



Impact of Business Risk on Insurance Sector Performance in Telangana

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Abstract:

This study examines the critical impact of business risk on the financial and operational performance of the insurance sector in Telangana. As India's insurance market experiences rapid, technology-driven expansion, insurance firms face increasingly complex vulnerabilities. This research specifically analyzes how prominent business risks—namely underwriting risk, market volatility, liquidity constraints, and operational bottlenecks—affect core performance indicators such as profitability, solvency margins, and asset returns.

Business Risk, Insurance Sector, Financial Performance, Solvency Ratio, Enterprise Risk Management (ERM),

I. INTRODUCTION

INTRODUCTION

This chapter outlines the study background, statement of the problem, objectives of the study, research questions, significance and scope of the study which explores the effects of business risk on performance of insurance.

Rejda (2008) established that there are many techniques that are available for insurance firms to manage their day to day risks which include risk avoidance, loss financing, loss prevention and control. Therefore business risk management is very important in the insurance industry. When client's risks are by insurance firm that is what is referred to as insurance. Risk management is a vital discipline in the insurance business; organizations are putting more emphasis on business risk management because it determines their survival as well as performance. It's therefore necessary that insurance firms manage their risk exposure and carry proper analysis to avoid losses due to compensation claims made by the insured. According to Kadi (2003) most insurance firms covers insurable risk without conducting a proper analysis of the expected claims without proper mechanism of identifying the appropriate method of risk reduction.

Insurance firms that poorly manage their risk are always faced with accumulations of claims which lead to increased losses and hence poor performance (Magezi, 2003). Business risk management actions are affected by managers risk behaviour, a robust business risk management framework can help companies reduce their exposure to risks and enhance organization performance (Iqbal & Mirakhor, 2007). Organization that select a particular risk tool tends to be associated with the firms calculative culture that measures attitudes that managers displays towards the use of business risk models. According to

Mike and Kaplan (2014) they indicated that some risk functions focus on extensive risk measurement and based performance management, while other focus on the mobilization of experts opinion about emerging risk issues and quality disclosure.

OBJECTIVES OF THE STUDY

- i. To determine the effects of financial risk management on performance of Bharati Axa Insurance
- ii. To establish the effects of operation risk management on performance of Bharati Axa Insurance
- iii. To determine the effects of risk monitoring on performance of Bharati Axa Insurance
- iv. To determine how insurance firms liquidity on performance of Bharati Axa Insurance

SIGNIFICANCE OF THE STUDY

Management of Bharati Axa Insurance

The management of Bharati Axa Insurance used the study as a pointer. This is because it would highlight possessions of business risk management on insurance firm's performance. Managers will therefore use these results to select the optimal strategies that would optimize growth and performance of insurance firms. Findings from the study would aid managers of prospective firms who they main targets are to improve insurance firm's performance. The study will also provide ample information to those firms already in the market with strategies that are not working for them.

The study will be of significance to policy makers for it will enable the government to understand and appreciate the importance of organization performance in Kenya and also help those policy makers are able to develop and implement regulations and policies that will promote growth and development of insurance firm's to boost economic growth and job creations.

SCOPE OF THE STUDY

This research was confined at Bharati Axa Insurance offices in Nairobi are located in upper hill. The researcher believes that this will give enough ground to generalize the findings. The researcher also believes that this will provide adequate population and sample for the study and therefore give reliable results and findings. However, the study was carried out during the month of May 2017 to July 2017.

LIMITATIONS OF THE STUDY

Owing to the nature and characteristics of the target respondents, most of respondents were reluctant to disclosing information with regards to the survey for fear of being reprimanded by the management who are responsible for handling issues related to the matter under study. In this case, the researcher guaranteed the respondents of the privacy of the data that they provided and sought authority from management to undertake research in the firm. The researcher also attached authority research letter from the university to the questionnaire so as give further assurance on the purpose of the study.

LITERATURE REVIEW

This chapter outlines the empirical works, research gaps to be filled, summary and the theoretical context of the research. The researcher has also reviewed literature which is related to and consistent with the objectives of the study, is reviewed. Explanation of the existing theories and analysis of the past established knowledge which will outline the organized understanding of the major issues and past studies in the related field of study.

THEORETICAL LITERATURE REVIEW

Theoretical literature establishes the philosophies that already exist, their relationship with study variables and help in development of study questions to be asked and tested (Meyer & Rowan, 2009).

CONTINGENCY PLANNING THEORY

Contingency planning also referred to as business continuity planning is theory that is well associated with risk management, the basis of this theory is that since all business risk cannot be fully eliminated in practice. Despite firm's efforts to mitigate, avoid and prevent risk incidents will still definitely occur (Hinson, 2008). With reference to this study contingency theory can be used to mean controls, plans, process and the totality of activities, it's the act of preparing for major catastrophe and occurrences, articulating malleable strategies and rationalizing appropriate assets that will come into play in the event.

In this study contingency planning theory involves the preparing for the unexpected and planning for the unknown. The basic purpose of contingency planning theory is to minimize the adverse consequences of catastrophe and occurrences (James, 2013). Contingency Planning Theory was adopted in this study because it describes and explains how changes in technological advancement, social values and regulations that affect decision regarding performance of insurance firms

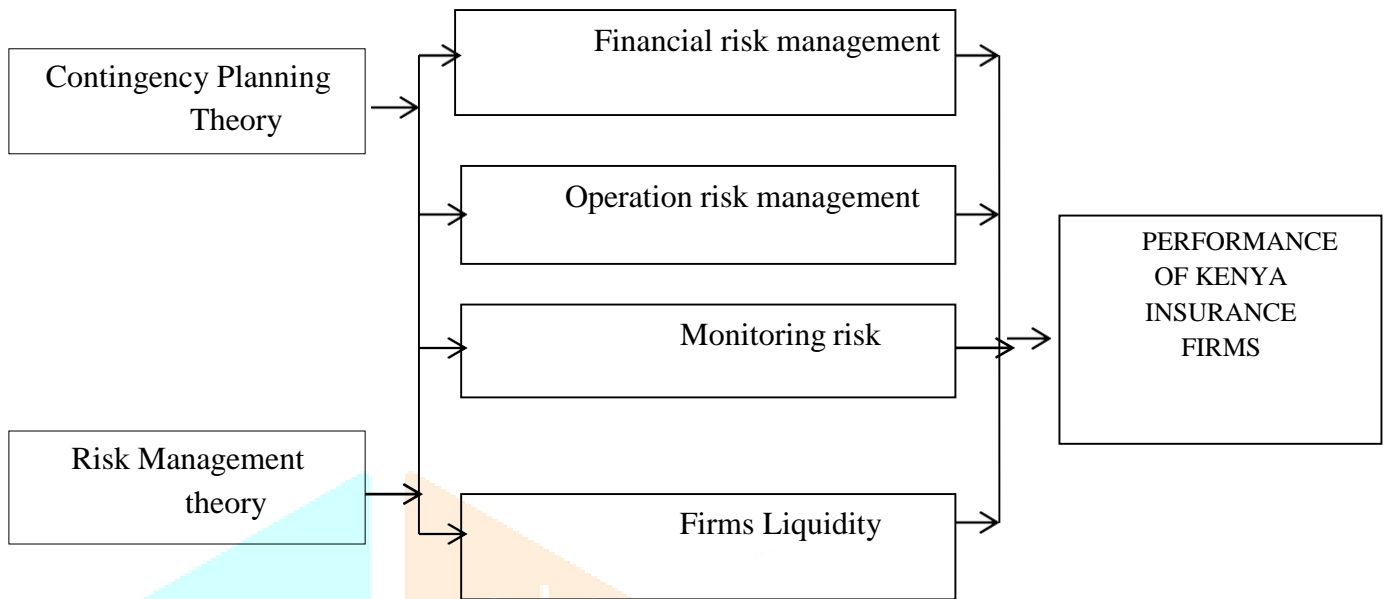
RISK MANAGEMENT THEORY

Risk management theory applies in the assessment, identification and prioritizing of risks followed by economical and coordinated of resources to monitor; control and minimize the impact of unsuccessful measures. Effective business risk management has beneficial implications to organizations; these benefits include improved innovation, better management of contingent, superior financial performance, and better value for money, waste reduction, minimize fraud, greater competitive advantage among other benefits (Wenk, 2005). This helps the firm to balance the most significant business pressure, responsibility to succeed and risks associated and generated by the firm itself in a commercial achievable way. This action will enable risk managers to be aware of the risks they face and therefore monitor and if need be they was able to change strategy.

The theory is fundamental to this study in logic that insurance firm's functions at an efficient level, then all this institution products to have optimally priced and this in turn reduces discriminating competition in the market.

CONCEPTUAL FRAMEWORK

Figure 2.1: Diagram showing the relationship between theories, independent and dependent variables



Financial risk management

Financial risk management in this study was measured using questionnaires that was administered to target population and through reading relevant literature. Financial risk management as those procedures and activities that managers employ in order to protect the organization from market risks, credit risks and liquidity risk which are the major categories

OPERATIONS RISK MANAGEMENT

Operations risk management in this study was measured using questionnaires that was administered to target population and through reading relevant literature. Risk is incurred in an organization by its internal (environmental risk, fraud and legal risk) and external (terrorism attacked, natural disasters) activities. Unlike credit risk and market risk the definition of operation risk is still evolving.

RISK MONITORING

Financial risk management in this study was measured using questionnaires that was administered to target population and through reading relevant literature. The market performance is greatly affected by exogenous factors related to risk monitoring, explicitly basic demand and supply condition, which affect insurance firm’s ‘performance in the industry. It is used to test whether higher level of concentration in the marketplace grounds collusive actions among the large insurance firms s thus results in greater performance.

INSURANCE FIRMS LIQUIDITY

Insurance firms Liquidity in this study was measured using questionnaires that was administered to target population and through reading relevant literature. The liquidity of insurance firms symbolizes organization ability to increase assets and meet obligations as their due data fall.

Target Population	%
Senior Managers	11
Middle level Managers	25
Non- Management staff	63
Total	95

A sample is defined as subject of a population that has been selected to reflect or represent characteristics of a population (Kothari, 2004). A stratified proportion sampling is employed to obtain a suitable unit representative of analysis. This is because of the heterogeneity of the population and respondents all had equal opportunity of participation. Kothari (2004) argues that a stratified proportional sample increases a samples statistical efficiency and provides adequate data for analyzing the various populations. This method is cost effective, fast track data collection, and access to the unit of analysis and elements of the study. Kothari (2004) observed that sample drawn randomly is unbiased in a way that no number of populations has any chance of being selected more than the other. The study used stratified sampling technique which involved dividing the target population of 95 Bharati Axa Insurance staff into strata. This method was appropriate since it gave all the respondents from each of the four strata, equal chance to participate. Participants were stratified into the following categories; Senior Managers, middle level managers and Non- Management staff. A sample size was arrived at through proportionate stratified sampling as shown here below:-

Sample size: $x/n * z = y$

Where $x/n =$ weight over population.

$Z =$ Sample space $Y =$ sample size.

Hence a sample size determined in each stratum was achieved as follows:

TABLE SHOWING RESEARCH SAMPLE SIZE

Type of trade	Target Population	Sample size	Percentage
Senior Managers	10	5	11
Middle level Managers	25	12	26
Non- Management staff	60	30	63
Total	95	47	100

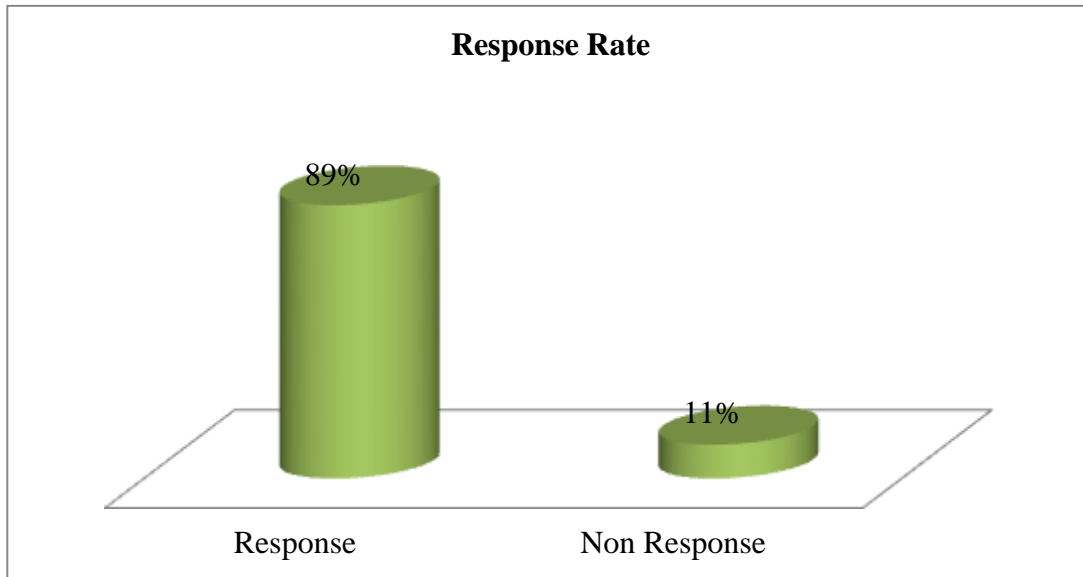
PILOT STUDY

The pilot study aims at establishing the validity and reliability of instruments of research (Cooper & Schindler, 2008). The study adopted content validity to measure the degree to which data was to be collected using questionnaires. The pilot testing was conducted using the questionnaire on

TABLE 4.1: TABLE SHOWING RESPONSE RATE

Category	Frequency	Percentage
Response	42	89%
Non Response	5	11%
Total	47	100

Figure 4.1: Figure showing response rate

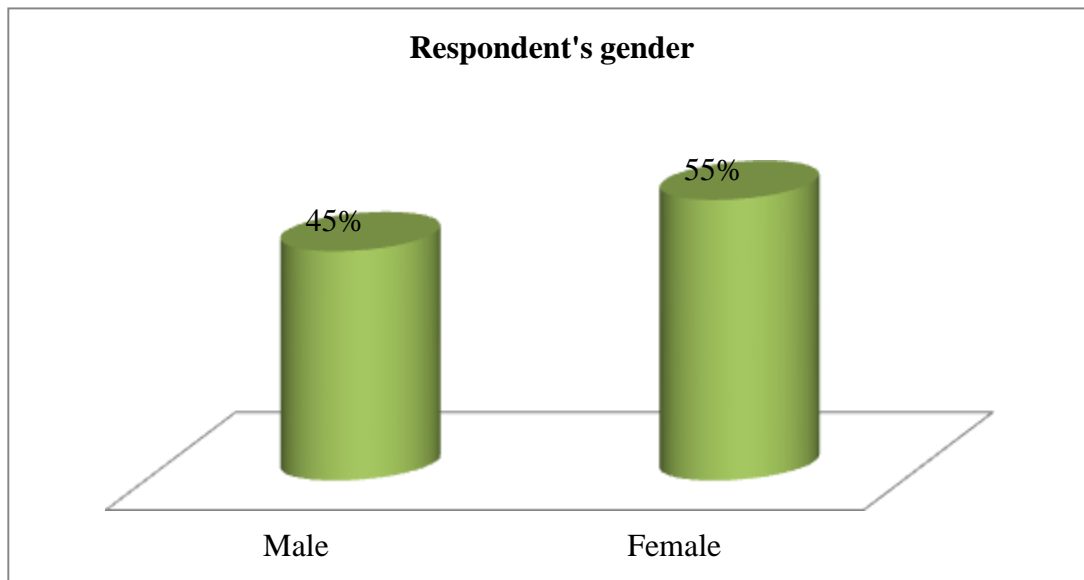


The researcher distributed questionnaires to 47 respondents which were computed as shown in chapter three section four 3 and 4; sampling design and sampling technique. 89% response rate was achieved which was favorable for the study as shown table 4.1 and figure 4.1. The response rate for this study was 89%. And Mugenda (2003) explain 50% reaction is satisfactory and 60% is good awhile any response above 70% is perfect for the research.

TABLE 4.2: TABLE SHOWING GENDER OF THE RESPONDENTS

Category	Frequency	Percentage
Male	19	45%
Female	23	55%
Total	42	100

Figure 4.2: Figure showing gender of the respondents

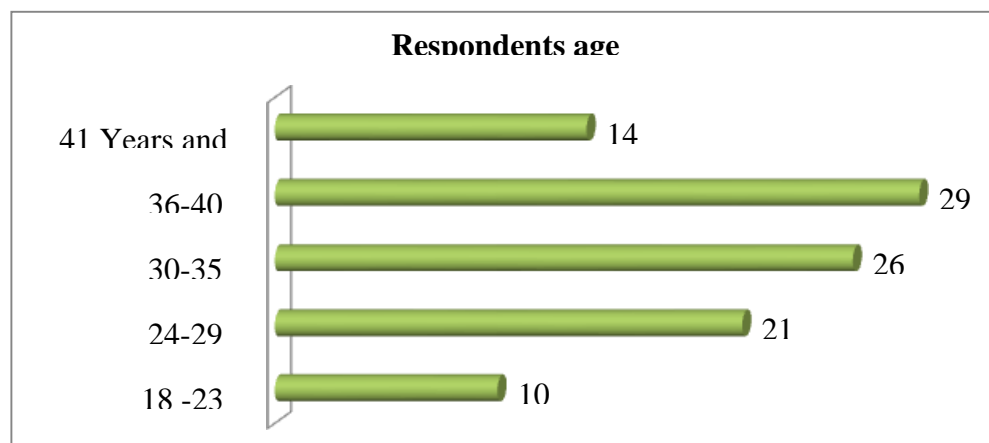


The gender characteristics of respondents is dominated by females 55 % as shown in figure 4.2 and table 4.2 above by against males who are 45%. The gender representation of the respondents indicates that, views under the study were represented by all gender, and no single opinion can be attributed to a particular gender.

TABLE 4.3: TABLE SHOWING RESPONDENTS AGE BRACKETS

Variable	Frequency	Percentage
18 -23 Years	4	10%
24-29 Years	9	21%
30-35 Years	11	26%
36-40 Years	12	29%
41 Years and Above	6	14%
Total	42	100%

Figure 4.3: Figure showing respondents age brackets



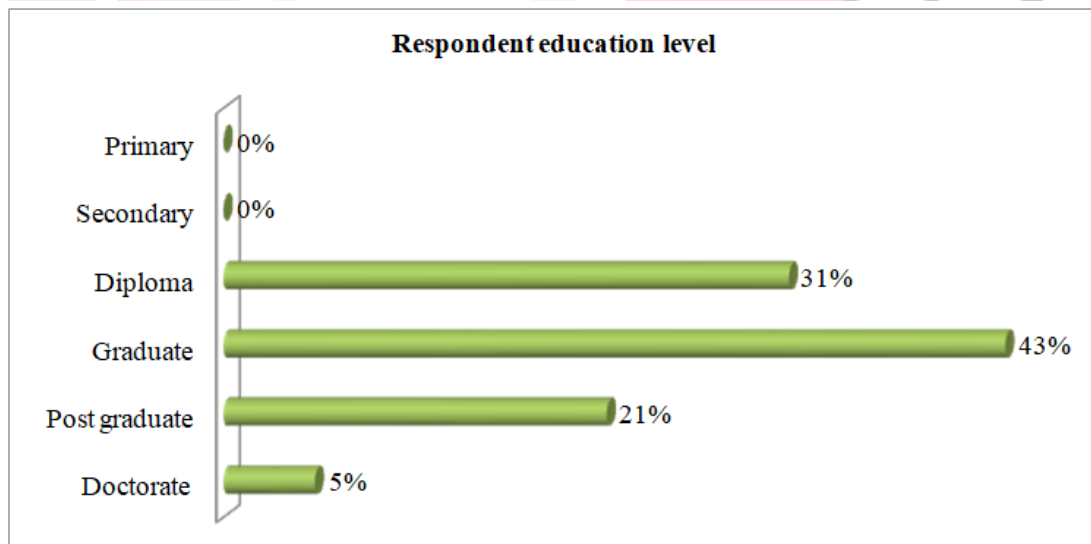
As indicated in table 4.3 and shown in figure 4.3; 10% of the respondents were had their age fall between 18-23 years old, 21% belonged in the ages between 24-29 years old years, 26% were aged between 30-35 years old , 29% are aged between 36-41 years while 14% were aged 42 Years and above. The response represents a good dispersion of the respondents in the age bracketbut a majority was aged between 24-29 years.

DEMOGRAPHIC INFORMATION

Table 4.4: Table showing the level of education of the respondents

Variable	F	%
Doctorate	2	5%
Post graduate	9	21%
Graduate	18	43%
Diploma	13	31%
Secondary	0	0%
Primary	0	0%
Totals	42	100

FIGURE 4.4: FIGURE SHOWING THE LEVEL OF EDUCATION OF THE RESPONDENTS

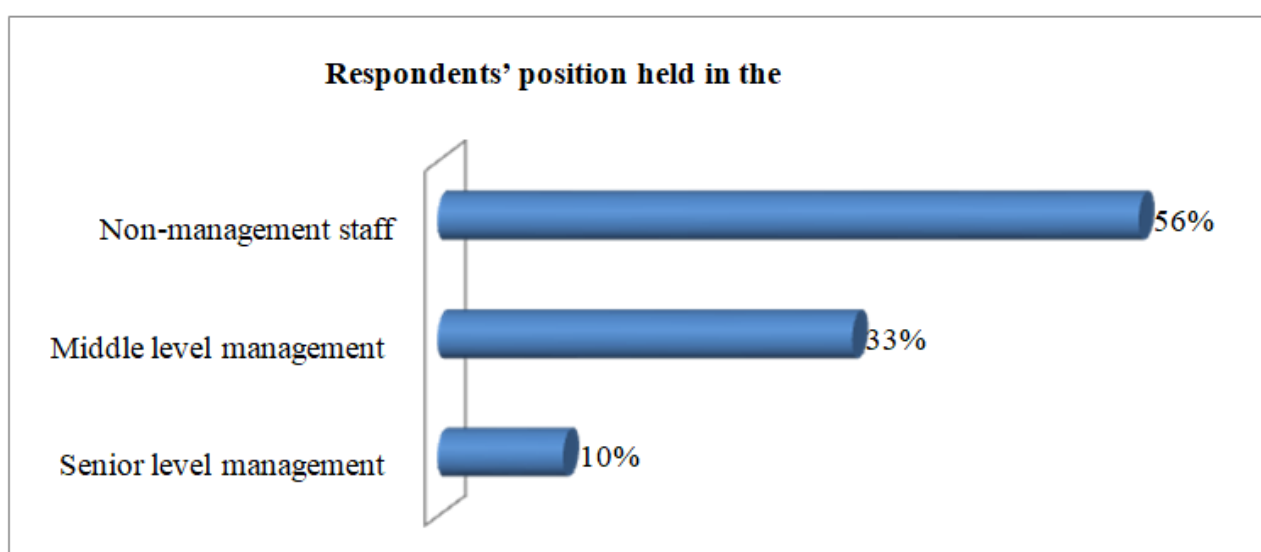


The response as indicated in figure and table 4.4 indicates that most of the respondents had graduate degree at 43%, 21% were post graduates while 5% had doctorate and 31% had diploma and none indicated secondary education and primary education. This can be interpreted to mean that the respondent education level is adequate to answer and interpret research questions.

TABLE SHOWING RESPONDENTS POSITION HELD IN THE FIRM

Variable	Frequency	Percentage
Senior level management	4	10%
Middle level management	13	33%
Non-management staff	22	56%
Total	42	100%

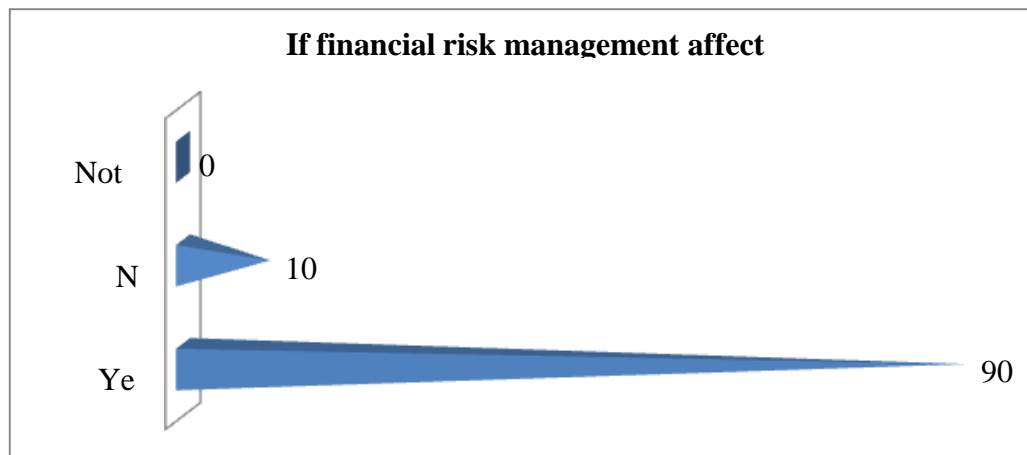
Figure showing respondents' position held in the organization



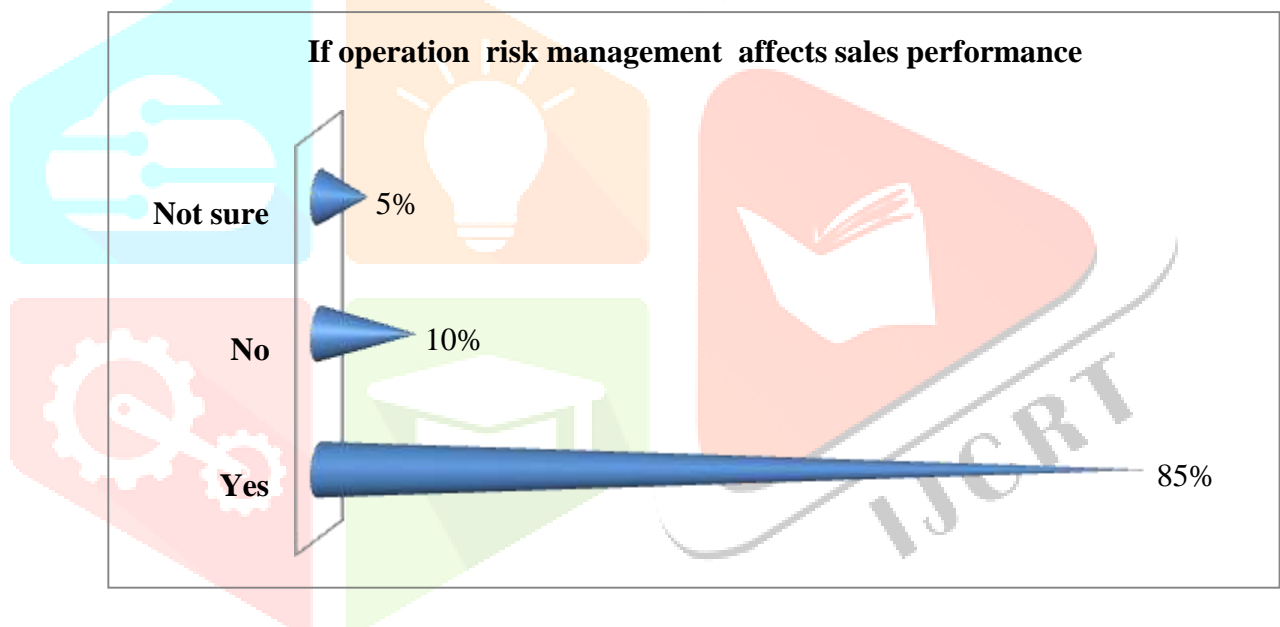
As shown above in table 4.5 and figure 4.5 respondents were asked to indicate their positions held in the organization; 56% of the respondents indicated that they are non-management staff, 33% were in middle level management and 10% were in senior level management. The research findings indicated that the respondents are in a better position to understand the variables under study.

TABLE 4.6: TABLE SHOWING IF FINANCIAL RISK MANAGEMENT AFFECTS SALES PERFORMANCE

Category	Frequency	Percentage
Yes	38	90%
No	4	10%
Not sure	0	0%
Total	42	100

Figure 4.6: Figure showing if financial risk management affects sales performance

Respondents were asked to indicate if financial risk management affects sales performance 90% indicated yes and 10% indicated no while none indicated that were not sure as shown in figure 4.6 and tabulated in table 4.6. This shows that respondents believe that financial risk management affects sales performance.



Respondents were asked to indicate if operation risk management affects sales performance 85% indicated yes and 10% indicated no while 5% were not sure as shown in figure 4.9 and tabulated in table 4.9. This shows that respondents believe that operation risk management affects sales performance.

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