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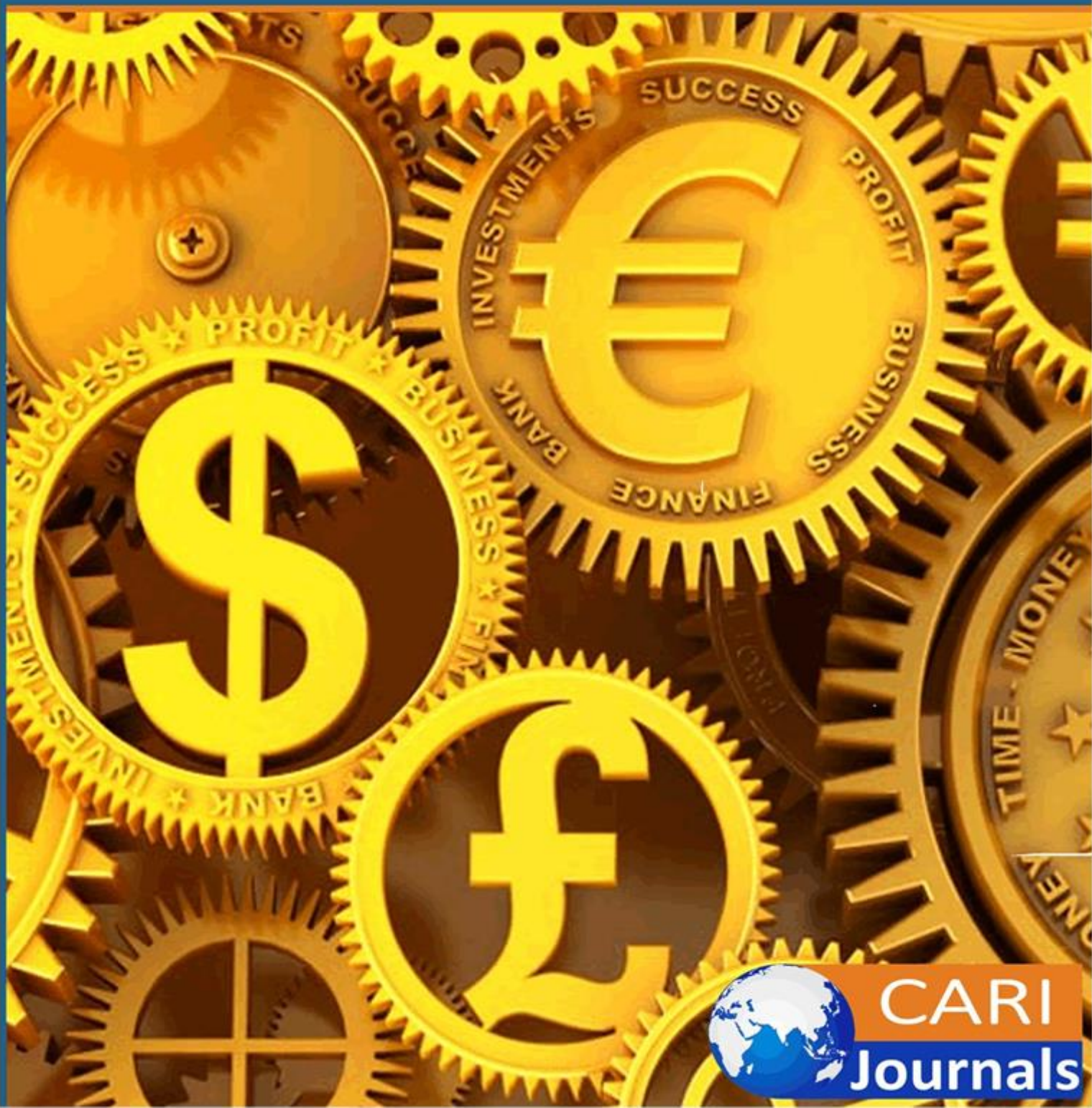

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Effect of Risk Profile Diversification on Financial Performance of Insurance Companies in Kenya

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Abstract

Purpose: Effect of risk profile diversification on financial performance of insurance companies in Kenya.

Methodology: The study employed a descriptive research design targeting all 108 senior managers from 36 licensed general insurance firms in Kenya. Using a census approach, data were collected via structured questionnaires. A pilot study ensured reliability and validity. Analysis involved descriptive and multiple regression statistics, with diagnostic tests conducted to confirm the model's robustness and validity.

Findings: The study found a statistically significant positive relationship between risk profile diversification and financial performance in Kenyan insurance firms. A correlation coefficient (R) of 0.512 indicated a moderate association, while an R^2 of 0.262 showed that diversification explained 26.2% of performance variance. The adjusted R^2 of 0.255 confirmed model reliability. A regression coefficient (B = 0.594) suggested substantial impact, and an F-statistic of 71.200 (p = 0.000) affirmed model significance, highlighting risk profile diversification as a strategic driver of financial performance.

Unique Contribution to Theory, Policy and Practice: This study contributes uniquely to theory, policy, and practice by affirming the Risk-Return Tradeoff Theory, showing that balancing high-, medium-, and low-risk assets enhances financial performance in Kenyan insurance firms. Theoretically, it demonstrates that risk-diversified portfolios improve resilience and profitability. For policy, it advises regulators like the IRA and National Treasury to integrate risk diversification into investment guidelines, promote financial literacy, and strengthen performance monitoring tools. Practically, the study urges insurers to adopt dynamic, data-driven risk management strategies that align investments with liability structures and liquidity needs. It also recommends upskilling investment teams to evaluate market shifts and optimize asset allocation. As competition grows, firms that effectively diversify risk are more likely to achieve financial stability and gain a competitive edge.

Keywords: *Risk Profile Diversification, Financial Performance, Insurance Companies.*

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1.0 INTRODUCTION

The financial performance of insurance companies has become a cornerstone for sustaining institutional viability, fulfilling policyholder obligations, and contributing to the overall stability of Kenya's financial system. Financial performance denotes the ability of an insurer to efficiently utilize its assets to generate profits while maintaining liquidity, solvency, and operational resilience (Kimani & Waweru, 2021). Strong financial outcomes are essential not only for internal sustainability but also for enhancing client trust, ensuring regulatory compliance, and improving sector competitiveness. Key performance indicators such as Return on Assets (ROA), Return on Equity (ROE), net premium growth, and solvency margins provide crucial insights into how effectively an insurer manages its resources and obligations (Mutiso, 2023). A financially sound insurance sector mobilizes long-term savings and channels them into productive investments, thereby facilitating economic development. According to the Insurance Regulatory Authority (IRA, 2023), robust financial performance in the insurance sector underpins public confidence and provides the economy with vital risk transfer mechanisms and capital buffers.

Among the strategies that insurance firms adopt to enhance financial performance, risk profile diversification has emerged as a critical determinant. This approach involves spreading investments across low-, medium-, and high-risk assets to manage exposure and optimize returns in a fluctuating economic environment (Otieno & Kariuki, 2023). By balancing asset risk levels, insurers can stabilize their income streams, mitigate the impact of market volatility, and enhance their ability to meet both short-term and long-term financial obligations. Omoke (2022) asserts that diversification reduces unsystematic risk and strengthens a firm's ability to remain solvent during economic downturns. In addition to financial metrics, diversification also enhances organizational resilience by aligning asset allocation strategies with market conditions, internal governance, and regulatory requirements (Mwangi & Kihoro, 2022).

However, the benefits of risk profile diversification are not automatic. Poorly calibrated diversification strategies such as over-concentration in high-risk instruments or excessive conservatism in low-yield assets may impair financial performance. In Kenya's insurance sector, structural constraints such as market volatility, fluctuating interest rates, and limited access to high-return investment vehicles can weaken the effectiveness of diversification (Ndirangu & Musyoka, 2022). Empirical findings by Wambugu and Kamau (2022) show that insurance companies with narrow risk exposure often experience unstable returns, liquidity shortfalls, and compliance challenges. Conversely, those that strategically diversify across different risk tiers report stronger ROA, better capital efficiency, and improved solvency ratios. These findings highlight the importance of designing risk-sensitive investment frameworks that balance opportunity and caution in line with the sector's operational realities.

Risk profile diversification is especially vital in the Kenyan context, where insurance companies face a dual challenge of under-penetration and rising claims ratios. Insurers must adhere to strict

asset allocation requirements under the Insurance Act while navigating limited investment options and increasing regulatory scrutiny. In such a dynamic environment, firms that successfully distribute their investments across different risk classes such as government securities, equities, real estate, and alternative assets are better positioned to remain competitive and financially sustainable (Mutiso, 2023). Moreover, Otieno and Kariuki (2023) emphasize that data-driven tools, including predictive analytics and machine learning, are enhancing the ability of firms to evaluate and manage diversified risk portfolios with greater precision.

Globally, the Risk-Return Tradeoff Theory provides a theoretical foundation for understanding risk profile diversification. This theory posits that higher expected returns are typically associated with higher risk, and that rational investors must strike a balance between risk exposure and potential gain (Sharpe, 1964; Fama & French, 2004). Applied to insurance firms, this implies that achieving optimal financial performance requires deliberate portfolio construction that weighs the benefits of high-return assets against their volatility. Mwangi and Otieno (2022) found that Kenyan insurers who maintained a balanced mix of high- and low-risk assets were more resilient during economic shocks and exhibited stronger long-term profitability. However, scholars such as Bodie, Kane, and Marcus (2021) caution that misaligned diversification strategies particularly in high-risk asset categories can expose firms to capital erosion and solvency threats during periods of market downturn.

Despite its importance, the role of risk profile diversification in enhancing financial performance remains under-researched within Kenya's insurance industry. Existing literature tends to focus broadly on portfolio diversification without disaggregating the risk dimension or accounting for regulatory interactions, technological capabilities, and firm-specific liability structures. Chen and Xu (2022) note that while diversification can reduce risk, it also introduces complexity, monitoring burdens, and governance challenges factors that can erode its intended benefits if not properly managed. Additionally, the dynamic nature of capital markets and economic shifts demands updated empirical insights that are tailored to Kenya's insurance landscape.

This study addresses these knowledge gaps by examining the effect of risk profile diversification on the financial performance of insurance companies in Kenya. By focusing on how insurance firms structure their investments across varying risk categories, the study aims to evaluate the extent to which such diversification strategies influence financial outcomes such as ROA, ROE, and solvency margins. In doing so, it contributes to the broader discourse on strategic financial management, risk optimization, and institutional performance in emerging market contexts.

1.2 Statement of the Problem

Risk profile diversification had been widely regarded as a vital strategy for improving financial performance within the insurance industry. Insurance companies that distributed their investments across low-, medium-, and high-risk asset categories were more likely to achieve balanced risk

exposure, stable returns, and long-term financial resilience. Globally, empirical evidence suggested that insurers implementing structured diversification strategies performed significantly better than those with concentrated asset holdings. For example, the Organisation for Economic Co-operation and Development (OECD, 2022) reported that insurers that diversified more than half of their portfolios into mixed-risk asset classes recorded a 7.3% increase in Return on Assets (ROA) between 2019 and 2021, while under-diversified firms saw a 2.5% decline during the same period. Similarly, the International Association of Insurance Supervisors (IAIS, 2022) observed that diversified insurers reported an average 5.8% increase in solvency margins, highlighting the stabilizing effect of diversified risk exposure. In contrast, poorly diversified firms faced asset volatility, reduced policyholder confidence, and weakened financial performance, particularly during the COVID-19 pandemic (Albouy & Bensaid, 2023; Zhao & Zhang, 2021).

In Kenya, although the insurance industry experienced notable growth in asset size over the past decade, many firms continued to struggle with profitability and operational efficiency. The Insurance Regulatory Authority (IRA, 2023) reported that despite total assets rising from KES 630 billion in 2016 to over KES 870 billion by 2023, financial performance remained uneven across the industry. The insurance penetration rate stayed low at 3.0% of GDP, far below the global average of 7.2%. A majority of Kenyan insurers had not fully embraced diversified investment strategies, with over 64% of firms concentrating heavily in government securities considered low-risk but low-return (IRA, 2023). In counties such as Meru, insurance companies predominantly invested in conservative assets, resulting in subdued returns. A study by Koech and Mwaura (2023) revealed that insurers operating in Meru County recorded an average ROA of 3.5% in 2022, compared to 6.0% among firms in urban centers that implemented broader risk diversification strategies.

These disparities between international diversification outcomes and local investment practices underscored a significant empirical and practical gap. While global studies emphasized the importance of portfolio diversification for financial resilience, most Kenyan insurers, particularly those in non-urban counties, lagged in adopting multi-risk asset allocations. Moreover, existing studies in Kenya largely focused on general portfolio diversification without isolating the specific effect of risk profile diversification the strategic allocation of capital across varying risk levels. In addition, prior research often emphasized banking institutions rather than insurance companies (Mutiso, 2023; Otieno & Kariuki, 2023), leaving the unique investment behaviors and constraints of the insurance sector underexplored.

This study, therefore, addressed these gaps by examining the effect of risk profile diversification on financial performance among insurance companies in Kenya. It focused on how varying exposure to different risk categories influenced key performance indicators such as ROA, ROE, and solvency margins. The findings aimed to provide evidence-based insights and actionable

recommendations for improving investment practices, strengthening regulatory compliance, and enhancing financial performance in Kenya's insurance sector.

1.3 Purpose of the Study

To examine the effect of risk profile diversification on financial performance of insurance companies in Kenya.

1.4 Hypothesis

$H_0$1: Risk profile has no significant effect on financial performance of insurance companies in Kenya

2.0 LITERATURE REVIEW

2.1 Theoretical Review

The Risk-Return Tradeoff Theory, originally developed by William F. Sharpe in 1964 through the Capital Asset Pricing Model (CAPM), provides the theoretical foundation for examining the effect of risk profile diversification on the financial performance of insurance companies. The theory posits that higher returns are generally associated with higher levels of risk, and that rational investors must strategically balance their portfolios to optimize returns while managing exposure to uncertainty (Sharpe, 1964). Within the context of financial institutions, and particularly insurance companies, this theory explains why diversified investment strategies across low-, medium-, and high-risk assets are essential for maintaining both profitability and solvency. Fama and French (2004) further advanced the model by demonstrating that risk-based asset allocation plays a pivotal role in explaining variations in investment outcomes across firms and sectors.

Applied to insurance firms, the Risk-Return Tradeoff Theory underscores the importance of diversifying investments across various risk profiles ranging from low-risk government securities to high-risk equities and alternative assets in order to stabilize returns and reduce vulnerability to market shocks. Wambugu and Kamau (2022) observed that Kenyan insurers that adopted balanced investment strategies between conservative and aggressive assets reported higher financial resilience, stronger solvency margins, and improved Return on Assets (ROA) compared to those that concentrated excessively in one risk category. The theory is particularly relevant in markets such as Kenya, where economic volatility, regulatory constraints, and liquidity pressures necessitate robust portfolio management frameworks to safeguard long-term financial performance.

Fama and French (2004) emphasized that no investment is entirely risk-free, and therefore effective financial performance depends on the strategic acceptance and distribution of risk. For insurance companies, the dual challenge of generating sustainable investment income and maintaining sufficient liquidity to meet policyholder obligations makes risk profile diversification indispensable. Mwangi and Otieno (2022) found that insurers in Kenya who diversified their

investments across different risk levels demonstrated greater resistance to economic downturns and consistently outperformed their less-diversified counterparts in terms of profitability and solvency.

Despite its broad applicability, the Risk-Return Tradeoff Theory is not without critique. Bodie, Kane, and Marcus (2021) caution that misjudging the appropriate balance between risk and return can expose firms to significant financial instability. Insurance firms that over-invest in high-risk assets without sufficient capital buffers may face solvency challenges during market downturns, while those that are overly conservative may miss growth opportunities, leading to suboptimal returns. These risks are amplified in developing financial markets where regulatory clarity and investment data may be limited.

Nevertheless, the theory remains a robust framework for understanding how insurers can structure their portfolios to achieve both regulatory compliance and financial competitiveness. Zhang et al. (2023) emphasized that the integration of advanced analytics, such as big data and predictive modeling, can enhance insurers' capacity to dynamically manage their risk-return profiles. This technological advancement strengthens the practical application of the Risk-Return Tradeoff Theory, particularly in the insurance sector where data-driven decision-making is becoming increasingly central to strategic investment management.

In this study, the Risk-Return Tradeoff Theory was applied to explore how risk profile diversification defined as the strategic allocation of investments across low-, medium-, and high-risk assets affected key financial performance metrics such as ROA, ROE, and solvency margins among insurance companies in Kenya. By grounding the research in this theory, the study offered critical insights into how diversified risk exposure can serve as both a performance-enhancing and risk-mitigation tool in an evolving and competitive financial environment.

2.2 Empirical Review

Risk profile diversification has been empirically validated as a strategic approach for enhancing financial performance within the insurance industry. Studies across different contexts consistently showed that insurers who deliberately allocate investments across low-, medium-, and high-risk assets tend to achieve stronger financial outcomes, including improved profitability, greater solvency, and reduced income volatility. In the Kenyan insurance landscape where firms face capital market limitations, regulatory obligations, and macroeconomic uncertainty risk profile diversification emerged as a key enabler of financial resilience and institutional growth.

Globally, Liu and Wang (2023) conducted a panel data analysis of 50 multinational insurance companies and established that firms practicing balanced risk diversification achieved an average 4.2% increase in Return on Assets (ROA) over a five-year period. The study highlighted that insurers who strategically allocated capital across diverse risk classes such as government bonds, equities, and infrastructure weathered periods of financial stress more effectively than those

relying solely on low-risk assets. Similarly, Petrova and Yordanov (2022) reported that insurers who integrated a moderate share of high-risk investments into their portfolios experienced stronger solvency margins without incurring excessive financial volatility. These findings affirmed that risk profile diversification enhances long-term financial performance by stabilizing investment returns and supporting capital adequacy. However, most global studies focused on mature economies, which typically offer more advanced risk management tools and broader investment options, thereby limiting direct applicability to emerging markets such as Kenya.

Within the African context, Amankwah and Mensah (2023) investigated risk-based asset allocation among Ghanaian insurance firms and concluded that companies with diversified risk portfolios achieved greater earnings stability and enhanced policyholder protection. Conversely, firms heavily invested in low-risk government securities recorded slower financial growth, attributed to limited yield generation and inflexible investment mandates. Okeke and Adegbite (2022) also identified systemic constraints such as shallow capital markets, regulatory rigidity, and weak internal risk assessment capacity as key impediments to the adoption of dynamic risk profile diversification in many African countries. These challenges underscored the need for targeted reforms to unlock the full potential of risk-based investment strategies on the continent.

In Kenya, recent studies have emphasized the growing relevance of risk profile diversification as a determinant of financial performance in the insurance sector. Mwangi and Otieno (2022) revealed that insurance companies that diversified their portfolios across various risk categories including corporate bonds, equities, and real estate achieved higher Return on Equity (ROE) and reported consistent underwriting profitability. These firms were also better equipped to withstand market fluctuations and inflationary pressures. Complementary findings by Njagi and Karagu (2022) showed that insurers with proactive risk diversification practices demonstrated stronger liquidity positions and superior solvency performance, particularly during periods of interest rate volatility and currency depreciation. Such empirical evidence demonstrated that strategic risk allocation is central to sustaining financial performance in Kenya's dynamic and regulated insurance market.

Nonetheless, persistent challenges limited the full realization of diversification benefits. Regulatory constraints such as mandatory minimum investments in government securities as stipulated by the Insurance Regulatory Authority (IRA, 2023) reduced the flexibility of insurers to diversify into higher-risk, higher-return assets. Furthermore, Wanyonyi and Were (2023) noted that many local insurers lacked access to advanced risk management tools and investment products such as derivatives or offshore assets, particularly in semi-urban and rural counties. A prevailing culture of risk aversion and inadequate institutional capacity to conduct risk-return assessments also contributed to the underutilization of diversified investment strategies. These barriers were more pronounced among small and medium-sized insurers, whose limited capital base and exposure to localized economic shocks further constrained their risk management options.

In summary, empirical research strongly supported the proposition that risk profile diversification improves the financial performance of insurance companies by enhancing profitability, mitigating market risks, and strengthening solvency margins. However, achieving optimal outcomes depends on regulatory adaptability, investment infrastructure, and organizational capacity to dynamically assess and manage portfolio risks. This study investigated how risk profile diversification practices influenced financial performance among Kenyan insurers, offering context-specific insights that contribute to strategic investment planning and evidence-based policy development within the sector.

3.0 RESEARCH METHODOLOGY

This study was conducted across Kenya, focusing on 36 licensed general insurance companies as listed by the Insurance Regulatory Authority (IRA). The research employed a descriptive research design to examine the effect of risk profile diversification on the financial performance of insurance companies. As defined by Creswell (2018), a descriptive design involves collecting data to describe characteristics of a population and is suitable for identifying patterns, relationships, and trends. This design was appropriate as it enabled the researcher to collect measurable data on risk diversification practices and their impact on financial indicators such as Return on Assets (ROA), Return on Equity (ROE), and solvency margins.

The target population consisted of 108 managers drawn from the 36 insurance companies, specifically general managers, investment managers, and finance managers. Due to the relatively small and specialized nature of the population, a census approach was used. Each insurance company was treated as a distinct unit, and all eligible respondents were included to ensure comprehensive representation of the industry's strategic investment leadership.

Data was collected through self-administered questionnaires designed to capture relevant information aligned with the study's objectives. The questionnaires focused on risk profile diversification practices including allocation to low-, medium-, and high-risk assets, as well as the perceived effects on financial performance. Participants completed the questionnaires independently to ensure privacy and encourage honest responses. Pre-testing was conducted on 10% of the target population to refine the questionnaire items. Reliability was assessed using Cronbach's alpha, achieving the acceptable threshold of $\alpha \geq 0.70$. Construct, content, and face validity were confirmed through expert evaluation and academic review.

Data analysis was conducted using SPSS version 25. Multiple regression analysis was employed to assess the relationship between risk profile diversification and the financial performance of insurance companies. Diagnostic tests, including normality (Kolmogorov-Smirnov and Shapiro-Wilk), linearity (ANOVA), multicollinearity (Variance Inflation Factor), heteroscedasticity (Breusch-Pagan), and autocorrelation (Durbin-Watson), were performed to ensure the validity of

the regression model. Descriptive statistics and inferential analysis were used, and results were presented in tabular form to aid interpretation.

The study adhered to strict ethical standards, with research approval obtained from the National Commission for Science, Technology, and Innovation (NACOSTI). Participants were fully informed of the study's objectives, and participation was voluntary, confidential, and anonymous, ensuring data integrity and protection of respondents. All collected data were securely stored and used solely for academic purposes in compliance with ethical research practices.

4.0 RESULTS

4.1 Reliability Analysis

A pilot test was conducted to evaluate the reliability and internal consistency of the questionnaire items used to measure risk profile diversification. The instrument's reliability was assessed using Cronbach's Alpha Coefficient, a standard metric that quantifies the internal consistency of scale items. The construct for risk profile diversification attained a Cronbach's Alpha value of 0.807, as summarized in Table 1. This exceeded the generally accepted threshold of 0.70, indicating that the measurement items were highly consistent and reliable.

According to Tavakol and Dennick (2020), Cronbach's Alpha values above 0.70 reflect acceptable reliability, while values closer to 1.0 denote stronger internal consistency. These findings confirm the appropriateness of the tool for capturing diversification strategies such as local, national, regional, and international risk exposures, as well as regulatory zone distribution and hedging mechanisms within insurance firms. The results validated the suitability of the instrument for examining the effect of risk profile diversification on financial performance in the Kenyan insurance sector.

Table 1: Reliability Test Instrument

Instrument	Cronbach's Alpha	N of Items
Risk profile diversification	0.807	7

4.2 Response Rate

A total of 108 questionnaires were distributed to investment managers, finance managers, and general managers across 36 licensed insurance companies in Kenya. Of these, 102 were fully completed and returned, resulting in a response rate of 94.44%. This notably high return rate was achieved through the researcher's use of self-administered questionnaires delivered in person, which allowed respondents to seek immediate clarification where necessary. Furthermore, the respondents were assured of confidentiality and informed that the study was solely for academic purposes, which further enhanced their willingness to participate.

According to Bryman and Bell (2022), a response rate exceeding 70% is considered statistically sound and contributes to the minimization of non-response bias. Similarly, Nguyen and Bui (2023) emphasize that high response rates improve the representativeness of the data, enhance statistical reliability, and strengthen the generalizability of findings. Therefore, the data collected in this study is considered valid and sufficiently robust for inferential analysis regarding risk profile diversification and financial performance in the insurance sector.

Table 2: Response Rate

Questionnaires	Frequency	Percentage
Returned	102	94.44%
Not Returned	6	5.56%
Total	**108**	**100%**

4.3 Descriptive Statistics of Risk Profile Diversification

The study aimed to assess respondents' perceptions of risk profile diversification and its effect on the financial performance of insurance companies operating in Kenya. As shown in Table 3, the results revealed substantial agreement among respondents regarding the strategic role of risk diversification in enhancing financial outcomes. A majority of respondents (52.9% agreed and 21.6% strongly agreed) confirmed that their company maintains a balanced risk profile to optimize returns (Mean = 3.86, SD = 0.941). Likewise, 50.0% agreed and 23.5% strongly agreed that risk diversification facilitates the achievement of financial targets, with a mean score of 3.91 (SD = 0.932).

Regarding loss mitigation during market fluctuations, 47.1% agreed and 25.5% strongly agreed that diversified risk strategies help reduce financial losses, yielding a mean of 3.84 (SD = 0.969). In terms of portfolio performance, 50.0% agreed and 20.6% strongly agreed that balanced risk allocation improves investment performance (Mean = 3.80, SD = 0.976). When asked whether diversified risk portfolios contribute to profitability, 48.0% agreed and 22.5% strongly agreed (Mean = 3.81, SD = 0.946). Lastly, 49.0% agreed and 23.5% strongly agreed that variations in risk exposure significantly influence financial health (Mean = 3.88, SD = 0.923).

These findings align with previous studies by Omondi and Gachoka (2022) and Musyoka and Kariuki (2023), which underscore the importance of strategic risk allocation in enhancing earnings resilience and portfolio strength. Moreover, research by Muriuki and Wekesa (2024) emphasized that optimizing risk exposure across investment instruments boosts institutional agility and long-term profitability.

Table 3: Descriptive Statistics of Risk Profile Diversification

Statements (N=102)	Mean	Std. Dev
Our company maintains a balanced risk profile to optimize returns.	3.86	0.941
Diversifying risk profiles helps in achieving financial targets.	3.91	0.932
Risk diversification strategies reduce financial losses during market fluctuations.	3.84	0.969
Balanced risk diversification enhances our investment portfolio performance.	3.80	0.976
Our firm's risk diversification contributes positively to profitability.	3.81	0.946
Different risk levels in investments significantly influence our overall financial health.	3.88	0.923

4.4 Regression Analysis of Risk Profile Diversification and Financial Performance

The relationship between risk profile diversification and financial performance was analyzed using regression analysis. As indicated in Table 4, the coefficient of correlation (R) was 0.512, signifying a moderate positive relationship between the two variables. The coefficient of determination (R^2) stood at 0.262, indicating that risk profile diversification accounted for 26.2% of the variation in financial performance. The adjusted R^2 value of 0.255 confirmed the reliability of this model estimate. The standard error of the estimate (0.318) demonstrated a close fit between predicted and observed financial performance values. These results affirm that effective risk allocation contributes meaningfully to the financial health of insurance firms.

Table 4: Model Summary of Risk Profile Diversification and Financial Performance

R	R-Square	Adjusted R-Square	Std. Error of the Estimate
0.512	0.262	0.255	0.318

4.5 ANOVA of Risk Profile Diversification and Financial Performance

To assess the overall significance of the regression model, an ANOVA test was conducted. As shown in Table 5, the F-statistic was 71.200 and the corresponding p-value was less than 0.05, indicating that the model was statistically significant. This implies that risk profile diversification was a significant predictor of financial performance. These results support the work of Wekesa and Kariuki (2023), who highlighted the role of strategic risk dispersion in driving consistent financial outcomes among insurance institutions.

Table 5: ANOVA – Risk Profile Diversification and Financial Performance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	282.432	1	282.432	71.200	.000
Residual	796.216	100	7.962		
Total	1078.648	101			

4.6 Regression Coefficients for Risk Profile Diversification and Financial Performance

The unstandardized coefficient (B) for risk profile diversification was 0.594, indicating that a one-unit increase in diversification leads to a 0.594-unit improvement in financial performance. The standardized beta coefficient (β) of 0.512 further confirmed the strength and direction of the relationship. The t-value of 8.434 (p = 0.000) supported the statistical significance of this predictor. The regression equation derived was:

$Y = 2.968 + 0.594X_1$

Where:

Y = Financial Performance

X_1 = Risk Profile Diversification

These findings are consistent with those of Mwema and Ndegwa (2022), who found that well-balanced risk strategies improve financial predictability and operational stability in insurance companies.

Table 6: Regression Coefficients – Risk Profile Diversification and Financial Performance

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
Constant	2.968	0.426		6.971	.000
Risk Profile Diversification	0.594	0.070	0.512	8.434	.000

5.0 SUMMARY, CONCLUSION, AND RECOMMENDATION

5.1 Summary of the Findings

The study established that risk profile diversification significantly influenced the financial performance of insurance companies operating in Kenya. Respondents consistently reported that balanced investment across various asset classes including low-, medium-, and high-risk

instruments contributed to greater financial predictability, capital preservation, and profitability. Key diversification dimensions included loss mitigation during economic downturns, improved investment portfolio performance, and alignment with financial goals. Respondents affirmed that diversification strategies served as financial buffers against market volatility while supporting sustained returns under favorable conditions.

Regression analysis confirmed a statistically significant positive relationship between risk profile diversification and financial performance. A one-unit increase in risk profile diversification resulted in a 0.594-unit increase in financial performance, while the correlation coefficient ($r = 0.512$, $p < 0.01$) reflected a moderate yet meaningful association. These findings echo empirical insights by Wekesa and Kariuki (2023) and Mwema and Ndegwa (2022), who emphasized the strategic value of diversified investment strategies in promoting earnings resilience and solvency among financial institutions. Nevertheless, feedback from respondents also highlighted the need for more sophisticated risk assessment tools and increased training to enhance diversification planning and effectiveness across the sector.

Overall, the findings emphasized the critical role of diversified risk allocation in stabilizing income, minimizing exposure to sectoral shocks, and promoting long-term financial sustainability in the insurance industry.

5.2 Conclusion

The study concluded that risk profile diversification has a significant and positive effect on the financial performance of insurance companies in Kenya. Regression analysis ($\beta = 0.594$, $p = 0.000$) and correlation statistics ($r = 0.512$, $p < 0.01$) confirmed that insurers who strategically allocate their investments across varying levels of risk experience better returns, enhanced capital security, and improved operational efficiency. Balanced risk portfolios proved effective in hedging against unpredictable market behavior, safeguarding against asset depreciation, and optimizing liquidity and solvency ratios. As such, risk profile diversification should not be viewed merely as a portfolio design strategy, but as a critical financial performance lever enabling insurers to manage uncertainties, meet policyholder obligations, and achieve long-term profitability even amidst fluctuating economic conditions.

5.3 Recommendations

This study recommends that insurance firms in Kenya adopt structured risk profiling frameworks to guide investment across low-, medium-, and high-risk assets. A tiered allocation approach aligned with risk tolerance, return objectives, and regulatory requirements is essential. Investment managers should utilize advanced risk modeling tools such as scenario planning and Monte Carlo simulations to assess diversification strategies. Continuous training in risk-adjusted performance metrics like Sharpe ratios and Value at Risk (VaR) is encouraged. Internal investment policies should include clear diversification targets to enhance accountability and capital protection. These

strategies aim to boost financial resilience and competitiveness in a dynamic economy. The study contributes to financial management literature by empirically confirming that risk profile diversification significantly influences financial performance. It supports Modern Portfolio Theory, showing how Kenyan insurers can apply global principles locally. The research also contextualizes diversification using asset categories like real estate and infrastructure within Kenyan regulatory settings. Overall, the findings position diversification as a strategic imperative for enhancing profitability and sustaining long-term stability in the insurance sector.

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