Insurance company responsiveness and business success continuity in Uganda

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Abstract

Insurance companies are mainly known for their role of hedging against risk covering an individual or even a business. In Uganda, insurance related to business activities is not common. Despite this fact, there are businesses that have insurance policy for their operations. It has however not been clear whether the responsiveness of the insurance companies in Uganda help these businesses subscribed to them to succeed and continue normally in their operations. This necessitated a research study to be conducted to establish whether responsiveness of insurance companies in their operations was useful and had significant influence onto success and continuity of businesses operating in Uganda. The main ingredients of responsiveness of insurance companies and their success as well as continuity were also assessed. The research was based on a sample of 201 respondents from the insurance companies as well as from the business community. The results indicated that responsiveness of insurance companies in Uganda mainly involved timely payment of claims, effective customer care and proper guidance given to the insurance clients in all matters that relate to insurance policies. Business success and continuity was also found to mainly entail sales level and trend, profit level and trend as well as business recovery from environmental shocks. Correlation results indicated that responsiveness of insurance companies is positively associated with business success and continuity though the association was reported to be fairly weak (r = 0.341). This weak association was further manifested in the results of regression where it is reported that responsiveness of insurance companies has significant influence onto success and continuity of businesses in Uganda though this influence is only up to 7.7% of the changes in success and continuity of businesses in Uganda. This therefore means that success and continuity of businesses in Uganda is influenced by the responsiveness of insurance companies though to a greater extent, it is influenced by other factors which are not responsiveness of insurance companies.

Key words: *Risk Management, Profitability, Sales level*

1. Introduction

Globally, insurance companies are mainly known for helping holders of insurance policies to guard against risky situations as well as transactions (German cooperation, 2013). Today, it is mandatory for a car to have an insurance policy. The same goes for a bank loan. Business insurance is however not mandatory but recommended. Another recommendation in developing countries especially is that of house insurance and life insurance. In all these circumstances, insurance companies tend to position themselves as the saviors when a risk occurs (Ćorić & Bara, n.d).

In Uganda, the insurance business environment is the same like in the rest of the world. The challenge however, is that even for the situations where it is mandatory to have an insurance policy, there are delays for claims to be effected to the clients by the insurance companies (Greyling, 2013). This seems to have delayed the business people in getting into the culture of buying insurance policies for their businesses. Though not conclusive at this point, the reaction of clients of insurance companies on delayed remittances of insurance claims seems to suggest so (Insurance Regulatory Authority of Uganda, 2013). Basing on this, a study was carried out to establish whether there is any link between insurance companies' responsiveness and business success continuity in Uganda.

2. Theoretical review

Business environments could be classified as both risky and less risky depending on the type of business that a company is engaged in. Whether risky or not, there is always some level of risk that cannot be ignored especially if a business is built to make profits (Ćorić & Bara, n.d). The term risk here is used to in the insurance sense to mean *'a loss that is incurred in the financial or near financial sense'*. From a theoretical point of view, insurance is very important as the means to hedge against unforeseen and most often unprepared for losses which might be

financial in nature or otherwise (near financial loss). It is at this point that the insurance services come in (Outreville, 1998; PriceWaterhouseCoopers, 2012). The concept of responsiveness of insurance companies has a great impact on whether these services will be accepted in a business set up (Lucky & Humphrey, 2011).

In most developing countries, businesses existing there as well as insurance companies operating there face almost the same level of operational challenges (PriceWaterhouseCoopers, 2012). On the side of the insurance companies, the challenge of not responding quickly to the request of the clients when making claims against insurance policies bought is regarded as one of the major hindrances. This is reported to be common in developing countries (German cooperation, 2013).

Though the policies referred to here are mainly in relation to motor vehicles and probably sometimes in health (Meghan, 2010) and life assurance, their impact seems to have pushed even the knowledgeable business people away. This means that the challenges a business person goes through in getting paid up in case of a car accident or health problem makes him or her think twice to pay more money in terms of business insurance especially if there are other ways of ensuring that accidents in business operations can be prevented. Though these other ways could be in place, in case they do not yield any success, business collapse becomes inevitable (Greyling, 2013; Insurance Regulatory Authority of Uganda, 2013).

Business collapse as a phenomenon is now quite common in developing countries. The reasons for collapse are however not that common. Some collapses are due to failure to recover the capital invested attributed mainly to poor financial management of a business. However, the other aspect that is increasingly becoming evident in developing countries is the lack of safety measures. Whereas profitability is regarded as the major driver of the businesses in developing countries, this profitability needs to be achieved through safe means or approaches (OECD, 2008).

The view of safety was also echoed by the United Nations to the business community especially in developing countries. In the plea from the United Nations, this aspect of safety is mainly approached from the Corporate Social Responsibility point of view. This means that Corporate Governance must be upheld so that the goal congruence principle for businesses can be achieved. This goal congruence is considered to be one where the needs of employees and the entity are met by having a middle position in their operations. This goes hand in hand with the aspect of safety at work place and a business not succumbing to accidents that can terminate its existence (United Nations Industrial Development Organization [UNIDO], 2002).

Putting into context the safety issue, a number of businesses are reported to collapse as a result of not following the safety principles. They end up losing greatly what could have been prevented should there have been safety measures. For instance, in 2013, there was a case of a terrible accident in Bangladesh commonly referred to as 'Rana Plaza Accident' that claimed lives of many people. This represents one of those many cases that lead to business collapse (The Economist, 2013).

In relation to the possible accidents that can take place in a business, a possibility of a business collapse can hardly be avoided. This is mainly due to the fact that accidents are not planned for. They just happen. Most developing countries are further characterized with low quality outputs which if used in business can cause serious challenges leading to accidents and eventual business collapse. This could be in terms of fire detecting gadgets, fire extinguishers who most times have failing equipments, weak buildings that can lead to collapse and even challenges in terms of lost goods while in transit due to a number of factors such as poor roads and even unethical drivers (Luckerson, 2013). All these aspects put businesses in serious challenges as far as their safety and continuity in business activities are concerned. The big question is, could the responsiveness of insurance companies in developing countries be of help to cases of this nature?

3. Methodology

The research was carried out following the cross-sectional research design with elements of qualitative and quantitative designs to cater for the nature of the data that was involved. The respondents mainly came from insurance companies as well as the business community operating in the capital city of Uganda, Kampala. The capital city was considered as the point of focus since it is where the headquarters of all the business (insurance and others) are as well as where most of the services are coordinated from. Hence this formed a good representative of what takes place in the whole country as far as the nature of the research is concerned. Total population was established to be 420 respondents.

A sample of 201 respondents was selected basing on Krejcie and Morgan (1970) sampling Table. The respondents were selected using a multi-stage approach. This was as a result of the involvement of both employees of insurance companies and employees of businesses (*which were actually clients of the insurance*

companies) who were further split into smaller groups to reflect the different categories of employees in the insurance companies as well as business clients to the insurance companies.

Data collection was carried out using a questionnaire approach. This was necessary considering the size of the sample that was involved in the study. Reliability test was carried out to ensure that the questions included in the questionnaire form were reliable. Results of this test are presented in Table 1.

Table 1: Results from reliability analysis

Variables	Cronbach's Alpha Coefficient
Insurance company responsiveness	0.801
Business success and continuity	0.754

Source: Primary data

Table 1 indicates that all the variables in the questionnaire had reliable questions. This is based on the Cronbach's Alpha Coefficients which were reported to be above 0.7.

4. Data analysis and results

The data collected was sorted and refined after which the analysis was carried out. Factor analysis was carried out to statistically investigate the factor items that make up the variables of the study as well as assessing the responsiveness of insurance companies and business success continuity. Correlation and regression analyses were also carried out with an aim of establishing level of association between the variables as well as checking the degree of influence of 'responsiveness of insurance companies' onto 'business success continuity.

4.1 Factor Analysis

Results of factor analysis are displayed in Tables 2 and 3 in relation to the two variables of study.

Table 2: Factor Analysis - Insurance company responsiveness

	Components		
	Claim payments	Customer care	Customer guidance
Payment of claims to clients of this company takes a week to implement	.811		
Payment of claims to clients of this company takes two weeks to implement	.857		
Payment of claims to clients of this company takes three weeks to implement	.930		
Payment of claims to clients of this company takes one month to implement	.747		
Payments of claims to clients of this company takes less than one week to implement	.805		
The customer care section of the company I work for is very busy lately		.815	
Majority of the customers contacting our office for claim processing guidance come out when they have got all the information they came looking for		.866	
The claims department of where I work has a customer feedback form which captures customers' satisfaction in the claim processing assistance received.		.871	
Payment of claims to clients of this company is done in accordance with the insurance contract (policy) entered into between the company and the insurance client		.755	
The insurance company where I work assists our customers in giving directions (guidance) on how to apply for their claims			.711
% of variance	**32.05**	**26.16**	**10.772**
Cumulative %	**32.05**	**58.21**	**68.980**

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Rotation converged in 4 iterations.

Results in Table 2 indicate that the responsiveness of the insurance companies could mainly be classified into three components; time taken to process a claim for payment, customer care activities as well as guidance given to customers in relation to the insurance business. The results further indicate that the longest period of time an insurance company can take to process a claim for a customer is one month. However, this is not as common as the period of three weeks judging from the factor loadings presented in Table 2. This means that most insurance companies take up to three weeks to process an insurance claim for their customers. There are also those insurance companies that can take up to less than a week to process an insurance claim. Generally therefore, the period of time that most insurance companies take to process a claim for payment to a customer has been between less than a week to as long as a month. Customer care is also reported to be good coupled with the guidance that staff members of insurance companies provide to their customers when it comes to application for insurance claims.

Table 3: Factor Analysis - Business Success and continuity

	Components					
	Sales level	Profit level	Recovery	Sales trend	Profit trend	Internal recovery
Monthly sales level of this business has been above Ugshs 5,000,000 for the last three years	.883					
Monthly sales level of this business has been above Ugshs 3,000,000 for the last three years	.941					
Monthly sales level of this business has been above Ugshs 1,000,000 for the last three years	.858					
This business makes profits ranging between 1,000,000 and 3,000,000 in a year		.883				
This business makes profits ranging between 3,000,000 and 6,000,000 in a year		.953				
The current revenue performance of this business has been influenced by the trend of sales it has			.709			
This business has always recovered from the accidents it encounters through the use of a combination of insurance cover and its own resources as a business			.747			
Monthly sales level of this business has been above Ugshs 8,000,000 for the last three years				.710		
The business makes profits above 12,000,000 in a year					.838	
Revenue of this business has been increasing year after year					.840	
This business has always recovered from the accidents it encounters through the use of its own resources						.869
% of variance	23.27	16.23	9.24	9.17	8.53	7.80
Cumulative %	23.27	39.50	48.74	57.91	66.44	74.23

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Rotation converged in 8 iterations.

Source: Primary data

Results in Table 3 indicate that business success in Uganda could be established by six important components (*or factors*). These are sales level and trend, profit level and trend as well as recovery of businesses operating in Uganda. The results clearly indicate that business success and continuity in Uganda involves both the internally generated revenues and the claims paid by insurance companies in case they have an insurance policy running.

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Further to that however, the results indicate more inclination onto the internal revenues when it comes to recovery.

4.2   Correlation results

Correlation analysis was carried out to test the degree of association between the variables under study. The results from the analysis were reported in Table 4.

Table 4: Correlation Analysis results

	1	2
Business Insurance Awareness (1)	1	
Business Success Continuity (2)	.341**	1

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data

Basing on the results in Table 4, there is a relatively weak to strong association between insurance company responsiveness and business success continuity. This therefore means that improvements in the responsiveness of business (company) insurance bring about improvement in business success and continuity. This therefore indicates that there is a relationship between insurance company responsiveness and business success continuity in the context of companies operating in Uganda.

4.3   Regression results

Regression analysis was also carried out to be able to establish whether responsiveness of insurance companies has influence onto business success and continuity in the case of businesses operating in Uganda. The results of this analysis are displayed in Table 5.

Table 5: Regression results

	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	**Std. Error**	**Beta**		
(Constant)	2.935	.145		20.191	.000
Insurance company responsiveness	.141	.034	.286	4.157	.000

Dependent Variable:	Business Success and Continuity
R:	0.286
R square:	0.082
Adjusted R Square:	0.077
F-statistics:	17.278
Model Significance:	0.000

Source: Primary data

Regression results in Table 5 indicate that insurance company responsiveness has significance influence onto business success and continuity of businesses in Uganda. Though the Beta Value indicates that that the influence is weak (0.286), the fact that it is statistically significant indicates that the influence is there. The regression model used for analysis purposes is also reported to be significant. The results further indicate that insurance company responsiveness influences up to 7.7% of the changes in business success and continuity. This confirms the earlier assertion that the influence is there but it is weak. This also means that there is a 92.3% influence onto business success and continuity of businesses in Uganda from other factors that are not responsiveness of insurance companies in Uganda.

5.   Conclusion

The research conducted and results obtained indicate that business success and continuity in Uganda could have some dependence on responsiveness of insurance companies. However, most of the time, this continuity is a result of the financial strength that these businesses have instead of the insurance responsiveness. Literature further supports this position by indicating low insurance penetration in Uganda with accompanying reduced trust from the clients in relation to the insurance business in

Uganda (Insurance Regulatory Authority of Uganda, 2013). This concurs with the findings obtained n this research. Basing on the findings of the research conducted, the management bodies of insurance companies in Uganda need to put in more effort to educate the population about insurance policies and their importance in the lives of people as well as the continuity of their businesses in case any significant risk impacts on the performance of these business leading them to a possible closure.

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