

Influence of Liquidity Risk on Investment Decisions of Insurance Firms in Kenya

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Abstract:

Insurance firms generally undertake underwriting and investment activities. They complement profits from underwriting activities with their investment income. Therefore, access to liquid cash and highly liquid assets remains a major concern. The general objective of the study was to determine the influence of liquidity risks on investment decisions of insurance firms in Kenya. The study was anchored on the liquidity preference theory and the modern portfolio theory. The study adopted an explanatory research design, which examined how one variable influences another. The target population of the study was the 66 insurance firms as listed by the Insurance Regulatory Authority. Primary data was collected from the heads of the underwriting and finance departments using structured questionnaires and analyzed using SPSS v.27. Data analysis, including descriptive and inferential statistics, was performed to examine relationships and test the direction and strength of associations between the variables. Findings of the analysis established that the liquidity risks had a positive and significant influence on investment decisions. The study concluded that assessment and careful analysis of liquidity risks was critical to making sound investment decisions since liquidity risks influenced the availability of funds available for investment. The study further recommended that insurance firms strengthen financial risk management and integrate risk management into investment decision-making while regulators reinforce policies and guidelines to support prudent underwriting practices and investment choices. Finally, the study proposed that future studies examine additional financial risks such as credit, solvency, operational, and insurance fraud risks, as well as factors including firm size, technology, corporate governance, management expertise, ownership structure, and other macroeconomic conditions.

Keywords: Financial Risk, Liquidity Risk, Investment Decisions, Insurance Firms, Kenya

1. Introduction

Takon et al. (2022) established that insurance firms existed to offer underwriting and investment services. Underwriting activities enhanced business development while investment activities offered extra revenue for business continuity. Insurance firms used their investment income to complement profits from underwriting activities, and to maintain their financial stability (Bashaija, 2023). One of the major concerns for insurance firms all over the world was investment decision making, which was

influenced by the inherent risks (Kiboi & Bosire, 2022). These financial risks shaped insurance firm's investment decisions, by influencing how they allocated their financial resources (Aburasul, Alshareef, Alrawashdeh, Alhebshi, & Rahman, 2024). Kasee and Oluoch (2025) observed that liquidity risks affected Kenyan insurance firms (Ahmed, Mukhongo, & Datche, 2020). Additionally, insurers faced the challenge of maintaining adequate liquidity and compliance with regulatory requirements (IRA, 2024).

Baymuratova (2024) highlighted that insurance firms globally operated in highly volatile financial sectors influenced by inflation, fluctuating interest rates and economic uncertainty which directly influencing their investment decisions. Clowes (2024) in The International Association of Insurance Supervisors (IAIS) report highlighted that global insurers were increasingly exposed to liquidity risks and alternative investment risks, which affected the profitability, allocation of assets and management of solvency by insurers. Mhlanga (2022) established that the insurance sector in Africa especially south and West Africa was made of diverse economies with unique challenges and opportunities. African based insurers such as Santam Limited and Old mutual limited both based in South Africa encountered financial market and liquidity risks, which affected their investment choices (Alabi, et al., 2023).

In Ghana, Amponsah, Ntim and Mensah (2025) established that financial risk tolerance of insurers positively and significantly affected investment decision-making. Further, according to Kariuki, Muturi and Njeru (2021), insurance activities in Kenya occurred in the scope of major liquidity risks stemming from the process of forming, distributing and using capital, reserves and other monetary resources. Kamau (2023) highlighted the silent challenges faced by Insurance firms that involved over dependence on investment income, which exposed them to liquidity risks. Despite experiencing strong profit growth contributed to by gains from investment, investors of Britam insurance raised concerns over the sustainability of profits, especially due to pressure in the medical and motor insurance segments (Britam, 2025). CIC Insurance reported a slower growth in operational income as opposed to investment income while maintaining dividend payments to shareholders. This indicated a potential challenge in future investment decisions and capital allocation. Investment returns rose from Kshs 2.9 billion to Kshs 8.8 billion, representing the substantial contribution of investment decisions to financial performance further highlighting the benefit of managing market and liquidity risks (CIC, 2025).

More recently, the collapse of Invesco assurance limited, Trident insurance, and Resolution insurance limited highlighted the financial struggles faced by insurer's (Kimani, 2023). These firms faced a series of risks including corporate debt stress and liquidity shortages, which led to significant effects on their performance and led to their subsequent collapse (Onchwari & Miroga, 2024). Furthermore, AKI (2023) reported that Kenyan insurers continued to face liquidity risks which in turn affected their asset allocation and investment portfolio valuations. Insurers therefore increasingly invested in government securities, more diversified portfolios, and risk-sensitive investment instruments to preserve capital and maintain liquidity (Wandabusi, Ombok, & Nyamita, 2023).

The insurance sector has undergone evolution from informal operations to a highly regulated sector governed by the Insurance Act (CAP 487) of the laws of Kenya (Wandabusi, Ombok, & Nyamita, 2023). This Act established the Insurance Regulatory Authority (IRA) and the Association of Kenya Insurers (AKI) whose major task is licensing, regulation and developing the sector (Kasee & Oluoch, 2025). The sector witnessed a substantial growth in both direct premiums and equity held by the industry constituents. General insurance made up the largest part of the sector's gross premiums up to 65%. As at 2025, Kenya had a total of 66 registered insurers and reinsurers categorized into 5 reinsurance firms, 38 general insurance firms and 23 long term (life) insurance firms (IRA, 2025).

The sector has largely been dominated by Britam, ICEA Lion, Jubilee, CIC and APA Insurance companies (IRA, 2024). There was a 13.3% growth in general insurance business rendering it the major contributor to insurance industry activities at 51.8% of the gross premium (Cytonn, 2024). However, the sector faced serious challenges such as low insurance penetration, which stood at 2.8% below the global average of 7.0%. They also faced rising corruption and fraud, where an estimated 25% were found to be fraudulent claims (Mwangi & Netshitandani, 2021). The sector indicators pointed to over reliance on investment income, especially from government securities to complement falling profits from underwriting activities (Wandabusi, Ombok, & Nyamita, 2023).

1.2 Statement of the Problem

Investment decision making has been critical to the financial growth, survival and profitability of insurance firms (Kiboi & Bosire, 2022). Insurers all over the world increasingly rely on investment income to complement dwindling underwriting revenues and meet rising policyholder obligations (Clowes, 2024). These firms invest huge portions of their funds in private equities, government securities, corporate bonds, real estate, and other financial assets, with the objective of generating returns while maintaining liquidity and solvency (Kasee & Oluoch, 2025).

However, continued exposure to liquidity risks rendered investment decision making across the insurance industry more complicated (Mutua, Theuri, & Wamugo, 2023). Further, Takon, et al. (2022) observed that investment income was an increasingly vital driver of financial performance as opposed to underwriting revenues. Despite the overall industry growth, 69.5% of insurer's investments were in government securities, 11.4% in term deposits, 9.7% in investment property and about 9.4% in other investments (IRA, 2024). This trend highlighted a heavy reliance on government securities posing serious liquidity risks. During the same period, there was an increase in claims outpacing increase in premiums, where claims grew by 22.3% as opposed to premiums at 16.7%, limiting the firm's investment scope (IRA, 2024).

This pattern of overreliance on investment in government securities and rising claims rendered insurers unable to meet their obligations, explore other investment options and channel capital to sensitive economic areas. In order to optimize their investment choices, insurance firms were compelled to carefully analyze liquidity risks, assess their impacts and effectively manage such risks. Consequently, this study's main goal was to determine the influence of liquidity risks on investment decisions of insurance firms in Kenya.

1.3 Objectives of the Study

The main objective of this study was to determine the influence of liquidity risks on investment decisions of Insurance firms in Kenya.

H₀₁: Liquidity risk has no significant influence on investment decisions

1.4 Significance of the Study

Recommendations from this study informed managers of insurance firms of the effectiveness of closely monitoring financial risks. The findings also provided awareness on the best strategies to be implemented by insurance firms to achieve the maximum investment returns in the face of liquidity risks. The study findings acted as a reference for policy holders and investors when making investment decisions, therefore building their confidence leading to increased uptake of insurance products and services. Regulatory bodies were able to refer to the study to help monitor insurance business operations, investment behavior and patterns. This was vital in the enforcement of regulations that safeguard the firms, their customers and third parties thus improving the public confidence and attracting more investments. The study further provided a guide to students and researchers who seek more understanding on how liquidity risk affected investment decisions and other business operations. Findings from the study assisted in answering emerging questions on insurance risks by researchers, while creating a foundation for additional research.

2. Literature Review

2.1 Theoretical Review

Liquidity Preference Theory

Keyne (1936) proposed the Liquidity Preference Theory. The established that individuals and businesses preferred to hold a portion of their wealth in highly liquid assets. Keyne further determined that investors held money for transactional, precautionary and speculative motives. These motives arose from the uncertainty about future economic conditions. Assa, Morales and Firouzi (2016) highlighted that the transaction motive involved keeping liquid money for daily operations while

the precautionary motive involved holding money to cater for unforeseen expenses. The speculative motive involved holding money for future investment opportunities and to minimize capital losses from anticipated interest rate hikes.

This theory recommends that insurance companies hold adequate cash reserves for operational needs and invest the rest of the resources (Kiboi & Bosire, 2022). It also reinforces the need for insurers to maintain liquidity so as to meet their short-term obligations, unforeseen expenses due to changes in their operations and for speculative motives to cater for perceived opportunities that could arise. According to Mutua, Theuri and Wamugo (2023) a firm with a liquidity preference chose an appropriate mix of assets and liabilities. This theory provided a framework for insurance firms to determine a balance between assets and liabilities to ensure they satisfy debt commitments and manage liquidity risks (Amira, Alala, & Musiega, 2023).

Further, the liquidity preference theory provides a basis for assessing and managing liquidity risks faced by insurance firms, arising from a surge in claims, operational expenses and regulatory demands (Mbugua, 2021). The Liquidity Preference Theory highlights the need for insurers to retain sufficient amounts of highly liquid assets, to meet routine operational expenses, unexpected financial obligations and policyholder claims. The theory also establishes the need for insurers seeking higher returns from relatively illiquid investments, such as real estate and long-term bonds, to balance expected returns against liquidity requirements.

Modern Portfolio Theory

Markowitz (1952) introduced the Modern Portfolio Theory (MPT), which backed an investment approach that aimed at maximizing returns while lowering the risk through carefully selecting the extent of risk that an investor was willing to assume. The MPT considers investments diversification as a means to control market risk through distribution of investments across a range of assets and avoiding dependence on individual investments (Mwalolo, Omagwa, & Kimutai, 2023).

The modern portfolio theory offers a guide for recognizing, evaluating, and methodically controlling financial risks (Yaa & Mwanzia, 2022).

The theory further provides a framework for risk management and return optimization, which promotes portfolio balance. Houwayji (2024) established that the MPT enables investors to choose the appropriate mix of assets and make well-informed decisions. According to Kiboi and Bosire (2022), the MPT guides insurers in diversifying their investment and development of investment strategies. This ensures that such firms invests carefully by considering the risk and returns projected from their investment.

This study applied the MPT to guide investors, fund managers, and policy holders on the need to keep a well-diversified portfolio of assets so as to mitigate exposures arising from financial risks.

2.2 Conceptual Framework

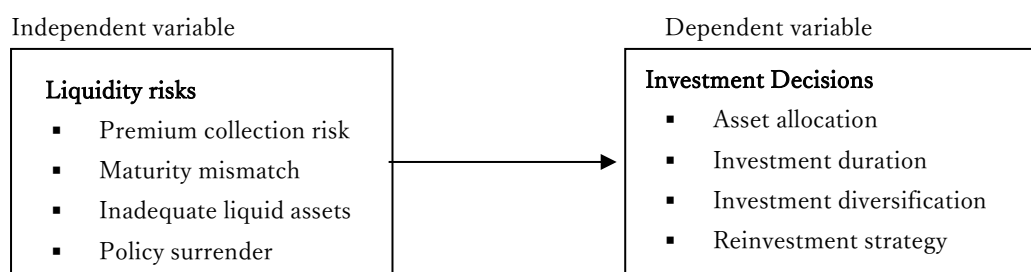


Figure 1 Conceptual framework

Source: Author 2026

2.3 Empirical Review

Financial risks in the insurance sector has been reviewed by various researchers globally, so as to establish a link between financial risks, investment decisions and the overall firm performance. Despite their findings, a knowledge gap exists especially due to the volatile and dynamic nature of the risks facing the insurance sector. Amira, Alala and Musiega (2023) defined liquidity risk as the inability of a business to fulfil its monetary contractual commitments when they fall due. In the insurance sector, liquidity risk led to the inability to pay out claims, policy benefits and other operating expenses when required (IRA, 2024). Although insurance firms generally indicated more predictable cash flows, liquidity pressures emerged from delays and non-remittance of premiums, early policy surrenders, sudden high claims, market disruptions, or investments in illiquid assets (Kariuki, Muturi, & Njeru, 2021).

Non-remittance and delays in collecting premium according to Njue (2020), caused liquidity issues forcing insurers to keep more liquid assets, further limiting the share available for investments. Where policyholders delayed payments, defaulted, or cancelled policies before premiums are fully collected, the insurer experience unexpected reductions in cash inflows. This forced insurers to maintain a larger proportion of their assets in liquid or short-term investments rather than investing in longer-term assets that could potentially generate higher returns.

Bashaija (2023) further established that early policy surrenders led to unplanned cash outflows deepening liquidity issues. This compelled insurers to hold high amounts of liquid cash, diminishing the allocations towards long term investments. Early policy surrenders also limited the insurer's ability to pursue higher-return investments and encourages liquidity-focused portfolio management (NCBA, 2024). Kebede, Tesfaye and Erana (2024) further noted that high rates of policy non-renewal posed significant liquidity risks to insurance firms. This was caused by the reliance on a steady flow of premiums to meet operational expenses, settle claims, invest and maintain adequate cash reserves.

Additionally, a disparity in the duration and maturity of an insurer's investments and the timing of policy-holders liabilities led to liquidity risk (Clowes, 2024). This maturity mismatch was caused by the investment of premiums in long-term assets such as corporate bonds, equities and government securities. This compelled insurers to dispose investments before their maturity thus resulting into capital losses, particularly during periods of unfavorable market conditions (Sifuna, Job Omagwa, & Mutswenje, 2024). Inadequate liquid assets risk was caused by lack of sufficient cash or assets held by an insurer that were readily convertible into cash to meet their obligations (Bechtel, Rinaldo, & Wrampelmeyer, 2023). Insurance firms required adequate liquidity due to the unexpected nature of claims that may need to be settled before investments reach maturity. Insufficient liquid assets forced insurers to dispose long-term and less liquid investments prematurely (Effiong & Enya, 2020). Mutua, Theuri and Wamugo (2023) examined the relationship between financial performance of insurance companies and liquidity risks and established that liquidity risk had a negative significant effect on financial performance. Takon, et al., (2022) reviewed the effect of financial risks on financial performance of insurance firms and established that management of financial risk had a significant effect on financial performance. The findings suggested that managers of insurance firms should maintain their capital adequacy, operational efficiency and evaluate their risk management strategies regularly (Kamchira, 2020).

Mbuya and Ogilo (2023) in a study on the effect of financial risks on the financial performance of insurance firms in Kenya found an insignificant association between liquidity risk and financial performance. They also established a negative insignificant relationship between solvency risk, operational risk and financial performance. These findings suggested that higher exposure to operating, liquidity, and solvency risks did not considerably lower the financial performance of insurance firms. Mwalolo, Omagwa and Kimutai (2023) conducted a research on the influence of financial risk management on the financial performance of investment firms listed on the Nairobi Securities Exchange (NSE). The study used data collected over an 8-year period. Findings established that effective management of liquidity risk significantly impacted financial performance. Bashaija (2023) further determined that liquidity, credit, and operational risks were the major risks significantly affecting the profitability of insurance firms. He found that working capital management had an insignificant effect on Return on Equity of insurance firms in Rwanda. He therefore recommended that insurers keep optimal capital structures, invest in working capital and use their debt facilities fully to improve the overall firm profitability.

2.4 Research Gaps

Existing empirical studies have majorly focused on the relationship between financial risks and financial performance, while not adequately considering the investment decisions. Studies by Mbuya and Ogilo, (2023); Mwalolo, Omagwa and Kimutai, (2023); Mutua, Theuri, and Wamugo (2023) focused on how financial risks influenced financial performance whereas this study focuses on how investment decision making was influenced by financial risks. Muiruri, Deya and Odollo (2025); Takon, et al. (2022); Kamau (2023) concentrated on strategies of managing financial risks, while this study's major focus is on the influence of financial risks influenced investment decisions of insurers. Bashaija (2023) addressed financial risks including; credit, liquidity and operational risks in Rwanda while this study focussed on liquidity risk facing insurance firms in Kenya.

3. Methodology and Data

This study adopted an explanatory research design which applied regression to establish the degree to which independent variables explain variations in the dependent variable. The target population for the study was the heads of underwriting and finance departments of the 66 insurance firms in Kenya (IRA, 2025). This study assumed a census design, which considered all the participants in the population (Makwana, Prit, Dabhi, & Chudasama, 2023). All the 66 firms were considered for the study with two respondents each being the heads of underwriting and finance departments selected. Collection of primary data was done through questionnaires consisting of pre-defined and closed-ended statements with fixed response options which ensured quantitative data was consistently and systematically collected.

A pilot study involving 30 respondents was performed to test the suitability of the research tools. Reliability and validity of the research instrument were assessed. The Cronbach Alpha was used to evaluate internal consistency since it was considered most relevant when using Likert scales. A minimum Alpha coefficient of .700 was accepted (Lim, 2024). Results of the reliability test indicated a Cronbach's Alpha coefficient of 0.822 for liquidity risk and 0.806 for investment decisions, indicating adequate reliability. Construct validity through an Exploratory Factor Analysis (EFA) was performed. Preliminary factor tests including the Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity were applied to assess the adequacy of the data for factor analysis. A KMO value of 0.766 for liquidity risk, 0.757 for investment decisions and a Bartlett test of sphericity value of below 0.05 was obtained signaling adequacy of the data for factor analysis and other statistical analysis (Sigudla & Maritz, 2023). Data analysis included both descriptive and inferential tests using SPSS v.27. The presentation of the analyzed data was done through graphs, distribution plots and frequency tables. Correlation and test of hypothesis were performed to determine the direction and strength of the association between financial risks and investment decisions, and to determine the degree of significance of the observed patterns and make generalizations.

Ethical considerations ensured the study was conducted responsibly, with high integrity, and without harm to the participants and their surroundings. Voluntary approval from respondents was acquired, privacy upheld, potential risks disclosed and findings reported without falsification. The researcher-maintained professionalism, fairness and respect to all participants.

4. Results and Discussions

4.1 Response Rate

A total of 102 questionnaires were administered to the Heads of Underwriting and Finance departments of the 66 insurance firms in Kenya 92 were returned indicating a 90.2% response rate.

4.2 General Profile of Respondents

The demographic characteristics of respondents, including the category of insurance firm, period of time worked in the organization, and the position held within the firm were collected. These characteristics were assessed to establish the suitability, professional competence, and level of experience of the respondents in providing information relating to financial risks and investment decision-making practices among insurance firms in Kenya. From the analysis, 54.3% of the respondents

were in general insurance firms, 36.7% from long term (life) insurance firms and 9% from reinsurance firms. This distribution showed that the study captured perspectives from the three major categories of insurance business, indicating a representation of the entire insurance sector. Further analysis established that 59.8% of the respondents were heads of underwriting while 40.2% were heads of finance. The inclusion of both underwriting and finance officers provided diverse perspectives on the financial risks affecting investment decisions. Finally, results showed that more than half of the respondents had been in insurance for between one to five years (54.3%). This indicated that a considerable share of the respondents had acquired adequate professional experience and institutional knowledge to offer informed responses regarding the financial risks and investment practices of their firms.

4.3 Descriptive Statistics

Descriptive statistics were employed to validate the variables under study. The respondents were asked to show their level of concurrence with opinion statements measuring the study variables using a five-point Likert scale.

Descriptive Statistics for Liquidity Risk

The respondent's opinions were evaluated as follows: 1-Strongly disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly agree as highlighted in table 4.12. The descriptive results revealed that Liquidity risk recorded an overall mean of 2.97, indicating a more neutral perception of liquidity risks affecting insurers. The overall variability ($SD = .882$) suggested that the respondents held highly variable opinions regarding liquidity issues. The respondents majorly agreed that mismatch in the maturity of policies affected the ability of the firms to meet claims obligations (mean = 3.69). The respondents were more neutral on whether differences in the timing of premium and claims payments create liquidity pressures (mean = 2.97). The respondents however disagreed that inadequate liquid assets raised short-term liquidity requirements (mean = 2.40). These results concurred with the findings of Mutua, Theuri, & Wamugo (2023) who observed that an increase in liquidity risk for insurers led to default of current liabilities.

Descriptive Statistics for Investment Decisions

Further descriptive statistics indicated that investment decisions had a mean of 3.02 and a relatively higher standard deviation ($SD = .825$), which indicated a higher variability in the responses. The respondents agreed that expected returns were considered when making reinvestment decisions (mean = 3.54) while also agreeing that the firms considered diversification when constructing their investment portfolio (mean = 3.51). The respondents showed more neutrality on the opinion that firms adjusted the duration of their investments to match the maturity profile of their liabilities (mean = 3.00). The findings highlighted that individuals and company managers needed to have investment knowledge and expertise so as to make the best investment choices (Kavitha, 2023).

4.4 Correlation Results

The Pearson's correlation coefficient was applied to establish the association between the liquidity risk and investment decisions.

Table 1: Pearson Correlation Matrix

		Liquidity Risk	Investment Decisions
Liquidity Risk	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	92	
Investment Decisions	Pearson Correlation	.248*	1
	Sig. (2-tailed)	.017	
	N	92	92

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Author 2026

Table 1 highlights a weak positive but significant relationship between liquidity risk and investment decisions ($r = 0.248$, $p = 0.017$). These finding suggested that variations in the level of liquidity risk were associated with variations in investment decisions.

4.5 Regression Coefficients

The unstandardized regression coefficient indicated the amount of change in investment decisions for a one-unit increase in liquidity risk (Roustaei, 2024). The standardized regression coefficients indicated the strength of the linear relationships between the independent variables and the dependent variable.

Table 2: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	-0.173	0.569	-0.304	0.762
	Liquidity Risk	0.246	0.096	0.238	0.012

a. Dependent Variable: Investment Decisions

From table 2, results of the regression indicated that holding other variables in the original model constant, a one-unit increase in liquidity risk was associated with 0.246 increase in investment decisions. The standardized coefficient ($\beta = 0.238$, $p = 0.012$) further highlighted a positive significant contribution to investment decisions.

4.6 Hypothesis Testing Results

The hypothesis was tested at the 5 percent level of significance. The decision rule adopted in this study was to reject the null hypothesis where a p-value less than 0.05 was observed and fail to reject the null hypothesis where the p-value exceeded 0.05, as shown below.

Table 3: Hypothesis Testing Results (0.05 significance level)

Hypothesis	Null hypothesis statement	Beta	p-value	Decision
H ₀₁	Liquidity risk has no significant influence on investment decisions	0.238	0.012	Reject H ₀

Source: Author 2026

The test results in table 3 provided adequate evidence for the rejection of the null hypothesis with a high confidence level (95%), indicated by a P- value of 0.012. The beta coefficient ($\beta = 0.238$, $p = 0.012$) further proved that liquidity risk had a positive significant relationship with investment decisions. Therefore, the results suggested a significant contribution by liquidity risk to the prediction of investment decisions among insurance firms in Kenya.

4.7 Discussion of Findings

The results from the Pearson correlation analysis revealed a weak positive and statistically significant relationship between liquidity risk and investment decisions. The standardized coefficient further showed that liquidity risk was a positive and significant contributor to investment decisions ($\beta = 0.238$, $p = 0.012$). These results established that liquidity concerns such as inadequate liquid assets and delays in premium collections played a major role in making investment and reinvestment decisions. The rejection of the null hypothesis further highlighted that liquidity risks significantly influenced investment decisions and were important considerations in the investment decision-making processes of insurance firms in Kenya.

The findings were in agreement with the proposals of the Liquidity Preference Theory, which emphasized the importance of

maintaining adequate liquid resources to meet financial obligations and manage uncertainty. They further supported the Liquidity Preference Theory, by underscoring the significance of holding liquid resources to meet transaction, precautionary and speculative financial requirements and placed greater emphasis on short term investments. The findings also concurred with those of Kariuki, Muturi and Njeru (2021) who observed that liquidity pressures emerging from unexpected claims and high policy surrenders exposed the firm to cash flow issues thus limiting investments. Bashaija (2023) also found that premium collection delays and non-remittances compelled firms to keep more liquid assets, thus limiting investments.

The findings further supported those by Amira, Alala and Musiega (2023), who emphasized the importance of liquidity considerations in financial and investment decision making. Additionally, evidence of liquidity risk was demonstrated by the increase in claims outpacing premiums, where claims grew by 22.3% as opposed to premiums at 16.7% (IRA, 2023). Therefore, the significant relationship observed between liquidity risk and investment decisions suggested that insurers incorporated liquidity considerations when determining their investment strategies.

5 Conclusion and Recommendations

5.1 Conclusion

The study concluded that liquidity risk factors including the delays or non-remittance of premium, early unexpected policy redemptions, periods of high claims and asset-liability mismatches influenced how much the insurers were willing to set aside for investment. In addition, liquidity considerations affected the maturity, composition and allocation of investment assets, since insurers strived to maintain adequate resources to meet policyholder obligations. This reduced the available funds for investments especially in long term assets.

The study concluded that delays in premium collections or non-remittance reduced the availability of cash inflows, while increases in claims and policy surrenders created additional demands for liquid resources. These circumstances influenced decisions regarding investment duration and the reinvestment of funds. The uncertainty in the timing and adequacy of cash inflows forced insurers to hold sufficient liquid assets to meet claims and other financial commitments. Further, insurance firms were compelled to balance the need to earn returns from investments against the need to retain sufficient liquid resources to meet short-term and unexpected obligations. Investment decisions considered the maturity profile of assets in relation to the expected timing of liabilities, ensuring that investments could provide adequate liquidity when policyholder obligations became due.

Finally, the study concluded that liquidity risk constituted an important factor in the investment decision-making processes of insurance firms in Kenya. The significant relationship between liquidity risk and investment decisions demonstrated that insurers considered their ability to meet current and anticipated obligations when determining the amount, maturity, composition and reinvestment of investment assets. Effective management of liquidity risk was considered important as it ensured that firms met policyholder obligations and maintained appropriate investment portfolios. However, the findings also indicated that liquidity risk was not the only factor influencing investment decisions, indicating that other financial, institutional and regulatory considerations also contributed to insurers' investment decisions.

5.2 Recommendations and Areas for Further Research

The findings demonstrated that liquidity risks significantly influenced investment decisions, hence regulatory policies should promote effective risk identification, monitoring, disclosure and mitigation aside from establishing controls to curb excessive risk taking. The findings offered suitable evidence to assist the insurance sector in achieving an appropriate mix of financial stability, policyholder protection and investment flexibility. The management of insurance firms should ensure they improve liquidity positions of the firms. They should also ensure investment decisions are steered by effective risk identification, monitoring and mitigation while maintaining an appropriate stability in financial performance, investment returns, liquidity position, regulatory compliance and long-term financial stability.

Future studies should focus on other financial risks not considered by this study including underwriting, regulatory, credit, solvency, operational and insurance fraud. Additionally, further studies should consider other factors affecting investment

decisions aside from financial risks including size, technology, profitability, corporate governance, management expertise, risk appetite, ownership structure and macroeconomic conditions and corporate governance issues. This could provide a more comprehensive explanation of investment decision-making and improve the explanatory power of future models. Further studies should also focus on the individual categories of insurance firms due to the dynamic and unique nature of the business environment within which the firms operate.

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