the financial services industry. Asia (2015) asserts that Capital Adequacy Ratio (CAR) or Capital to Risk (Weighted) Assets Ratio (CRAR) is one of the ratios that financial

institutions and national regulators utilize to track how much capital a financial institute can set aside as a proportion of risky assets. Esmeray (2016) is of the opinion that effective responsiveness to regulations provide information on the CAR of an entity which facilitates an estimation of the reasonable amount of loss that an entity can sustain as well as meet the minimum capital requirements. Nevertheless, most financial institutions during the last decade have been restricting operations due to failure to meet the minimum capital requirements. Bertha (2013) attributes the failure to a weak regulative system, thus regulations do not have an impact on CAR. Due to the disputing sentiments by the previous scholars it shows that there is a research gap that exists on the effect of regulations on CAR in financial institutes. It is the mandate of this study to examine whether business regulations and affect CAR.

### **2.1.3 Effect of regulations on Return on assets (ROA)**

The ROA ratio measures the earnings which are earned with the available assets. A higher ROA ratio shows the efficiency of the company. Masa'deh et al (2015) identified ROA as a measure of return for utilising assets to produce income. Mariyam (2015) attests that analysts use ROA to assess a firms' operating performance. Mariyam (2015) also explains that ROA indicates the management ability to abide by state regulations in investing in profitable investments. However, Shin (2012) conducted a research on the usefulness of regulations for effective organizational performance, and concluded that there is no effect between regulations and financial performance indicators. This notion is also supported by Baltaki (2012) who argues that business regulations are mandatory and inherent do not influence part of an entities intangible assets and income generating activities, hence, there is no influence between enacted regulations and ROA. The conflicting assertions by the previous researchers on the impact of business regulations and ROA indicate a research area which require further exploration.

## **2.2 Elements of regulations that effectively enhance financial performance.**

Mwega (2014) postulates that there are elements that influence the existence of regulations which are minimum capital requirements, policies and procedures and regulatory supervision. Pervan and Povick (2014) is of the notion that the elements are subcomponents of regulations that require due diligent in enacting, so as to produce expected outcome.

### **2.2.1 Regulations and minimum capital requirements.**

The regulator requires the minimum amount of liquid capital that insurance companies are mandated to raise, to enable entrance in the regulated market Staschen, (2013). This requirement is an absolute measure of solvency and is justified on the grounds of influencing the structure of the financial system. Christen et al., (2013) supports that it serves as a cushion in periods when the institution shows an unhealthy situation due to its own performance or to exogenous factors such as economic downturns. Demetriades (2012) indicates that there is a positive effect between minimum capital requirements and regulations, simply because regulation authorities stipulate the capital requirements in the industry.

However, Dreher and Gassebner (2013) find that high numbers of procedures and high minimum capital requirements impede firm entry. They find entry regulations hamper entry, especially in industries that naturally should have high entry requirements. Also, value-added per employee in naturally high entry industries result in slow growth in countries with onerous regulations on entry. Viviano (2012) exploits reforms to regional entry regulations in the Italian retail trade sector, finding that entry barriers have a negative impact on employment growth and on the efficiency. According to Barseghyan (2014) ,minimum capital requirements has shown that entry costs increase the size of the informal economy and decrease job creation, which likely impacts negatively on economic performance. According to Barth et al. (2014) Rabobank in Netherlands was subject to the inherent risk in all regulated financial businesses,

of having insufficient capital resources to meet the minimum regulatory capital requirements. Rabobank faced challenges of continually increasing capital requirements that forced the bank to manage its risk-weighted assets meticulously and optimise its balance sheet.

### **2.2.2 Regulatory Supervision.**

Chortareas et al (2012) refers to supervision as the act of monitoring someone or something in a bid to nurture an expected outcome. The author explains that regulatory authorities monitors companies to ensure cooperation and coordination with regulatory requirements and ensure market discipline. Also Barth et al. (2013) is of the opinion that is of utmost importance in insurance operations of developing countries given that it protects policyholders and shareholder interests due to monitoring on organisation going concern factors so as to avoid surprise liquidations. Furthermore Davis (2012) supports that regulatory supervision scrutinise companies operations to check if they are ethically driven, which ensures safety and sound environment to conduct business. In South America, according to Barn (2014) monitoring by the regulatory bodies is high on border points, particularly on airport check points because of high drug trafficking and money smugglers, so as to prevent unlawful acts. Similarly in the food manufacturing industry supervision is a high level requirement to detect any health hazards to client consumption. Due to money laundering as well as terrorist financing penetrating the financial service sector, Bolton (2014) explains that insurance authorities are keeping close supervision on any unusual transactions made to insurance companies by administering regulatory audits in insurance companies in a bid to curb these unlawful practises and detect any act of fraud.

However, Gordon (2013) is of the notion that regulatory supervision does not influence financial performance of the organisation, due to regular periodic and surprise visits made by the regulator ,which may affect “business as usual” of organisations, all in the name to serve the regulatory authorities first. Also regulatory administration can be a consultative forum that

derives information from all concerned players, which may be used by the authorities in proposing new laws that may result in financial set back of companies. The researches above shows that there is a research gap since most studies on supervision were conducted in the transport sector and food processing industry.

### **2.2.3 Policies and procedures**

Elliot (2012) defines a policy as a course of action to be followed whereas a procedures are the steps outlined to implement the policy states that policies which emanate externally are imposed by administrative bodies (Act of Parliament). Liedtke (2012) asserts that external policies influence significantly the operations of the business. Powell (2012) explains that regulatory policies and procedures outlines legal demands which are supposed to be followed by organisations in congruent with internal set policies. Rybczynski et al (2013), postulates that insurance organisations are urged to safely file and properly keep clients information and archive it, until their policy discontinues, and in banks maximum period of keeping clients documents safely is 10years before disposal. On the other hand Kunreather (2013) states that externally influenced policies may conflict with organisational policies and procedures and hamper productivity. Klein (2013) states that there is no relationship between external policies and financial performance of organisations, due to compulsory policies. This is supported by Claessens (2014) who simply uses an illustration that VAT policy on all goods dispatched will not increase profitability of the business nor neither decrease it. Similarly, the author further expargorates that there are policies that are mandatory to be complied with organisations that have no impact on financial performance, namely environmental awareness policies. Due to different opinions discussed above, the research shows a gap that needs further investigations.

## **2.3 Regulations and non- financial benefits to the organisation.**

### **2.3.1 Improved Provision of financial information in a timeous manner**

Vaughn (2014) states that external stakeholders require transparent and reliable information as per set deadline. Mikes (2014) postulates that regulatory authorities demand that companies complete financial reporting in ample time, and information prepared should be understandable and in compliance with relevant accounting standards. Banks (2014) due to fear of penalties imposed to those who fail to meet deadlines, organisations are motivated to provide financial information in an expected manner. Okely et al. (2012) also supports that regulations inspire personnel to have a sense of urgency in meeting regulatory requirements and influence time management abilities. On the other hand. Kaya (2013) argues that regulations do not improve provision of financial information timely, due to tight deadlines there may be information distortion, unnecessary errors and quality may be compromised. Also Saunders (2014) is of the view that regulatory authorities may require information without proper notifications and this will exert pressure on the organisation resources, which is time and labour. Different ideologies above show that there is a research gap that requires further exploration.

### **2.3.2 Customer Loyalty**

According to Verjzagic (2014) customer loyalty is the attitude of a customer relying and psychologically attached on a product or service. Sambasivan (2013) states that regulations significantly impact changes in entity policies (policy holder policies) packages which may influence clients to abandon current suppliers. Edwards (2013) conducted a research in Canada. The study indicated that regulations protect customer interest and does not influence customer loyalty. Similarly Liperczynski et al (2012) asserts that there is no regulation effect on customer loyalty since loyalty of products is driven by management intuition on customer requirements.

### **2.3.3 Staff Competence.**

Edwards (2013) briefly explains that personnel competence do not depend on skills and knowledge but on availability of a sound working environment which comprises of a regulatory system, availability of good infrastructure, equipment and information systems and other resources. According to Blum (2012) regulations directly link on personnel competence, since regulations require organisational information to be submitted on periodic basis, competent personnel is required to prepare accurate and error free documents for example insurance quarterly returns, tax returns and particularly financial statements. Also Rassier (2012) explains that skilled staff is required to interpret regulatory requirements correctly for example premium calculations formulas, so as to be able to implement operations as required by the regulatory board and provide expected results. Furthermore, due to penalties often given by regulatory authorities, Tennyson (2012) asserts that competence of staff is highly required to withstand pressure in preparation of reports in a timeous manner to avoid penalties on failure to meet deadlines. In Zimbabwe as denoted by Nhira (2013) failure to submit tax returns to ZIMRA on time faces 100% penalty charges which can be avoided due to skilled personnel that are time conscious. Similarly Barn (2014) is of the notion that some regulatory requirements require computer indepth knowledge namely Microsoft Excel, Word, Powerpoint or knowledge on use of softwares to articulate on regulatory requirements all in a bid to comply with the authorities. On the other hand regulations impact negatively on personnel if executed without diligent care. In Zimbabwe according to Matambare (2015) the Supreme Court made a ruling that allowed employers to lay off employees on a three month notice without retrenchment packages. The author explains that it stripped naked staff morale employees which affected personnel competence and overally affected productivity of the formal sector.

### **2.3.4 Competitive advantage and regulations**

Organisations increasing demand for rivalry attracts market regulations Barth et al. (2012). Nhavira (2012) alludes that the regulators role is to move the market towards perfect competition, regulations plays key roles in ensuring and maintain competition an innovation in in the financial sector, by employing mechanisms such as ease of entry and treatment of consumers. According to Cummins et al (2015) the extent of competition vary significantly from product to product around the world. Klein (2013) indicate that several countries namely UK, Netherlands and United States reported having a massively competitive insurance industry. Yoder et al (2012) denotes that competitive advantage is as a result of sound and solid regulatory compliance. Ting (2014) is also of the opinion that regulations enhance competitive advantage due to regular government assistance to monopolies in a bid to direct them to explore virgin territories, resulting in increased market share and firm's efficiency. Vancrossum (2012) supports that regulations cartelise the informal sector in a bid to enable the formal sector more competitive advantage.

However according to empirical studies conducted by Choi (2013) concerns over the degree of competition in the insurance industry were raised in some countries namely Germany Insurance industry continue to be highly cartelised hampering competition ,Italy insurance price competition seems to be weak, similarly in Korea insurance competition is non- existence due to insurance premium liberalization. Choi (2013) also explains that Hungary does not allow nationals to sign contracts with foreign insurance companies hence hinder competition within the market. Megginson (2013) is of the argument that regulations are barriers to competition, when the regulations effected are religiously driven for example in Muslim affiliated countries regulations are religion driven. Jalian et al. (2014) indicate that as an end result of these concerns regulations have traditionally limited the extent of competition between insurers, through controls on entry, on prices particularly price floors, on the methods for calculating



premiums, and through the explicit promotion of cartels. If the regulations effectively restrict competition, subsequently they may have the usual undesirable effects of limiting incentives for efficiency and innovation in the organisation. The conflicting prior researches have indicated a research gap that requires further exploration.

## **2.4 The challenges that affect organizational performance in complying with regulations:**

### **2.4.1 Impact of regulations on organisational costs.**

Most of the literature has focused on the impact of regulations on costs (direct and indirect costs) of financial service providers. According to Schmeiser and Wagner (2012) compliance and implementation costs and willingness to pay policyholder impacts massively on the cost structure of insurance companies. Table 2.5 below presents an overview of potential costs of financial regulation associated with insurance companies. Okoth (2013) argues that regulations are a mandate in the corporate arena. They exist regardless of new entrance or exits of companies therefore do not increase the costs of organisations other than facilitate non - financial benefits to companies.

**Table 2.4 Costs associated with insurance regulation.**

**REGULATION** ←————→ **COSTS**

<p>a)Government Costs:</p> <ul style="list-style-type: none"> <li>- Costs of the supervisor</li> <li>- Costs of the legislative procedure</li> </ul>	<p>b)Company costs:</p> <ul style="list-style-type: none"> <li>- Administrative costs</li> <li>- External services costs, for example, fees for supervisors, consulting companies and auditing companies</li> <li>- Opportunity costs, for example, due to the ban of certain business activities</li> <li>- Costs due to a change in the market, for example, decrease of demand</li> </ul>	<p>c)Wider economy impacts:</p> <ul style="list-style-type: none"> <li>- Impact on competition and market environment</li> <li>- Impact on innovation</li> <li>- Impact on investments</li> <li>- Impact on insurability of certain risks</li> </ul>
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	<ul style="list-style-type: none"> <li>- Capital requirements</li> <li>- Capital structure and risk-taking</li> <li>-increased labour costs for example overtime costs</li> </ul>	
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Source: Schmeiser and Wagner (2012)

#### **2.4.2 Regulations and annual premium income.**

Profitability is an important consideration, since a consistently unprofitable insurer may soon find itself in financial distress. Aggarwal (2013) explains that the primary focus of regulation is on the ability of the insurance company to charge ethical premiums and meet its financial obligations to policyholders and claimants. Eling and Schimit (2012) explains that regulations act as a parameter for insurance companies to primarily charge premiums that boost the revenue level of a company, with the notion that improves market share. Nwokoro and Ndikom (2013) conducted a research to examine the contribution of insurance premium income to the development of Nigerian insurance market in the period 2010 to 2012. Premiums accruing to the insurance companies were collected, analysed and it was confirmed that premiums has significant impact and highly contributes on the level of the insurance volume income of insurance markets in Nigeria. The study findings revealed that there is a significant relationship between insurance regulation practice and the premium income levels on insurance companies in Nigeria.

However on the other side DaSilva and Divino (2013) is of the assertion that most revenues that relate to particular policies, such as premiums and losses, are shown by line of business and not influenced by regulation. Also Posner and Weyl (2012) is of the notion that premiums for life insurance and annuity products are not subject to regulatory approval, although regulators may seek to ensure that policy benefits are appropriate with the premiums charged. Vasanth and Ramkumar (2015) indicate that, there is no regulatory effect on annually generated premiums, its up to the organisation intuition to increase or charge premiums. The conflicting different school of thoughts amongst the scholars shows a research gap between regulations and premiums that require further penetration.

## **2.5 Empirical Review.**

Zhang (2012) states that problems in the general insurance industry have attracted considerable attention in recent years with regulation regime shifting to risk-based supervision. Availability of cover crunches such as liability insurance have occurred and costs pressure forces insurers to compete on basis of risk retention. Empirical studies have been conducted on most researches to determine resolutions and discover better ways implement to regulations.

Insurance regulation in Jamaica: A case study of the Jamaican experience.

According to Leon (2012) Jamaica's financial sector experienced a period of instability in which the Government of Jamaica had to intervene to assist several financial institutions, some of them were life insurance companies, a general insurance company and banks, from a severe liquidity and solvency crisis. Diagnostic reviews of troubled institutions ,unearthed several other factors contributing to downsizing of the financial sector namely, absence of or failure to comply with proper internal control procedures, high incidence of fraud and irregularities indicating weaker controls poor risk management and inadequate portfolio diversification and

the major being a poor regulatory and supervisory framework. The shift from a passive low-keyed regulatory environment to this active and vigorous regime did not initially find much favour with certain elements within the industry. There were complaints about the increased cost of regulation and that some of the new requirements were unnecessary. There was an outburst against the fees to be levied and a public issue developed over it.

Thorsten and Ian (2012) conducted a study to analyze the determinants influencing growth of life insurance products consumption in a cross-country sample of 15 countries. The study used three different components namely life insurance penetration, life insurance density, and life income-revenue to insurance companies. The research findings showed that the life insurance companies had significantly increased over the last decade as provider of important financial services to consumers and as a major investor in the capital market. However, the study observed that there is still a large variance in life insurance consumption across countries, which raises the question of its determinants. In relation to the study, it is suggested that regulatory compliance is important in approving products and their pricing in ensuring that insurance practices promote price stability, development of sector and an efficient system that enhance the development of insurance and increased revenues.

Eling and Pankoke (2014) research findings on motivation of regulatory authorities on insurance. The study argues and find out that insured customers are like fixed-debt investors putting money into insurers who reinvest that money and return sums to the insured in a bid that certain events come to pass. Given the incentive of insurers with limited liability to invest in high risk ventures, however, the likelihood of repayment is hardly assured. This motivates regulatory authorities to heavily regulate the business of insurance in order to protect the interest of the investors and policy holders.

Diacon, and O'Brien, (2012) studies on the insurance regulation and information technology in North Carolina the research findings were that regulatory authorities encourages use of information technology to encourage growth of the sectors, return by use of electronic, insurance regulation and use of information technology and development given the current state of production technology in the industry. Through this modern use of technology the regulator encourages and promotes the development of the sector to communicate clearly and meet the demands of the customers through innovative technology of new products and developments.

Through a dynamic panel model, Pervan et al (2012) investigated the underlying factors of Bosnia and Herzegovina insurance industry's profitability. Their findings indicated a strong negative influence of claims ratio on profitability. The study further showed that size and market shares have significant positive impacts on profitability whilst on the other hand regulation compliance has no effect on insurers' financial performance.

## **2.6 Summary.**

Although financial performance is influenced by a combination of factors facing the firm, a review of the literature provides evidence as to why firms should concern themselves with regulation responsiveness. Vaughan (2014), provide a compelling reason for regulations by firms. They assert that the primary goal of compliance of regulations by firms is for survival. Regulation compliance guarantees the continuance of a firm, ensuring that it is not prevented from attaining all its other goals through losses that might arise from pure risks. This then emphasizes the need for regulation compliance to direct the goals and interests of management to the interests of the organization. From the literature, it is discovered that the desire to improve financial performance should be balanced with the regulations associated with the operations of the firm.

## **Chapter 3.**

### **Research Methodology**

#### **3.0 Introduction**

In this chapter the methods that were used by the researcher in carrying out the research study are fully explained. It contains the research design, data sources that were used, research instrument, population and census that was carried out together with the validity and reliability of the research and summary.

#### **3.1 Research Design**

Wyk (2012) defines a research design as an overall plan which connects the conceptual research problems to the related empirical research study. It outlines the methods that were used by the researcher in collecting and analyzing the data in order to answer the main research question. It provides the basis of a coherent plan on which the entire research was carried out. Howell (2013) is of the opinion that research designs are the backbone of every research as they support researchers at every stage of the research and ensures the reliability and validity of the data that is collected and analyzed. In this study the researcher used descriptive research design and interpretive case study to acquire data on the responsiveness of regulations by OMLAC through the use of quantitative data. Primary and secondary data sources were used together with interviews and questionnaires as the main research instruments.

##### **3.1.2 Descriptive Research Design**

Descriptive research is a study that is designed with the aim of depicting the participants in an accurate way according to Schmidt (2015). A descriptive research was used by the researcher to obtain a clear picture on the responsiveness to regulation compliance adopted by Old Mutual

Life Assurance Company (OMLAC). The data was collected through detailed questionnaires and interviews which were descriptive in nature. Furthermore, descriptive research was used by the researcher because it poses an opportunity to use both quantitative and qualitative research data about the population in the study Murphy and Media (2015). The researcher implemented descriptive research design as a way to accurately collect data from (OMLAC) Old Mutual Life Assurance in the research under study.

### **3.1.3 Case study.**

According to Medley (2012) defines a case study as a careful study of social unit that attempts to determine factors that lead to its success or failure. Also Newby (2012) describes a case study as a method enables a researcher to closely examine the data within a specific context. The researcher focused on a case study of Old Mutual Life Assurance Company. A case study is an important research tool that address areas of paramount importance at hand .The advantages in connection with a case study is that ,they facilitate examination of data often conducted within context of its use and also focuses on both qualitative and quantitative researches which enables the researcher to have a holistic approach. Despite the advantages a case study is often criticized of lack of validity and produce massive documentation.

### **3.1.4 Quantitative Research data**

According to Onwuegbuzie et al (2012) quantitative research is about collecting and gathering numerical data in order to provide an explanation on a particular question or phenomena. The researcher used quantifiable research data to obtain reliable and objective statistics that were used to measure trend and generalize findings (Madrigal and McClain, 2012).

### **3.1.5 Qualitative Research Data.**

Maye (2016) suggests that the use of data that is collected using qualitative measurements which enables researchers to attain an appreciation of the causative of the occurrence or non-occurrence of certain events in a research area due to its flexibility. Rajasekar (2013) is also of



the notion that qualitative approach in data collection is non-numerical, descriptive and uses reasoning and logic in understanding the observable idea behind a research area which cannot be numerically measured. Medley (2013) is of the opinion that qualitative approach deals with understanding, exploration, opinions, meaning and motivations of individuals towards a particular problem which cannot be measured, but can only be observed.

### **3.2 Population.**

According to Philipov et al (2014) a population is the total of all the individuals who poses certain characteristics and is of interest to a researcher. Target population refers to the entire group of individuals, to which a researcher is interested in order to generalize the conclusion according to Eldredge et al (2014). Newby (2012) referred to a research target population as a cluster of similar elements from which a sample for a research can be realistically selected. On the other hand, a sample refers to a grouping of personnel or elements that can be subjected to a study, according to Gill et al (2015).

The researcher used (OMLAC) Old Mutual Life Assurance as a case study as it possess much of the attributes of financial institutions in Zimbabwe. It has products that range from funeral plan, life plan, to long term insurance products namely group life assurance schemes, preservation schemes and defined benefit and defined contribution schemes. The researchers' targeted population consisted of the executive management, middle management and the finance department employees.

#### **3.2.1 Census**

According to Australian Bureau of Statistics (2013), a census is a study of everyone or everything in a population (complete enumeration). The researcher used the census to extract more reliable data due to the existence of a small group of individuals within the target

of OMLAC. The distribution of population is as follows:

**Table 3.1 Population distribution**

<b>Target Respondents</b>	<b>Number of employees</b>	<b>Census Population</b>	<b>Interviews</b>	<b>Questionnaires</b>
Finance Executive	1	1	1	
Product Accountant	2	2	1	1
Fund Accountant	2	2	1	1
Accounts Administrators	9	9		9
Team leader	1	1	1	
Assistant Fund Accountant	3	3		3
<b>Total</b>	<b>18</b>	<b>18</b>	<b>4</b>	<b>14</b>

Given the above population, the researcher chose to use census over sampling to enable the exploration of adequate data to make the research feasible.

### **3.3 Sources of Data**

The researcher used both the primary and secondary sources of data in carrying out the study. Primary data was collected from finance and employee benefits department of OMLAC in carrying out the study while secondary data was collected from the organization's records. According to Churchill (2012) the sources of data that is used by the researcher can influence the findings of a research study. The following are the data sources used by the researcher:

#### **3.3.1 Primary Data**

According to Wisdom et al (2012) primary data is data that is originated by the researcher for the purpose of a study or investigation at hand. Primary data is collected for the first time and therefore it is not published before it is collected thus it provides first-hand information about the research study Churchill (2012) and it is collected using various methods which include interviews and questionnaires. Moreover primary data was used by the researcher as contains a high degree of accuracy and originality as it is collected directly from the population and processed by the researcher. The researcher used primary data because it focuses on specific information thus it gives the researcher a realistic view on the study.

#### **3.3.2 Secondary Data**

Johnston (2014) defined secondary data as data that is collected and made available by a primary source. The researcher used secondary data to obtain an initial insight about regulations and its impact on financial performance. The researcher utilized secondary data that was available in the form of published financial statements, press statements, internal policy documents, newspaper articles and other researches. The secondary data was used to act as a control to test the reliability of the primary data that was collected.

### **3.4 Research Instruments**

Arvin (2015) refers to research instrument as a survey that is carried out, test, scale, rating or tool which is designed to measure data gathered under study, variables and characteristics. The instruments that were used for data collection were questionnaires and interviews.

#### **3.4.1 Questionnaires**

Moffart (2012) states that a questionnaire is a set of interrelated, organized questions that are directed to a specific population from which relevant and appropriate data is desired to facilitate an analysis of a research problem. O'Leary (2012) identified that questionnaires are economic research instruments that can incorporate a large number of research participants. O'Leary (2012) goes on to assert that questionnaires can eliminate a degree of bias of the respondents if they are structured in a way that allow follow-up questions which can be easily understood and interpreted. Gray (2015) is of the opinion that questionnaires are effective if they are used together with the Likert Scale. This is supported by Kumar (2012) who also assert that the use of a Likert Scale in questionnaires facilitate the researcher to collect data on the skewness of the respondents opinions on a particular research area. During the research the researcher used questionnaires that had follow-up questions so as to enhance the degree of reliability of the data that was gathered. The researcher also chose questionnaires as a research instrument so as to save time and eliminate bias from the respondents, since questionnaires enables respondents to simultaneously provide the required information without having to wait to analyse the responses from other research participants. In addition the researcher also utilized the Likert Scale in the questionnaires in a bid to facilitate easy comparability, understanding and analysis of the collected data.

### 3.4.2 Likert Scale

A likert scale is a psychometric research scale that is primarily used in questionnaires in order to achieve a degree of preferences and agreements with set of statements from respondents according to Kumar (2012) .The researcher used the 5-point likert scale that ranges from Strongly Disagree to Strongly Agree as follows: Strongly Disagree, Disagree, Neutral, Agree and Strongly Agree. Each level on the scale was assigned a numeric number and the researcher started with 1 and incremented to level 5. The researcher used the likert scale as the results can be easily calculated as they are quantifiable and they allow the respondents to respond in a degree of agreement.

*Table 3.2 The Likert scale*

<b>Item</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
<b>Points</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>

### 3.4.3 Interviews

An interview is a verbal interaction that exists between two or more people with the objective of collection of relevant information for the purpose of research as defined by Wegner (2013) The researcher used interviews as it is one of the most important sources of information for case studies .Khan (2014) suggest that an interview that is conducted using semi-structured criteria generate better needed results as it permits flexibility of the researcher in data collection The researcher used open ended questions to interview respondents in order to obtain informative information by varying some questions to suit the information the researcher wanted to obtain and give room for explanation to the respondent in the case they misinterpret ,thus enhance clarification of ambiguity.

## **3.5 Validity and Reliability of data instruments**

### **3.5.1 Reliability**

Reliability relates to researcher's claims regarding the accuracy of their data (Sagor, 2015). A reliable instrument therefore serves its purpose by providing correct information. As a result of inherent nature of the research, the researcher carried out a pilot test on the questionnaires and used the results to improve the questionnaires (Sagor, 2015). The researcher also made use of a census to ensure that the data collected, is accurate as they are free from sampling errors.

### **3.5.2 Validity**

Validity in data collection refers to the researcher's findings truly representing the phenomenon that the researcher is claiming to measure according to Heffner (2015). Thus research data is valid when it really measures what it purports to measure. The researcher enhanced validity of data collected by discussing and comparing the research instruments to other colleagues before administering them (Miller and Dally, 2013).

## **3.6 Data Presentation and Analysis**

### **Data Analysis**

Data analysis is the process of applying statistical or logical techniques systematically to describe and evaluate data so as to establish trends and relationships among the variables as according to Nalzaró (2012). The researcher analyzed data so as to obtain useful and usable information to form a basis for the findings. This was done by the use of mode on the quantitative data that was gathered in basing the research findings.

### **3.6.1 Data Presentation**

The purpose of data presentation is to put the researcher's findings into illustrative methods. The researcher will use graphs, charts and tables as they enhance clarity and are easy to interpret collected data (Majumder, 2014).

### **3.7 Summary**

The chapter gives a report on the methodology that the researcher used to carry out the research. It also highlighted the research design, sources of data and their limitation, research instruments used, population, validity and reliability of data and data presentation.

## Chapter 4

### Data Presentation and Analysis

#### 4.0 Introduction.

This chapter presents results and discussions of the study findings on the investigation of the responsiveness by insurance companies to regulations affecting their financial performance using OMLAC as a case study.

#### 4.1 Questionnaire Return Rate.

According to Kothari (2012) a response rate is the number of respondents who completed a questionnaire divided by the total who were requested to participate. Based on the data presented on table 4.1, the researcher managed to collect 13 questionnaires of the 14 administered and this shows a respondent rate of 93% (13/14) which is sufficient enough to be used for presentation and analysis of the research study. The respondents constituted 69% males and 31% females. The unreturned questionnaire was as a result of misplacement, however this did not affect the overall research since it surpassed the 30% cited by Punch (2012) to be representative of the population.

**Table 4.1 Response rate of questionnaires.**

Description	Questionnaires	Questionnaires	Response rate
	issued	returned	
Product Accountant	1	1	100%
Fund Accountant	1	1	100%



Accounts Administrators	9	9	100%
Assistant Fund Accountant	3	2	67%
Total	14	13	93%

## 4.2 Demographic information.

### 4.2.1 Duration with the company.

This question(How long have you been with the company?) was asked in order to articulate whether the respondents had been in the company to acknowledge the effect of regulations on the financial performance of the company from period 2013 to 2015.The following table shows that the respondents duration within the company.

*Table 4.2 Duration with the company.*

Duration with the company	0-4years	5-10years	11-15years	Over 15years	Totals
Number of respondents	2	6	3	2	13
Percentage of respondents	15,4%	46,2%	23%	15,4%	100%

As highlighted in Table 4,2 the majority of the respondents have been with the company for more than 4years.Therefore the researcher expected the respondents to provide quality and reliable data on questions asked .

*Table 4.3 Highest Academic Qualifications.*

Academic Qualifications	Diploma	Bachelors degree	PhD	Totals
Number of respondents	5	8	0	13
Percentage of respondents	38,5%	61.50%	0%	100%

The respondents have degrees and diplomas. Therefore the respondents in the census had reasonable knowledge to provide the researcher with sufficient information about the research understudy.

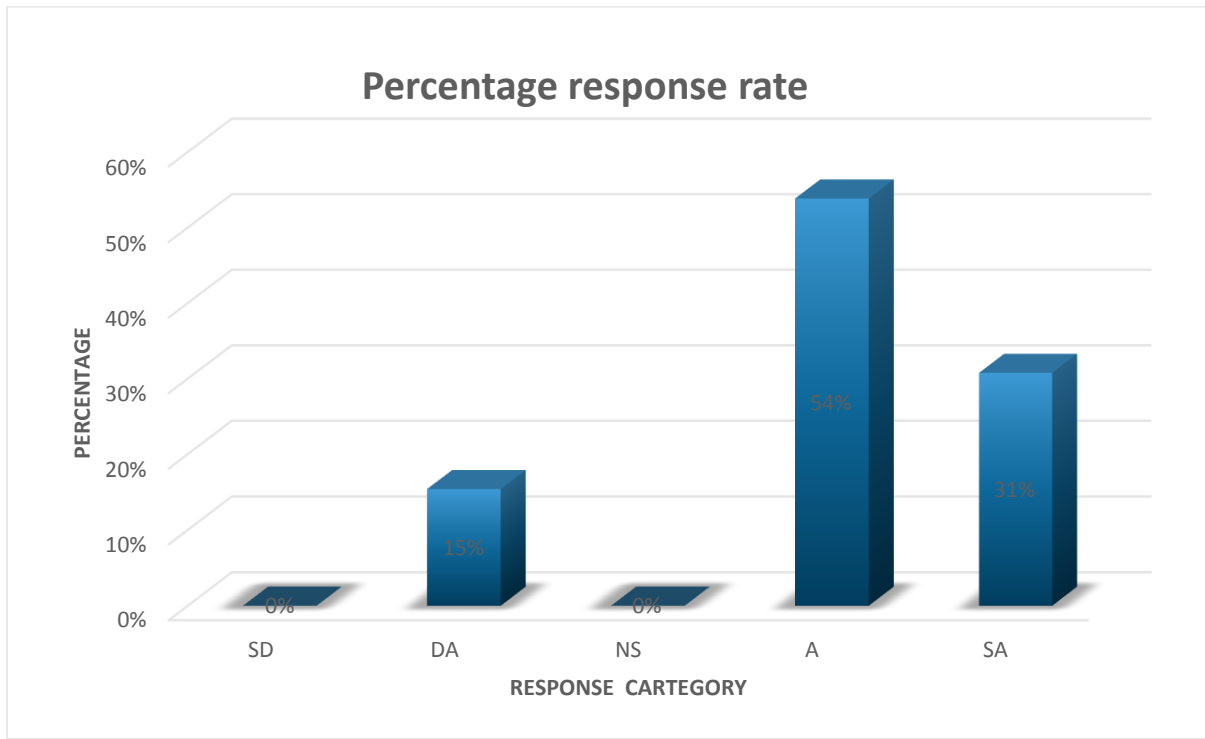
### **4.3 Responses to Questionnaires.**

The following are the responses from questionnaires that were issued by the researcher.

4.3.1(a): Regulations in the industry have positively influenced the profitability of the organisation. The results that were obtained from the respondents are as follows:

	<b>Strongly Disagree (SDA)</b>	<b>Disagree (DA)</b>	<b>Not sure (NS)</b>	<b>Agree (A)</b>	<b>Strongly Agree (SA)</b>	<b>Total</b>
<b>Number of respondents</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>7</b>	<b>4</b>	<b>13</b>

**Fig 4.1 Responses that indicate that regulations in the industry have positively influenced the profitability of the organisation**



The responses shown in Fig 4.1 indicate that (0/13)0% of the respondents strongly disagree (SDA) that regulations improves the profitability of an organisation, Also Fig 4.3 depicts that (2/13)54% of the respondents disagree (DA) that regulations improves profitability. While on the other hand (0/13)0% of the respondents were not sure (NS) on the opinion that regulations improves profitability. However Fig 4.3 also indicate that (7/13) 54% of the respondents Agree (A) and (4/13)31% Strongly Agree (SA) with the opinion that regulations influence organisational profitability positively. After aggregating the responses rates of the respondents who SDA,DA and NS with the opinion that regulations results in improved profitability a modal response rate of 15%(0%+15%+0%) can be determined respectively. The researcher based the 15% findings to be indicative of the respondents that highlight that regulations do not affect organisational profitability.

These responses are supported by the suggestion made by Barca(2014) who is of the notion that there is no relationship between regulations and financial performance of an entity. This notion is maintained by Agbandakawo (2012) and Akoeye (2013) who highlights that the profitability of an organisation is determined by other factors namely size, age, and economic conditions that are stand lone from regulations on their research findings made in Tanzania and Rwanda. PWC (2013) also asserts that the industry should be given time to adjust to industry changes, since quick and frequent changes in regulations disrupt operations of an entity and increase organisational costs, thus compromising on profitability.

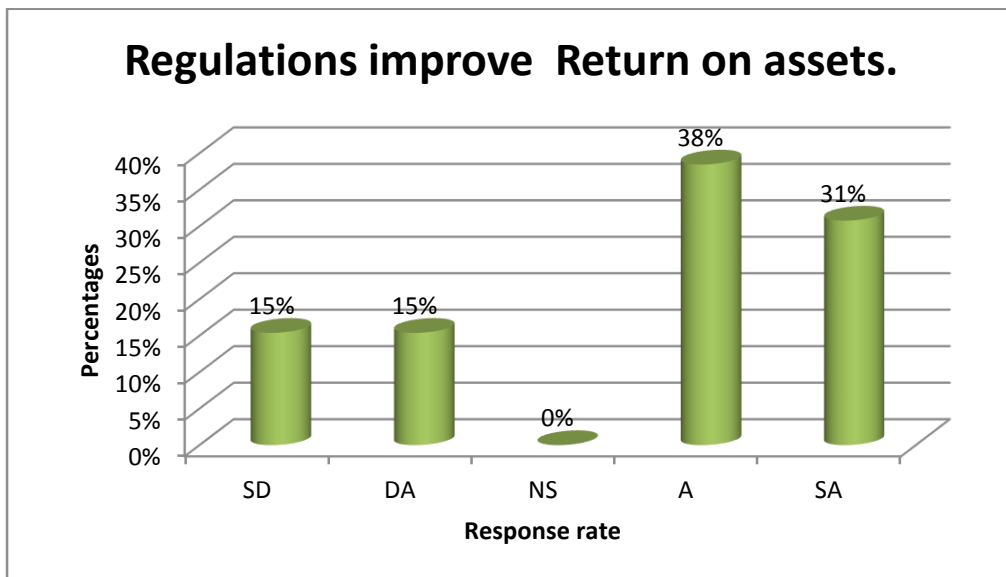
On the other hand there were responses which agreed with the opinion that regulations improve the profitability of an entity. The aggregate responses are that there are respondents who Agree (A) and those that Strongly Agree (SA) with the opinion that regulations improve the profitability of an organisation gave modal responses rate (54%+31%) 85% respectively, this aggregate response rate is supported by the postulation made by Averch and Johnson (2012) who are of the notion that regulations should be transparent to eliminate misinterpretations and inconsistency. Malik (2013) supports this notion by indicating that clear and sound regulations eliminate misinterpretations thus less disruptions to daily operations and improves the overall profitability. In conclusion the perception that the 85% of the aggregate response rate in support of the opinion that regulations have a positive effect on profitability, obtained from the questionnaires surpasses the minimum threshold of 60% response rate indicated by Kothari (2012) to be the minimum validating response rate.

### 4.3.1(b) Regulations and ROA.

#### Number of respondents

	Strongly Disagree (SDA)	Disagree (DA)	Not sure (NS)	Agree (A)	Strongly Agree (SA)	Total
Number of respondents	2	2	0	5	4	13

Fig 4.2 Regulations improve the Return on assets.



From the results presented in Fig 4.2 above it can be interpreted that (2/13)15% Strongly Disagree (SD) that regulations improves ROA of an entity. Similarly on Fig 4.2 the response rate is (2/13)15% of those who Disagree (D) that regulations stimulate the ROA of an entity .On the other hand (0/13)0% of the response rate are Not Sure (NS) that regulations affect the ROA ratio of the entity. Also Fig 4.2 indicate that (4/13)31% Agree (A) that regulations affect ROA of an entity and shows (4/13)31% Strongly Agree (SA) that regulations have an effect on ROA of an organisation. Aggregating the responses of the modal response rate SD, D and NS

with the notion that regulations improve ROA of entities the aggregated response rate can be ascertained (15%+15%+0%) respectively. This is supported by Shin who conducted a research on the usefulness of regulations on ROA and overall organisational performance and concluded that there is no affiliation between regulations and ROA. This is supported by Baltaki (2012) who is of the argument that regulations are inherent and mandatory and do not influence part of an entities assets in income generating activities.

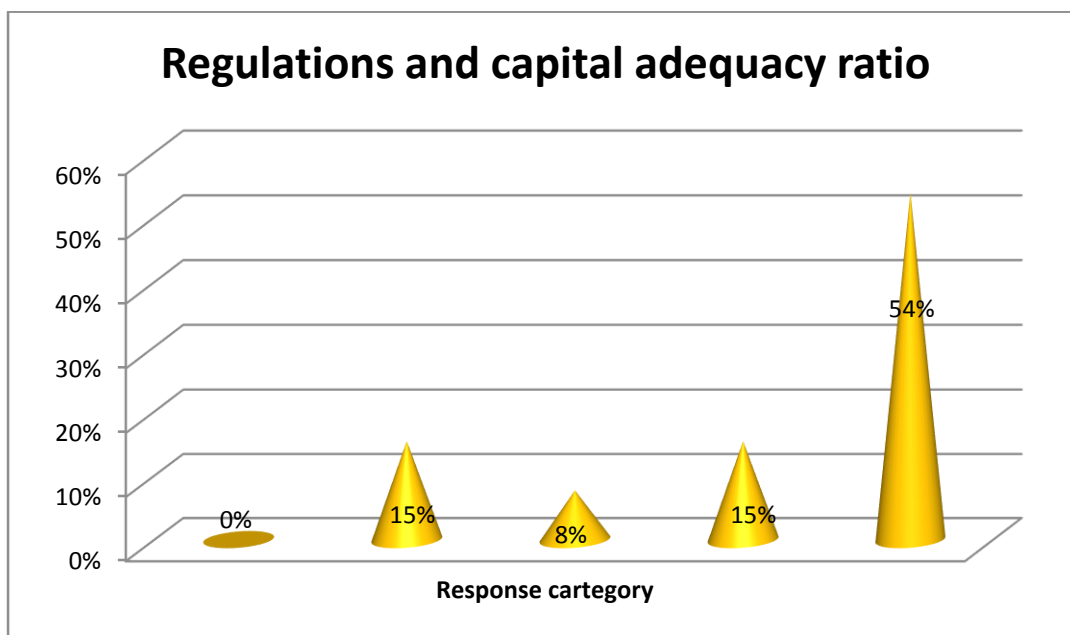
However, there were responses in congruent with the notion that regulations improve ROA of entities. The aggregate responses indicate that there are respondents who Agree (A) and those who Strongly Agree (SA) with the notion that regulations improve the ROA of organisations these gave an aggregate response rate of 62% (31%+31%) respectively. This is supported by Mariyam (2015) who explains that analysts and regulatory authorities use ROA to assess the firms operating performance for forecasting purposes. The author also denotes that ROA indicate the management ability to abide by state regulations in investing in profitable investments and it enables the regulator and both the entity to establish financial performance and predict the outcome of the future income generating activities. From the results derived from the presentation above the researcher concluded that regulations do enhance ROA of an entity.

### 4.3.1(c) Regulations and (CARS) Capital adequacy ratio.

Number of respondents

	<b>Strongly Disagree (SDA)</b>	<b>Disagree (DA)</b>	<b>Not sure (NS)</b>	<b>Agree (A)</b>	<b>Strongly Agree (SA)</b>	<b>Total</b>
<b>Number of respondents</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>7</b>	<b>13</b>

**Fig 4.3**



From the data presented above it can be shown that (0/13)0% (SD) Strongly Disagree that regulations improves Capital adequacy ratio (CAR) also the response rate indicate that (2/13) 15% of those who Disagree (D) that regulations improves on CAR. However other respondents Agree (A) (2/13) that regulations positively affects CAR and subsequently on Fig 4.3 respondents Strongly Agree (SA) with the notion that regulations impact directly on CAR. The

aggregated response rates of those who SD, D is (0%+15%+8%) 23% can be ascertained respectively with the opinion that regulations improve CAR of an entity. These responses are supported by Bertha (2013) who attests that regulations do not affect CAR. Most financial operations have been restricted due to failure to meet capital requirements in the last decade.

Nevertheless, the aggregate response rate of the respondents who Agree (A) and those who Strongly Agree (SA) with the opinion that regulations improves CAR of an entity given a response rate of (15%+54%) 69% respectively. This is supported by Asia (2015) who denotes that capital adequacy ratio is one of the ratios that national regulators use to monitor how much capital a financial institution can set aside as part of buffer assets. Also Esmeray (2016) is of the notion that effective responsiveness to regulations provide information on the Car level of an entity which facilitates an estimation of the reasonable amount of loss that an entity can sustain, as well as indicate the ability of the entity to meet minimum capital requirements. Oladejo and Oladipupo (2013) states that the relevance of regulation to capital adequacy ratio is of utmost importance as it is a tool for regulators to detect the strength ,soundness and safety of the financial industry. Also Sangmi and Nazir indicates that capital adequacy ratio cushions entities from downturns in crisis situations. In conclusion the aggregate 69% response rate derived from the research tools is in favour that regulations influence the CAR in an entity because aggregated rate exceeds the minimum 60% benchmark that validates the response rate as denoted by Punch (2013).



**4.3.2 The elements of regulations that effectively enhance the financial performance.**

**4.3.2(a) Regulatory supervision significantly enhance financial performance of an organisation.**

*Table 4.4*

	<b>Strongly Disagree (SDA)</b>	<b>Disagree (DA)</b>	<b>Not sure (NS)</b>	<b>Agree (A)</b>	<b>Strongly Agree (SA)</b>	<b>Total</b>
<b>Number of respondents</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>7</b>	<b>4</b>	<b>13</b>
<b>Percentage of response rate (%)</b>	<b>0%</b>	<b>15%</b>	<b>0%</b>	<b>54%</b>	<b>31%</b>	<b>100%</b>

From the Table 4.4 above it can be depicted (0/13)0% Strongly Disagree (SD) that regulatory supervision significantly enhance financial performance of an entity, (2/13)15% Disagree (D) ,with the notion that regulatory supervision contribute to financial performance ,also (0/13)0% Not Sure with the opinion that regulatory supervision influence financial performance of an entity. On the other hand the response rate of those who agree is (7/15)54% Agree (A) with the notion that regulatory supervision enhance financial performance of an entity, also (4/13)31% Strongly Agree (SA) with the opinion that regulatory supervision influence financial performance of an organisation. The researcher combined the response rate of SA,DA and NS(0%+15%+0%)15% respectively. The aggregate response rate of (0%+15%+0%)15% is in contrary with the notion that regulatory supervision contributes to financial performance. Gordon (2013) is of the notion that there is no congruency between regulatory supervision and financial performance of an entity, due to regular and surprise visits made by the regulator

,which may affect “business as usual” of organisations, all in the name to serve the regulatory authorities first. Also regulatory administration can be a consultative forum that derives information from all concerned players, which may be used by the authorities in proposing new laws that may result in financial set back of organisations.

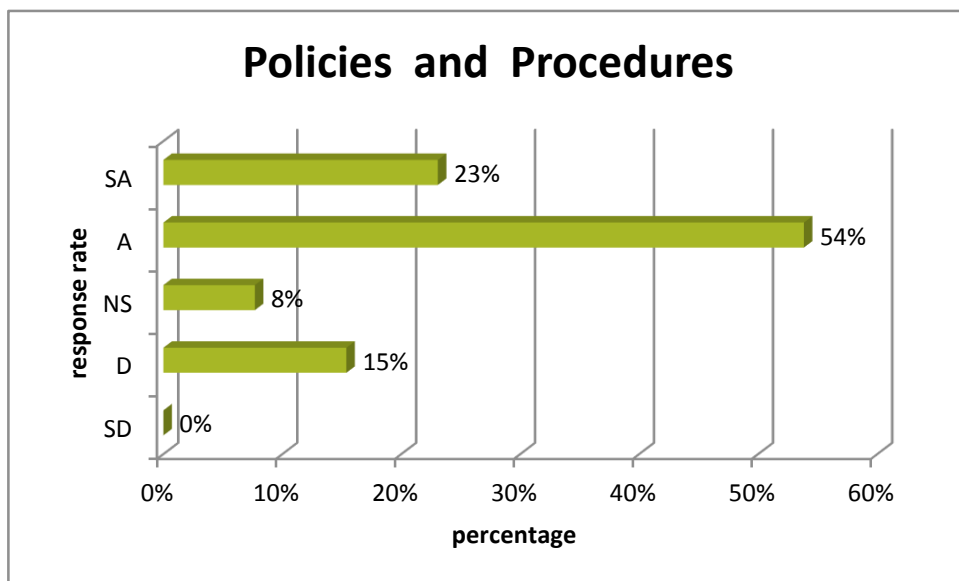
However, the aggregate response rate of those who are Agree (A) and Strongly Agree (SA) is (54%+31%) 85%. The aggregate response rate agree with the notion that supervisory regulations influence financial performance of an entity. Barth et al.(2013) supports that regulatory supervision is of utmost prominence to financial performance in developing countries, given that it assist in detecting entities that are operating under the minimum capital requirements also denote if an entity can be operational in the foreseeable future without compromising stakeholder interests. Also Davis (2012) supports that regulatory supervision entails the scrutiny of entity, to check if its ethically driven, thus detect the authenticity of income generated activities. Chortareas (2012) further explains that regulation monitoring ensures cooperating and coordination of information which enhance informed decision making, thus improving financial performance of an entity. Basing on the response rates that were collected from the research tools. The researcher concludes that supervisory regulation positively influence financial performance of an entity in the financial sector.

**4.3.2(b) Policies and procedures, significantly contribute in enhancing financial performance of an entity.**

Number of respondents

	<b>Strongly Disagree (SDA)</b>	<b>Disagree (DA)</b>	<b>Not sure (NS)</b>	<b>Agree (A)</b>	<b>Strongly Agree (SA)</b>	<b>Total</b>
<b>Number of respondents</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>8</b>	<b>3</b>	<b>13</b>

*Fig 4.4 Policies and Procedures*



In Fig 4.4 show that the (0/13)0% Strongly Disagree (SD) and (2/13)15% Disagree(D) with the notion that policies and procedures contribute in enhancing financial performance on the other side the Fig4.4 depicts that (1/13)8%Not Sure of the notion that policies and procedures influence financial performance of an organisation ,also it is shown that (7/13)54% Agree(A)

with the opinion that policies and procedures enhance the financial performance of an entity, similarly it is shown on the graph that (3/13)23% Strongly Agree(SA) with the opinion that policies and procedures enhance financial performance of an organisation

The aggregate responses of SD,D,NS(0%+15%+8%)23% indicate that the response rate is in conflict with the assertion that procedures and policies enhance the financial performance of an entity .This is supported by Kunreather (2013) who states that externally influenced policies may conflict with organisational policies and procedures and hamper productivity, hence compromise on financial performance .Also Claeseens (2014) is not sure if policies and procedures influence financial performance as the author asserts that policies are inherent and mandatory to be complied with ,hence its bearing has a luke warm effect on financial performance.

Nevertheless, the aggregate responses of (54%+23%) 77% of those who Agree (A) and Strongly Agree (SA) with the notion that policies and procedures improves financial performance of an entity. The subsequent aggregate responses is supported by Liedtke (2012) who is of the notion that policies and procedures influence significantly on entity operations ,as they are perceived as controls or guidelines that assist personnel in delivering expected results. Furthermore Elliot (2012) attests to the opinion that policies and procedures enhance financial performance, due to the assumption that policies and procedures if implemented correctly, they are a solid foundation to improved efficiency and effectiveness as they help in outlining and simplifying an entity's objectives.

Drawing a conclusion the researcher asserts that procedures and policies contributes in enhancing financial performance of an entity, this is because the aggregate response of those in contrast added with those Not sure (0%+15%+8%) 23% is below the modal minimum response threshold as denoted by Punch (2013).However the aggregate response rate of those

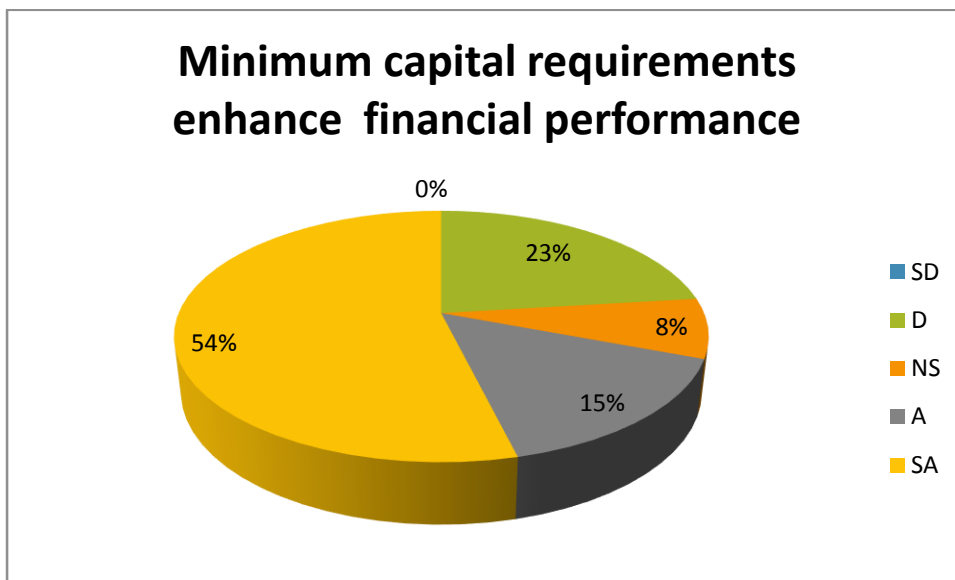
who Agree and Strongly Agree of 77% surpass the 60% minimum benchmark as highlighted by Punch (2013).

#### 4.3.2(c) Regulations and minimum capital requirements

Number of respondents

	<b>Strongly Disagree (SDA)</b>	<b>Disagree (DA)</b>	<b>Not sure (NS)</b>	<b>Agree (A)</b>	<b>Strongly Agree (SA)</b>	<b>Total</b>
<b>Number of respondents</b>	<b>0</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>7</b>	<b>13</b>

*Fig 4.5 Regulations and minimum capital requirements*



Basing on the data presented on the pie chart above (0/13)0% Strongly Disagree (SD) with the notion that minimum capital requirements influence financial performance of an organisation then, (3/13)23% (D) Disagree with the opinion that capital requirements contribute to financial

performance of an entity. Also the respondents rate of those (NS) Not Sure is (1/13)8%. On the other side (2/13)15% (A) Agree, also (7/13) 54% (SA) Strongly Agree with the opinion that capital requirements influence financial performance of an entity. The researcher aggregated the responses of those who Strongly Disagree, Disagree, Not Sure which is 31% (0%+8%+23%) ascertained respectively. The aggregated response rate is supported by Barseghyan (2014) who asserts that ,minimum capital requirements has shown that entry costs increase the size of the informal economy and decrease the formal sector, which likely impacts negatively on financial performance. Dreher and Gassebner (2013) find that high numbers of procedures and high minimum capital requirements impede firm entry. They find entry regulations hamper entry in the industry, thereby stifling innovation in the market However (1/13) 8% of the respondents are not sure of the notion that capital requirements enhance financial performance, nevertheless the percentage is insignificant to the minimum threshold.

On the other hand the researcher aggregated the response rate of those who Agree and Strongly Agree with the notion that capital requirements influence the financial performance of an entity. The aggregated response rate is (15%+54%) 69%. This is supported by Christen et al. (2013) who agrees that minimum capital requirements influence financial performance, because, this requirement is an absolute measure of solvency and is justified on the grounds of influencing the structure of the financial system of an entity. Also Stanchen (2013) states that the regulator requires the minimum amount of liquid capital that insurance companies are mandated to raise, to enable entrance in the regulated market, hence the financial base of the entity should be solid.

Basing on the response rate collected by the researcher, the researcher concluded that capital requirements influence enhance financial performance of an entity this is supported by the aggregated response rate of those who Agree and Strongly Agree which is 69%..

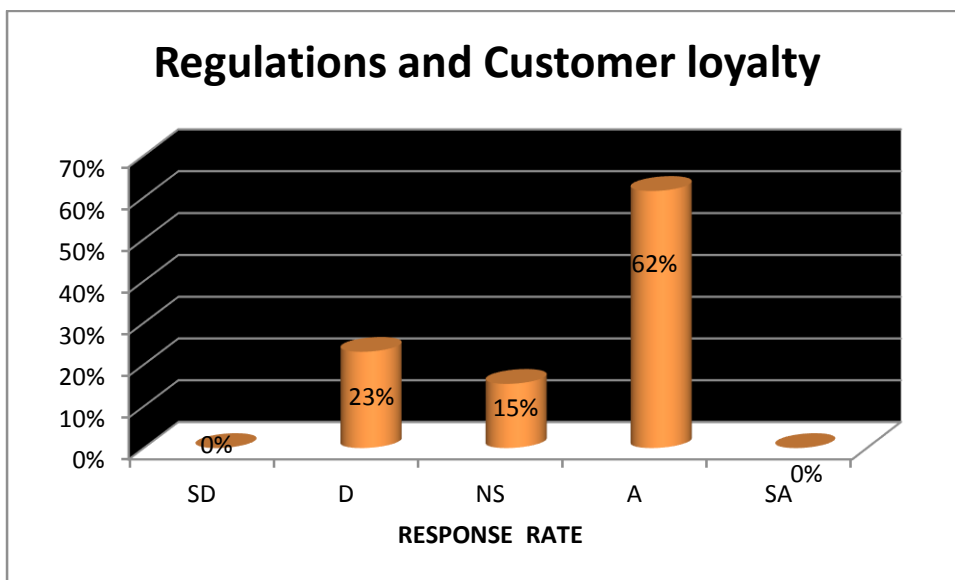
### 4.3.3 Non financial benefits to an organization in compliance with regulations.

#### 4.3.3(a) Regulations and Customer Loyalty

Number of respondents

	<b>Strongly Disagree (SDA)</b>	<b>Disagree (DA)</b>	<b>Not sure (NS)</b>	<b>Agree (A)</b>	<b>Strongly Agree (SA)</b>	<b>Total</b>
<b>Number of respondents</b>	<b>0</b>	<b>3</b>	<b>2</b>	<b>8</b>	<b>0</b>	<b>13</b>

Fig 4.6 Regulations and customer loyalty



The presented data above shows that the response rate of (0/13) 0% Strongly Disagree (SD) with the notion that regulations have facilitated improved customer loyalty, similarly the response rate of (3/13)23% D (Disagree) with the notion that regulations have facilitated on

the improvement of customer loyalty and (2/13)15% of the response rate are not sure of the notion. On the other side (8/13)62% and (0/13)0% of the respondents Agree (A) and Strongly Agree (SA) respectively. The researcher aggregated the response rate of SD, A, NS and came up with (0%+23%+15%) 38%. This is supported by Simbasivan (2013) who states that regulations have no influence on the customer loyalty as it is an organisation intuition to provide products that attracts customer needs, and can enable intense attachments. The respondents rate of those Not Sure(2/13)15 % with the opinion that regulations influence customer loyalty is supported by Howell (2013) who asserts that regulations have neither a positive nor negative influence on customer loyalty, but emphasizes that regulator will safeguard consumers interest by monitoring the services and products offered to the customer.

Nevertheless, the researcher aggregated the response rate of those who A,SA and ascertained (62%+0%)62% respectively agree with the notion that regulations influence customer loyalty .The aggregated outcome is supported by Liperczynski et al. (2012) who states that regulations stir a bit of competition with the view to assist customers to identify weak performing insurance entities. The author also, alluded that in developing economies insurance is recognised as a luxury need, hence it's the duty of the regulator to educate people in a bid to change their mind set and encourage them to uptake insurance products, hence improving customer base of the insurance organisations. From the above discussion the researcher concludes that regulations do have an influence on customer loyalty as the aggregate responses of those who A (Agree) and Strongly Agree (SA) is significant.

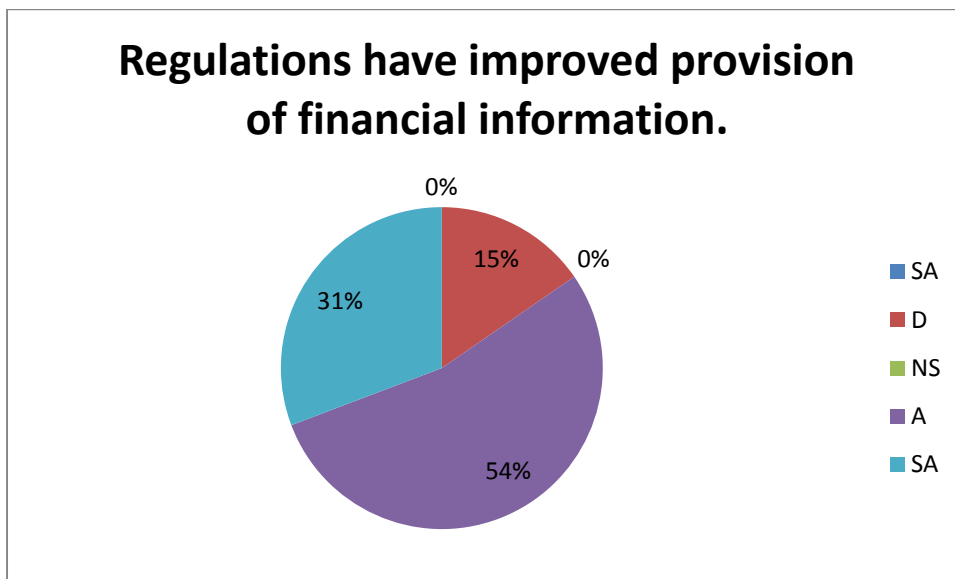


**4.3.3(b) Regulations have resulted in improved provision of financial information in timeous manner.**

Number of respondents

	<b>Strongly Disagree (SDA)</b>	<b>Disagree (DA)</b>	<b>Not sure (NS)</b>	<b>Agree (A)</b>	<b>Strongly Agree (SA)</b>	<b>Total</b>
<b>Number of respondents</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>7</b>	<b>4</b>	<b>13</b>

**Fig 4.7 Regulations have improved provision of financial information.**



Based on the presented data above it can be indicated that (0/13)0% Strongly Disagree SD that regulations influence the provision of information in a timeous manner in an entity ,Also as shown on Fig 4.7 (2/13)15% Disagree(D) that regulations improves the provision of information in a timeous manner ,It can also be depicted (7/13)54% Agree(A) with the opinion

that regulations improves provision of information in a timeous manner, the data shows as well (4/13)30% (SA) Strongly Agree with the notion that regulations improves provision of information on time. The aggregated response rate for respondents who SD, D, NS is (0%+15%+0%) 15% and can be ascertained respectively. Kaya (2013) argues that regulations improve provision of financial information in a timeous manner, since regulatory authorities may require complex information in a short period of time, hence information quality is compromised due to work hurriedness that increase errors and violate standard steps of completing tasks.

On the other hand the Fig4.7 also indicate that the majority aggregated respondents Agree (A) and (SA) is (54%+31%) 85% this can be established respectively with the opinion that regulations improves the provision of financial information in a timeous manner. Okely et al(2012) supports that regulations influence the provision of timeous manner as it influence time management abilities in personnel, also audits executed by the regulatory authorities require entities to provide information that is transparent ,faithfully presented and purports what it claims to represent and complete. Also Mikes (2014) postulates that regulatory authorities expects that entities complete financial reporting in ample time ,to provide information to stakeholders and aid them in decision making. Similarly Vaughn (2014) agrees that regulations influence timely provision of information to monitor the going concern factors of entities through financial statements.

In conclusion from the response rate above the researcher also recognises that there is a positive relationship between data structure and financial performance of an organization. This conclusion is based on the fact that even if the researcher was to combine the response rate of the respondents who were not sure with respondents who disagree with the opinion it would result in an aggregate response of 15% (0% + 15% + 0%) which would still be insignificant compared to the aggregate response of 85% of the respondents who correspond with the

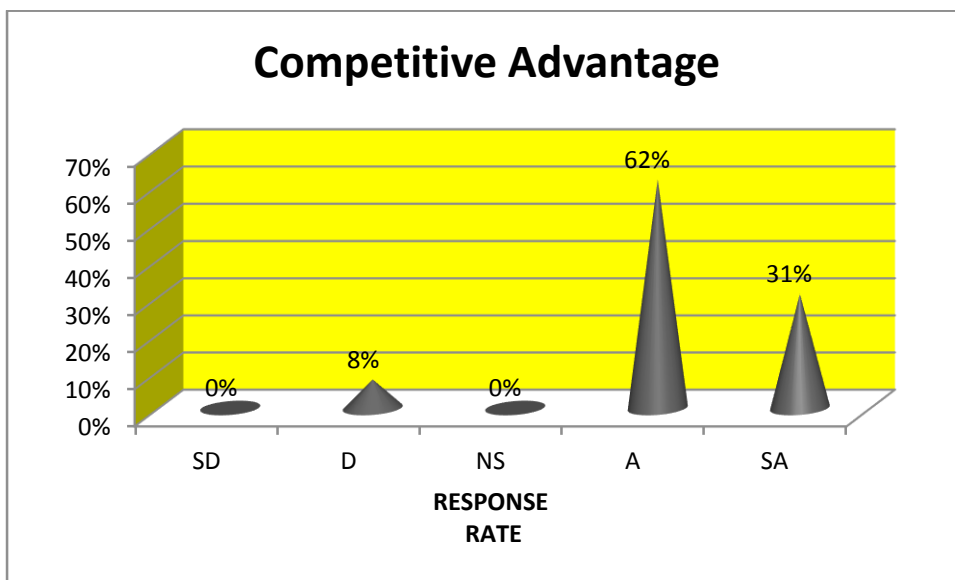
opinion. Thus, using the majority aggregate response rate and the support of the assertions by previous authors such as Mikes (2014) and Okley et al. (2012) the researcher identifies that regulations have a significant influence on financial performance since it greatly improves the provision of financial information in financial service providers.

**4.3.3(c) Regulations have resulted in an increase in the competitive advantage of an entity.**

Number of respondents

	<b>Strongly Disagree (SDA)</b>	<b>Disagree (DA)</b>	<b>Not sure (NS)</b>	<b>Agree (A)</b>	<b>Strongly Agree (SA)</b>	<b>Total</b>
<b>Number of respondents</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>8</b>	<b>4</b>	<b>13</b>

*Fig 4.8 Competitive Advantage*



From the presented data above it can be depicted that (0/13)0% (SD) Strongly Disagree of the response rate is of the notion that regulations have resulted in an increase in the competitive advantage of an entity,(1/13)8% Disagree (D) with the notion as well as the response rate of those Not Sure(NS) is(0/13)0% ,also on the other hand the Fig shows respondents who (A)Agree and Strongly Agree with the notion that regulations have resulted in an increase in the competitive advantage of an entity. The researcher aggregated the response rate of the respondents that SD, D and NS with the opinion that regulations resulted in an increase in the competitive advantage of the entity and came up with (0%+8%+0%) 8% results. This is supported by Jalian et al(2014) who indicates that regulations have traditionally limited the extent of competition between insurers, through controls on entry, on prices particularly price floors, on the methods for calculating premiums, and through the explicit promotion of cartels. If the regulations effectively restrict competition subsequently they may have the usual undesirable effects of limiting incentives for efficiency and innovation in an entity.

However, the researcher aggregated the response rate of those who Agree (A) and response rates of those who Strongly Agree (SA) is (62%+31%) ascertained respectively. In support of the aggregation Vancrossum (2012) states that regulations cartelise the informal sector in a bid to enable the formal sector more competitive advantage. Also Ting is of the notion that regulations enhance competitive advantage of an entity due to government assistance that improves their financial levels. Nhavira (2013) alludes that the regulator plays an important role in ensuring competition and innovation in the financial sector by employing mechanisms as ease of entry, treatment of consumers to name a few.

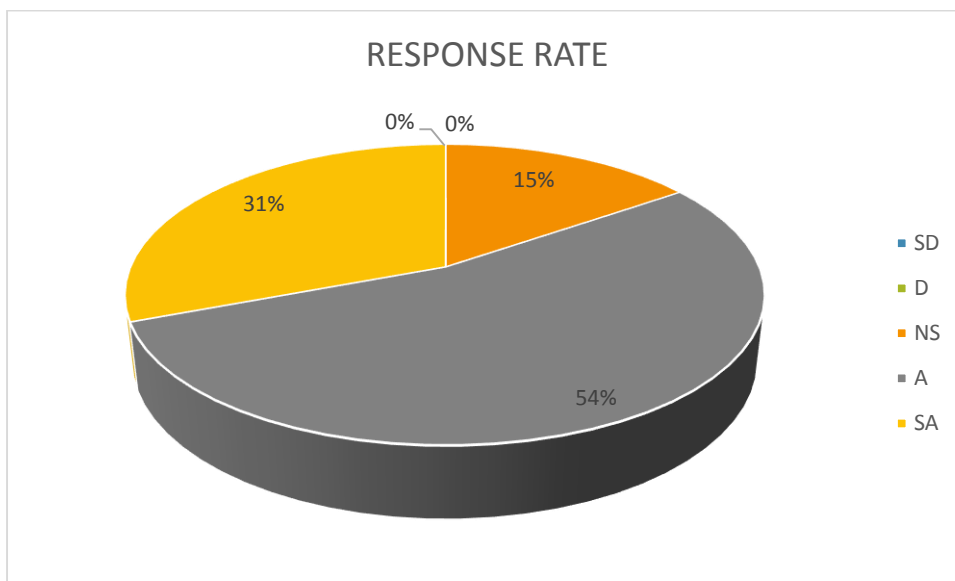
The researcher concludes that regulations have a positive effect on the competitive advantage of entities, since the aggregated response rate of those who agree exceeds the minimum threshold.

### 4.3.4 Challenges that affect organisational performance in complying with regulations

#### 4.3.4(a) Regulations have significantly increased costs of organisations

	Strongly Disagree (SDA)	Disagree (DA)	Not sure (NS)	Agree (A)	Strongly Agree (SA)	Total
Number of respondents	0	2	0	8	3	13

Fig 4.9 Regulations have significantly increased costs



From the data presented it can be noted that the responsive rate of those who (SD) Strongly Disagree is (0/13)0% and those who Disagree(D) is (0/13)0% with the opinion that regulations increase an entity costs also the respondent rate of those Not Sure(NS) is (2/13)15% Furthermore it can be depicted on Fig4.3.4(1) that the response rate of the respondents who

Agree is (8/13)54% of those who Strongly Agree (SA) is (4/13)31% with the opinion that regulations have significantly increased organisational costs of an entity. The aggregated responses that SD, D and NS (0%+0%+15%) 15% is ascertained respectively. This is supported by Okoth (2013) who is of the opinion that regulations are a mandate in the corporate arena, they exist regardless of new entrance or exits of companies therefore do not increase the costs of organisations other than facilitate non - financial benefits to companies

Nonetheless the researcher aggregated the response rate of those who Agree (A) and those who Strongly Agreed (SA) is (54%+31%) 85%. This is supported by Schmeiser and Wagner (2012) who states that compliance and implementation costs and willingness to pay policyholder impacts massively on the cost structure of insurance companies. Regulations will influence the following costs, administrative costs, and external costs for example, fees for supervisors, audit fees, opportunity cost due to the ban of certain activities, costs due to the change in the market namely decrease in demand, capital requirements. labour costs(overtime costs). Basing on the aggregate response rate of the respondents who concur with the notion that regulations significantly increase organisational costs, the respondents who agree exceeds the minimum threshold as determined by Punch (2013).

**4.3.4(a) Regulations positively impact annual premium increase.**

*Table 4.5*

	<b>Strongly Disagree (SDA)</b>	<b>Disagree (DA)</b>	<b>Not sure (NS)</b>	<b>Agree (A)</b>	<b>Strongly Agree (SA)</b>	<b>Total</b>
<b>Number of respondents</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>8</b>	<b>3</b>	<b>13</b>
<b>Percentage of response rate (%)</b>	<b>0%</b>	<b>15%</b>	<b>0%</b>	<b>62%</b>	<b>23%</b>	<b>100%</b>

From the data indicated in the table above, the response rate of (0/13)0% Strongly Disagree (SDA) with the opinion that regulations positively impact annual premium increase, of an entity, also the response rate of (2/13)15% of the population Agree (A) and (0/13)0% are Not Sure (NS) with the notion that regulations positively impact annual premium income increase. Also, on the other hand the response rate of those who Agree (A) and Strongly Agree (SA) is (8/13)62% and (3/13)23% respectively. The researcher aggregated the response rate of those who SDA, D, NS with the notion that regulations impact annual premium income and came up with (0%+15%+0%) 15% .This is supported by DaSilva and Divino (2013) who are of the assertion that most revenues that relate to particular policies, such as premiums and losses, are shown by line of business and not influenced by regulation. Also Posner and Weyl (2012) is of the notion that premiums for life insurance and annuity products are not subject to regulatory approval, although regulators may seek to ensure that policy benefits are appropriate with the premiums charged.

Nevertheless the researcher also aggregated responses of those who (A) Agree and (SA) Strongly Agree is (62%+23%) 85% respectively. This is supported by Aggarwal (2013) explains that the primary focus of regulation is on the ability of the insurance company to charge ethical premiums and meet its financial obligations to policyholders and claimants. Eling and Schimit(2012) explains that regulations act as a parameter for insurance companies to primarily charge premiums that boost the revenue level of a company, with the notion that improves market share and also control any unethical rampant price underwriting. The researcher concluded that regulations have a positive impact on annual premium increase due to the findings that the aggregate response rate of those who SA and A is (85%) is significant to the aggregated response rate of those who SD and D and NS which is (8%).

#### **4.4 INTERVIEW RESPONSES**

##### **4.4.1 Interviews conducted and their success.**

The researcher was supposed to carry out 4 interviews and 3 interviews were conducted with the Product accountant, Team leader and Fund accountant, the Finance Executive was out of the country attending a regional meeting. Thereby giving a response rate of 75%. Table 4.1.2 below shows the interview response rate.

*Table 4.6 Interview response rate.*

<b>Respondents</b>	<b>Interviews</b>	<b>Success</b>	<b>Response rate(%)</b>
Product Accountant	1	1	100%
Team leader	1	1	100%
Fund Accountant	1	1	100%



Finance Executive	1	0	0%
Total	4	3	75%

The researcher also conducted interviews as another data collection tool. The interviews were intended to compensate for the weaknesses of questionnaires such as lack of room for further clarification and explanations from the respondents notions. Also, these interviews also assisted in giving more insight to the researcher on the effect of regulations on the financial performance of entities in the financial sector. The interviews were arranged with the Finance Executive, Team Leader, Product accountant and Fund Accountant. The interviews were scheduled on one-on-one basis and over the telephone. The researcher intended to conduct four (4) interviews, but managed to conduct (3/4) 75% of the planned interviews. However, although (1/4) 25% of the intended respondents did not take part in the research, the (3/4) 75% of the respondents that were interviewed are considered by the researcher to have contributed reliable information on which a feasible conclusion can be made upon as they occupy top positions that enables them access to first-hand information of the entity. Below are the responses that the researcher ascertained under each research question.

#### **4.4.1a What has been the effect of regulations on the financial performance of long term insurance business?**

From the interview conducted directed to the question above, most respondents were of the opinion that regulations positively influence the financial performance of an entity, because regulations require organisations to disclose information, exercise fair business practises, competence, honesty and integrity of financial institutions and their employees. They also alluded that regulations stimulate financial performance of an entity through employing mechanisms of regular audits and test visits, to monitor going concern factors of an entity in a

bid to protect stakeholders interests and the pro-activeness assist an entity to come up with alternatives of cushioning low capitalisation levels quickly, hence improving on financial performance of an entity.

Furthermore the majority supports the above discussions and adds on that regulations necessitates a conducive environment for innovation, thereby enhancing on productivity of the organisation. They also mentioned that regulations influence on the improvement of return on assets and capital adequacy ratios of an entity, to enable an entity to stretch its resources effectively, and assist regulatory authorities to detect liquidity challenges through supervision and get assistance to protect stakeholders from losing their investments. This is anchored by respondents who strongly agree and agree that regulations have a positive effect on financial performance as per data presented on Fig 4.1. Malik (2013) and Averch and Johnson (2012) emphasizes that clear and sound regulations eliminate misinterpretations thus less disruptions to daily work, hence improve efficiency.

#### **4.4.1b What are the elements of regulations that enhance financial performance of long term insurance business?**

From the scheduled interview, the majority respondents were of the opinion that all regulation elements satisfy the notion that regulations enhance financial performance of an entity. The respondents emphasized that capital requirements is of utmost need in the existence of an entity in the insurance sector, as the industry attracts intense regulatory attention unlike other sectors ,they possess certain risks which justify this regulatory attention. Capital requirement is an absolute measure of solvency and is justified on the grounds of influencing the structure of the financial system of an entity and furthermore the most of the respondents concurred with the opinion that all elements of regulations enhance financial performance of an organisation ,the respondents touched on regulatory supervision as the most crucial element that enhance

financial performance of an entity, as it enables the regulator to detect entities that are insolvent and also those practising unethical business.

Furthermore majority respondents highlighted, that elements of regulations contribute to financial performance of an entity, the respondents alluded that capital requirements is indicative of the ability of an entity to raise intended capital, and this equip regulatory authorities to establish financial performance of an entity and make sound predictions on the entity future operations, also the respondents articulated on policies and procedures and stated that they anchor the objectives of the entity and make them understandable and meaningful, hence eliminates ambiguity on tasks performed, which in turn increases efficiency. This is also supported from the results deduced from the questionnaire platform, *Fig 4.4* shows the aggregated responses rate in support of the notion this is supported by Powell (2012) and Elliot (2012) who anchor the opinion by stating that policies and procedures are controls that monitor business processes on each business unit, so as to keep abreast with business trends.

#### **4.4.1c What are the challenges that affect organisational performance in complying with regulations?**

From the majority respondents to this research question, were of the opinion that overregulation is a challenge that affect organisational performance of an entity. This entails increase in costs stimulated by the need for extra labour hours to complete regulatory requirements as per set deadline. The second respondent mentioned that some regulatory requirements can be misinterpreted due to complexity of their nature for example the respondent highlighted on the change of IPEC formulae of calculating fees was not clear such that the entity ended up overpaying the regulator thereby stretching organisation resources.

The minority respondents highlighted that unwillingness to comply with the regulator due to particular business practises that can alarm the regulator and attract penalties. The respondents further described that an entity may window dress financial statements in a bid to meet

regulatory minimum requirements, this may affect investors and other stakeholders decision making, hence hamper organisational performance. From the response rate from the questionnaire platform Fig 4.8 whose aggregate of those who agree and strongly agree is 85% agree that regulations increase organisational costs. This is anchored by Schmeiser and Wagner (2012) who states that overregulation, compliance and implementation of deliberately increase the costs of a company

#### **4.4.1d What has been the effect of regulations on the non-financial factors of financial performance?**

The majority of the respondents from the panel of three who were interviewed attested that regulation do have effect on non- financial factors of financial performance. The respondents agrees with the notion that regulations have resulted in improved provision of financial information in a timeous manner, also the respondent stated that due to this opinion entities have strived to provide error free, transparent and understandable information on time, to avoid penalties awarded for not complying .Most of the respondents are of the notion that financial information provided on time enables profound decision making, which enhances financial performance of an entity. Furthermore regulations stimulate an increase in the competitive advantage of an entity by employing mechanisms such as ease of entry to name a few.

The minority respondents are of the notion that regulations cartelise the informal sector in a bid to enable the formal sector more competitive advantage. Also the respondents are of the notion that regulations enhance competitive advantage of an entity due to government assistance that improves their financial levels. The response is supported by Nhavira (2013) who alludes that the regulator plays an important role in ensuring competition and innovation in the financial sector by employing mechanisms as ease of entry, treatment of consumers to name a few. The minority respondents emphasized that regulatory authorities influence proper

safekeeping, protection of funds and transaction documents of clients to be adhered to certain principles, such as misleading advertisement, canvassing and marketing, which creates a favourable environment for perfect competition. The respondents also stated that regulations improves financial performance prudently in an entity by regularising violations by other players and normalise the situation like in the case of curatorship, whereby the continuous trading of an unfit financial company might lead to failure of many players in the industry.

#### **4.5 Chapter Summary**

This chapter presented, analysed and related the responses that the researcher collected at OMLAC as a case study organisation through questionnaires and interviews supported by the literature of different authors. The presentation and analysis of the collected data was in the form of graphs, tables and pie charts so as to comprehend the understandability of the collected data. The following chapter will focus on the summary of the overall research, paying particular attention on the research findings and recommendations that the researcher deem feasible in solving the research problem indicated in chapter one.

## **Chapter 5**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

The purpose of this research was to investigate the responsiveness by insurance companies to regulations affecting their financial performance. The chapter focuses on outlining the summary, conclusions as well as recommendations. The conclusions given follow after the analysis of research objectives indicated in chapter one of this study and recommendations based on information gathered from the case study entity OMLAC and findings made during the research and expected to give an opinion to the company on the course of action it may take.

#### **5.1 Summary of the research.**

Chapter One looked at the introduction, it also emphasised on the background of the study, the statement of the problem, research objectives, main research question and significance of the study. Also the chapter pointed out the delimitations and limitations of the study. The study was undertaken due to regulations influencing the insurance sector. .The main research question was to investigate the responsiveness by insurance companies to regulations affecting their financial performance.

Chapter Two outlined opinions of other authors that anchored the research topic. The chapter looked at the implications of regulations on the financial performance of the organisation, elements of regulations that contributed in improving financial performance of an organisation, financial benefits associated with regulation compliance. Most of the literature by authors such

as Staschen (2013), Barth et al (2013), Bolton (2014) and Rybczynski et al (2013) emphasized on the need to comply with regulations for entities in the insurance sector to achieve and enhance financial performance, whilst DaSilva and Divino (2013) argued that most revenue related to certain policies are shown by line of business and not influenced by regulations.

Chapter Three focused on the research design which is descriptive and interpretive in nature, as supported by Howell (2013) who states that research designs are the backbone of every research as they anchor researchers at every stage of the research. The chapter looked at the research methods that were used by the researcher to collect data, population, census, validity and reliability of data gathered and the summary. The target population was made up of Product Accountants, Administrators, Team Leader, Finance Executive, Product Accountants and Fund Accountants who were targeted for interviews.

Chapter Four covered data analysis and presentation of research findings. Raw data was collected through questionnaires and interviews gathered during the field research and processed into understandable and meaningful information presented in the form of tables graphs and pie charts. This enabled the establishment of the basis for summary, conclusion and recommendations for the research.

## **5.2 Major research findings.**

The main research question was to investigate the responsiveness by insurance companies to regulations affecting their financial performance.

- To explain the effect of the regulations on financial performance of long term insurance business.

From the research it was deduced that transparent and consistent regulations eliminate misinterpretations and conflicts between managers and personnel, hence the probability of

disruptions on daily operations is minimised as requirements are clear and precise, this results in provision of quality services, motivated staff, complete utilisation of business opportunities ethically and improved productivity.

- To identify the elements of regulations that effectively enhance financial performance of long term insurance business.

The research show cased that all elements of regulations enhance financial performance of an entity. It is deduced that regulatory supervision is a crucial element to financial performance of entities, it entails the scrutiny of entity operations to detect the authenticity of income generated activities, it is a control mechanism employed by regulatory authorities that serves to protect the interests of stake holders without compromising going concern factors .Supervision ensures coordination of entities to determine their financial reporting is in compliance with relevant standards. The research also revealed that policies and procedures are an anchor to financial performance when they are followed and implemented accordingly. The research also showed that capital requirement is a major factor to financial performance of an entity as it is a measure of solvency of an entity

- To determine the challenges that affect organisational performance in complying with regulations.

The research reveal that the challenges associated with complying with regulations are inherent in nature. Some of the challenges are increased administrative costs that surface due to overregulation and or inconsistency in the nature of regulations enacted. The research showed that in order to avoid the unexpected rise in costs entities are supposed to set aside contingent amounts to cover for unexpected requirements.



- To identify the effect of regulations on the non-financial factors of long term insurance business.

The research showed that there are non-financial benefits associated with complying with regulations such as improved customer loyalty, improved provision of financial information and increased competitive advantage of the entity. The research revealed that compliance with regulations differentiate an entity from other players in the industry and enables it to gain integrity, hence stimulates revenue generating activities which in turn overall enhances financial performance.

### **5.3 Conclusions**

The research successfully provided an insight into the assessment of the effectiveness of regulations on financial performance of an insurance entity. The success of the research is noted by the overall responses amassed through the research instruments which highlight that regulations overall have a positive effect on the financial performance of firms in the insurance sector. The research also sought to determine the effects of regulations on financial system of an insurance entity and possible alternatives an entity can employ to comply with the regulatory requirements. The literature show cased that the entities needed to comply with regulations to avoid penalties, enhance financial performance and gain integrity.

### **5.4 Recommendations.**

From the research findings, financial institutions should review business processes at business level units and organisational level to conform to legal requirements of the regulator. This will enable the organisation to coordinate and provide information as per regulator's standards, as attested by Kotter (2012). Furthermore, reviewing business processes will eliminate ambiguous tasks and cut on unnecessary use of resources, hence improve organizational efficiency as well

as enabling the entity to have clear set of policies and procedures that are in congruent with the insurance code of conduct.

Enhancing prudential supervision will enable the regulator to discover insurance entities that are struggling and provide remedial measures before they collapse and also identify curatorship entities that may affect welfare of other entities in the market. Plautin and Rochet (2014) are of the opinion that it is crucial that comprehensive and transparent impact assessments become the rule, such that all stakeholders become involved in the reform of laws at an early stage, so as to quickly detect and rectify negative developments.

The industry should develop standard policy conditions that are published and can be used by individual insurers for their product design, in this way the comparability of products available in the market is improved and this enables covering new risks like cyber risks.

Regulatory authorities should constantly be aware of the importance of coherent regulation. Legal uncertainties, redundant or contradictions in regulation of the financial system must be avoided from inception to prevent unnecessary costs that affect entities resources.

Application of the principle of proportionality on regulatory provisions regarding investments of insurers, helps in avoiding unnecessary costs and potential competitive disadvantages for insurance entities.

Lobbying government through industry bodies like the Life Offices Association and Insurance Council of Zimbabwe, state interventions can improve insurance markets results, this is due to the fact that insurance markets are characterised by considerable information deficits and external effects. Kenneth (2012) identifies that in the worst case these can result in market failure, if there is no regulatory framework in place to balance the market information asymmetry.

## **5.5 Suggested area of further study.**

From the study, the directions for future research regarding regulation and financial performance of financial institutions are recommended to be done on other factors like size, age and profit underwriting affecting financial performance of insurance organisations in Zimbabwe .Further study should be done to assess the impact of regulations, contributing to the economic development of Zimbabwe given the critical role the insurance sector plays in promoting industrial development.



Midlands State University

Faculty of Commerce

Department of Accounting

P.O Box 9055

Gweru

11 April 2017

Dear Respondent.

**RE:REQUEST TO RESPOND TO QUESTIONNAIRE.**

My name is Thandeka Samantha Dube, I am an under graduate student at Midlands State University (MSU) studying a Bachelor of Commerce Accounting (Honors) Degree. I am carrying out a research on the “**investigation of the responsiveness by insurance companies to regulations affecting their financial performance: using OMLAC as a case study,**” this is in fulfilment of the prerequisites of my degree program.

It is with great pleasure that you participate in my research and share your views and opinions with regards to the research under study. Kindly take note that the data that is collected through this research instrument will be confidential and only used for academic purpose

Yours faithfully

Thandeka S Dube (r136743m)

Contact number: **0773083927**

Email address: **[thandekasamanthadube@gmail.com](mailto:thandekasamanthadube@gmail.com)**.



Midlands State University

Faculty of Commerce

Department of Accounting

P.O Box 9055

Gweru

11 April 2017

Dear Sir/Madam.

**RE:REQUEST TO COLLECT DATA FROM ORGANISATION.**

My name is Thandeka Samantha Dube, I am an under graduate student at Midlands State University (MSU) studying a Bachelor of Commerce Accounting (Honors) Degree and in my final year. I am carrying out a research on the **“investigation of the responsiveness by insurance companies to regulations affecting their financial performance: using OMLAC as a case study,”** this is in fulfilment of the prerequisites of the degree program.

I am kindly asking for your permission to carry out the research under study at your organisation.

Kindly take note that the data that is collected through the research instruments (questionnaires and interviews) will be confidential and only used for academic purpose.

Yours faithfully

Thandeka S Dube (r136743m)

Contact number: **0773083927**

**Email address: [thandekasamanthadube@gmail.com](mailto:thandekasamanthadube@gmail.com).**

## QUESTIONNAIRE.

### Instructions.

1. Do not indicate your name.
2. Tick in the relevant box for your response choice.
3. Give your opinion in the blank space below where applicable.

### Questions.

NOTE: Kindly respond to the following statements by indicating the extent to which you agree or disagree with the activities.

KEY: (1) Strongly Disagree,(2) Disagree,(3) Not sure, (4) Agree, (5) Strongly Agree.

### Background Information

1.Gender of the respondent Male  Female

2.Age (a).18-30  (b).31-40  (c)41-50  (d) and above

### 3.Level of Education

a)Diploma

b)Bachelors degree

d)PhD

4 How long have have you been with the organisation?

**5) Regulations in the industry have positively influenced;**

	1	2	3	4	5
1) the profitability of the organization.					
2) improving the Return on Assets ratio.(ROA)					
3) the capital adequacy ratio of an entity.					

**6)What are your views on the following elements of regulation?**

	1	2	3	4	5
1)Regulations and supervision significantly contribute in enhancing the financial performance of an organization.					
2)Policies and procedures of an entity significantly contribute in enhancing the financial performance of an organization.					
3)Minimum capital requirements significantly enhance the financial performance of an organization.					

**7) Regulations have;**

	1	2	3	4	5
1) facilitated improved customer loyalty.					

2) resulted in improved provision of financial information in a timeous manner.					
3) resulted in an increase in the competitive advantage of the entity.					

**8) Regulations;**

	1	2	3	4	5
1) have significantly increased organisational costs					
2) have greatly increased profitability of the organisation					
3) positively impact annual premium income increase.					

**Any other comments:**.....

.....

.....

**THANK YOU.**



## **INTERVIEW QUESTIONS GUIDE**

These interview questions are aimed at ascertaining your views, opinion, perspective and comments on the research understudy of the investigation of the responsiveness by insurance companies to regulations affecting their performance indicators: case study OMLAC. Kindly take note that your contribution towards this research shall be treated with the highest degree of confidentiality and only for academic purposes. Your cooperation is greatly appreciated.

### **Questions.**

- 1. What has been the effect of regulations on the profitability of long term insurance business?**
- 2. What has been the effect of regulations on net client cash flow of long term insurance business?**
- 3. What are the non-financial benefits to an insurance organization in compliance with regulations?**
- 4. What are the challenges affecting organisational performance in complying with regulations?**

**Thank you.**

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