

Paper: “The Effect of Risk-Based Capital on Investment Returns of Insurance Companies in Kenya”

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Corresponding Author: Willys Chache

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Peer review:

Reviewer 1: Irene Irungu
Karatina University, Kenya

Reviewer 2: Blinded

Reviewer 3: Blinded

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Reviewer Name: Dr. Irene Irungu	Email:
University/Country: Kenya	
Date Manuscript Received: 21/10/2020	Date Review Report Submitted: 27/10/2020
Manuscript Title: The effect of Risk Based Capital on Investment Returns of Insurance Companies in Kenya	
ESJ Manuscript Number: ISSN: 1857 - 7881 (Print) e - ISSN 1857- 7431	
You agree your name is revealed to the author of the paper: Yes/No Yes	
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Evaluation Criteria:

Please give each evaluation item a numeric rating on a 5-point scale, along with a thorough explanation for each point rating.

<i>Questions</i>	<i>Rating Result</i> [Poor] 1-5 [Excellent]
1. The title is clear and it is adequate to the content of the article.	5
<i>(Please insert your comments)</i>	

<ul style="list-style-type: none"> • The title is concise. • The title reflects the content of the paper. • The title is also fully explanatory on its own. 	
2. The abstract clearly presents objects, methods and results.	4
<p><i>(Please insert your comments)</i></p> <ul style="list-style-type: none"> • The abstract is clear. • Consider adding a brief of the statement of the problem that necessitates the studying of the effect of risk based capital on investment returns of the insurance companies. 	
3. There are few grammatical errors and spelling mistakes in this article.	4
<p><i>(Please insert your comments)</i></p> <ul style="list-style-type: none"> • Minor grammatical errors in the literature review. For instance in the paragraph below: <i>‘Markowitz (1952) introduced the concept of modern portfolio theory (MPT) regarding portfolio selection to maximize returns. This theory focused on the rule that investors should maximize discounted anticipated returns. The approach means that the investor is considering the expected or anticipated return as what they desire and the variance of the return as an undesirable event, thus leading to the expected returns-variance of returns rule.’</i> It is appropriate to use the present tense for theories as they are still upheld to the present day. • Be consistent in the use of percent. Either choose to use 95 percent or 95%. • Revise the notation used for the null hypothesis to H_0. • Provide the acronyms to IRC, MRC and CRC as used in Equation 1 for clarity. 	
4. The study methods are explained clearly.	4
<p><i>(Please insert your comments)</i></p> <ul style="list-style-type: none"> • The methodology is well laid out in a sequential manner. • The response and explanatory variables have selected correctly. • Model assumptions have been properly investigated using appropriate tests before fitting the model as required. However, you need to include a paragraph explaining this is necessary prior to undertaking the tests in the Diagnostics Tests section. • Appropriate model evaluation methods have been used. • The results and findings for the fitted model have been correctly interpreted and discussed. • Having established that the effect of risk based capital on investment returns of insurance companies in Kenya is significant it would be conclusive if you examined the nature of relationship. Consider carrying out a correlation analysis to determine whether the effect is negative or positive. 	
5. The body of the paper is clear and does not contain	4

errors.	
<i>(Please insert your comments)</i>	
<ul style="list-style-type: none"> • The statement of the problem is lengthy. Consider moving the first paragraph to the Introduction part so that it formulates a discussion for the genesis of the problem. Otherwise, the content is clear and indicates the gaps that exists to warrant the research. • The theoretical literature review is relevant and supports the research problem. • The empirical literature review is well structured as it reveals the variables other researchers have investigated and their findings. • The conceptual framework is well represented. • Consider adding a section on the summary of literature reviewed. This should prelude with the facts established which serve as the basis for research gaps to be pursued. It should also bring out the connection to the methodology. • Research hypothesis is well phrased. 	
6. The conclusions or summary are accurate and supported by the content.	3
<i>(Please insert your comments)</i>	
<ul style="list-style-type: none"> • The first sentence below contradicts the results and findings. <i>‘The study hypothesis was that the relationship between risk based capital and investment returns was insignificant.’</i> This should be changed appropriately. • Consider adding the implications of the findings to the insurance companies used in the study. 	
7. The references are comprehensive and appropriate.	3
<i>(Please insert your comments)</i>	
<ul style="list-style-type: none"> • Some references used are quite old, for example, (Smith, 1989) and (Lastra, 2004). Consider changing them to more recent literature unless it is a publication of founding theories such as (Markowitz, 1952) and (Sklar, 1959). • Ensure all citations are included in the references. For instance, (Bragt et al., 2010) is missing in the references. 	

Overall Recommendation (mark an X with your recommendation) :

Accepted, no revision needed	
Accepted, minor revision needed	X
Return for major revision and resubmission	
Reject	

Comments and Suggestions to the Author(s):

The research paper addresses an emerging issue in the Kenyan insurance market where companies are working towards the implementation of the IFRS 17. The paper is well structured. The methodology utilized is appropriate and has correctly been implemented.

I recommend the adoption of the following proposed minor changes:

Abstract

- Consider adding a brief of the statement of the problem that necessitates the studying of the effect of risk based capital on investment returns of the insurance companies.

Statement of the Problem

- The statement of the problem is lengthy.
- Consider moving the first paragraph to the Introduction part so that it formulates a discussion for the genesis of the problem. Otherwise, the content is clear and indicates the gaps that exists to warrant the research.

Literature Review

- Consider adding a section on the summary of literature reviewed. This should prelude with the facts established which serve as the basis for research gaps to be pursued. It should also bring out the connection to the methodology.

Methodology

- Include a paragraph explaining why it is necessary to examine the model assumptions prior to undertaking the tests in the Diagnostics Tests section.
- Having established that the effect of risk based capital on investment returns of insurance companies in Kenya is significant it would be conclusive if you examined the nature of relationship. Consider carrying out a correlation analysis to determine whether the effect is negative or positive.

Conclusion

- The first sentence below contradicts the results and findings.
*'The study hypothesis was that the relationship between risk based capital and investment returns was **insignificant**.'*
This should be changed appropriately.
- Consider adding the implications of the findings to the insurance companies used in the study.

References

- Some references used are quite old, for example, (Smith, 1989) and (Lastra, 2004).
Consider changing them to more recent literature unless it is a publication of founding theories such as (Markowitz, 1952) and (Sklar, 1959).
- Ensure all citations are included in the references. For instance, (Bragt et al., 2010) is missing in the references.

Grammatical errors

- Use the present tense when theories in the literature review as they are still upheld to the present day.
- Be consistent in the use of percent. Either choose to use 95 percent or 95%.

- Revise the notation used for the null hypothesis to H_0 .
- Provide the acronyms to IRC, MRC and CRC as used in Equation 1 for clarity.

Comments and Suggestions to the Editors Only:

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Date Manuscript Received: 22 October 2020	Date Review Report Submitted: 26 October 2020
Manuscript Title: The effect of Risk Based Capital on Investment Returns of Insurance Companies in Kenya	
ESJ Manuscript Number: 1077/20	
You agree your name is revealed to the author of the paper: Yes/ <u>No</u>	
You approve, your name as a reviewer of this paper, is available in the published version of the paper: <u>Yes</u> /No	

Evaluation Criteria:

Please give each evaluation item a numeric rating on a 5-point scale, along with a thorough explanation for each point rating.

<i>Questions</i>	<i>Rating Result</i> [Poor] 1-5 [Excellent]
1. The title is clear and it is adequate to the content of the article.	5
<i>The Title is clear while informative enough to cover the content of the manuscript.</i>	
2. The abstract clearly presents objects, methods and results.	5
<i>The abstract is well written and one can simply understand the purpose of the</i>	

<i>research, the study methods and the principal results.</i>	
3. There are few grammatical errors and spelling mistakes in this article.	4
<p><i>It is grammatically and conceptually sound with few typing mistakes as follows:</i></p> <p><u>Missing of the punctuation marks:</u></p> <p><i>In the Results and Discussion parts of the manuscript the authors typed:</i></p> <p><i>Pages # 10, 13 and 15: 1st paragraph: “Risk based capital was calculated the square root of the sum of squares of insurance risk capital charge, market risk capital charge credit risk capital charge and operational risk capital charge and an adjustment which considered the loss-absorbing capacity of technical provisions and deferred taxes..”</i></p> <p>Comma (,) was not typed between “market risk capital charge credit risk capital charge”.</p>	
4. The study methods are explained clearly.	5
<p><i>The Design and Methodology are consistent with the purpose and are properly applied.</i></p> <p><i>The authors applied quantitative research method while successfully adopted a positivistic approach for the study and accurately employed a longitudinal (panel) design to describe the relationship between variables on the study duration. To determine the relationship between risk based capital and investment returns, linear regression model on the panel data was used. Diagnostic tests such as normality, homoscedasticity, multicollinearity and independence test were well conducted.</i></p>	
5. The body of the paper is clear and does not contain errors.	5
<p><i>The introduction of the research definitely offers a good overview of the issue. The main Body of the manuscript is organized, sound and well written. It also covers an interesting literature review of the topic that accurately reveals and discusses the previous diversified empirical findings and researches done in this field of study.</i></p>	
6. The conclusions or summary are accurate and supported by the content.	5
<p><i>The Conclusions are fully supported by the results. The authors make clear the intended practical application of the research as well as its novelty.</i></p>	
7. The references are comprehensive and appropriate.	4
<p><i>The references are appropriate, comprehensive, instructive and well-diversified. The</i></p>	

authors used reliable sources of information, indeed. However, the following references that are present in the reference list (in yellow color) are not completely cited in the Manuscript (in red color):

(Bragt et al., 2010).

Bragt, D., Steehouwer, H., Waalwijk, B., & Possen, T. (2010).

(Eling et al., 2007).

Eling, M., Schmeiser, H., & Schmit, J. (2007).

Fare et al. (2004)

Fare, R., Grosskopf, S., & Weber, W. (2004).

Thus, authors should cite them in the manuscript in the same ways that are cited in the reference list.

Mistyping of the reference:

The following reference that exists in the reference list (in yellow color) cited differently than the one cited in the Manuscript (in red color):

Ruschendor~~s~~ (2009)

Ruschendorf, L. (2009).

Overall Recommendation (mark an X with your recommendation) :

Accepted, no revision needed	
Accepted, minor revisions needed	X
Return for major revision and resubmission	
Reject	

Comments and Suggestions to the Author(s):

Comments and Suggestions to the Editors Only: