

The Effect of Exchange Rate Fluctuations on the Financial Performance of Insurance Companies in Zambia

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Abstract

This study examined the effect of exchange rate fluctuations on the financial performance of insurance companies in Zambia. Specifically, it investigated how volatility in exchange rates influences profitability, solvency, and liquidity, while also assessing the effectiveness of insurers' risk management strategies. A mixed-methods approach was adopted, integrating quantitative financial data from 2018 to 2023 with qualitative insights gathered through questionnaires administered to industry experts, executives, and finance professionals. Regression models were employed to test the statistical relationship between exchange rate movements and financial performance indicators. The findings revealed that most respondents reported profitability growth over the past five years, with profitability ratios serving as the most common performance measure. Exchange rate fluctuations were perceived to exert a moderate effect on financial performance, though 34% of respondents considered the impact very significant. Key areas affected included profit margins, operational costs, and claims settlement. Insurers responded with strategies such as premium adjustments, investment diversification, and hedging, though only slightly more than half of the respondents rated these measures as effective. Regression results indicated mixed and largely insignificant relationships, suggesting that while exchange rate movements do influence financial outcomes, broader macroeconomic and operational factors play a more decisive role. The study concludes that insurers in Zambia face notable but manageable risks from exchange rate volatility. It recommends strengthening financial resilience through more robust risk management frameworks, greater adoption of hedging instruments, and enhanced alignment of investment strategies with exchange rate dynamics.

Keywords: Exchange Rate Fluctuations, Financial Performance, Insurance Sector, Risk Management, Profitability, Zambia.

Introduction

Insurance is broadly defined as a financial contract in which an insurer compensates the insured for specific potential losses in exchange for regular premium payments (Cummins & Weiss, 2023). It provides financial protection against unforeseen events such as accidents, illness, property damage, or death, thereby serving as a vital tool for risk management. By pooling resources from multiple policyholders, insurers distribute risk and ensure that those affected by losses receive adequate compensation. Beyond its protective role, insurance

promotes economic stability by fostering investment, savings, and consumption, while also enabling individuals and businesses to take calculated risks with greater financial security. In Zambia, the insurance sector has become a key contributor to economic development, particularly through job creation and financial intermediation. Recent statistics indicate consistent growth in the industry. For instance, gross written premiums increased by 13% from K5.344 billion in 2021 to K6.033 billion in 2022, driven by both life and non-life segments (Zambia Monitor, 2023). Reinsurance also recorded exceptional growth of over 245%, reflecting rising sector activity and its contribution to GDP. This performance demonstrates the industry's crucial role in stabilizing the economy and supporting employment within the financial services sector. However, despite this progress, Zambia's insurance penetration rate remains relatively low just above 2% indicating significant untapped potential (BOZ, 2024).

Problem Statement

The insurance sector in Zambia contributes approximately 1.3% to GDP and plays a pivotal role in stabilizing cash flows, managing risks, and supporting high-risk industries such as agriculture, mining, and manufacturing (Sibindi & Godi, 2014; PIA, 2023). However, the sector's growth and financial performance are increasingly constrained by the volatility of the Zambian exchange rate. Persistent currency fluctuations pose major challenges, including:

- **Deterioration in Profit Margins:** Exchange rate volatility erodes profitability, as insurers either absorb losses or increase premiums, undermining financial stability (Eun & Resnick, 2014).
- **Liquidity Constraints and Investment Losses:** Fluctuations reduce the value of foreign-denominated investments, leading to liquidity shortages and, in extreme cases, solvency risks (Eun & Resnick, 2014; Gibson, 2012).
- **Increased Premiums and Reduced Uptake:** To offset rising costs, insurers often raise premiums, which can suppress demand in a market where insurance penetration is already low (PIA, 2023).
- **Solvency and Risk Management Challenges:** Without robust hedging mechanisms, insurers remain vulnerable to currency risk, potentially breaching solvency requirements (Geda, 2020; Ipigansi & Egoro, 2022).
- **Constraints on Strategic Planning:** Currency instability complicates long-term planning, discourages market expansion, and weakens competitiveness (PIA, 2023).

If these challenges remain unaddressed, Zambia's insurance sector risks declining profitability, weakened resilience, and reduced contribution to national economic growth. Hence, this research is timely and necessary to assess how exchange rate fluctuations affect insurers' financial performance and to propose strategies for resilience and sustainability.

Objectives of the Study

This research was guided by the following objectives;

1. To establish the financial performance of insurance companies in Zambia in relation to exchange rate fluctuations.
2. To assess the impact of exchange rate fluctuations on the performance of insurance companies in Zambia.
3. To recommend strategies for leveraging exchange rate fluctuations to enhance sustainable financial performance.

By addressing these objectives, this study aimed to investigate the effects of exchange rate fluctuations on the financial performance of insurance companies in Zambia.

Literature Review

Historical Context of the Insurance Industry in Zambia

The Zambian insurance industry has evolved significantly over the past decades. Prior to independence in 1964, the industry was dominated by British and South African firms under British insurance law (Madison, 2005). Concerns over capital externalization led to the Insurance Act of 1968 and eventual nationalization of the industry in 1971, which consolidated insurers into the Zambia State Insurance Corporation (ZSIC) and Zambia National Insurance Brokers (ZNIB). Liberalization in 1991 reintroduced private sector participation, both local and foreign, revitalizing competition. Today, the industry is regulated under the Insurance Act of 1997 and other supporting legislation, reflecting a modernized but still developing market.

Exchange Rate and Profitability

Exchange rate fluctuations directly affect insurers' profitability through their impact on premium pricing, operational costs, and investment returns. In Zambia, depreciation of the Kwacha has eroded the real value of premiums while simultaneously increasing costs of settling claims, particularly when linked to foreign-denominated contracts (Chiluba & Sitali, 2022). Studies have shown that profitability becomes harder to forecast in volatile currency environments, with insurers facing challenges in maintaining stable margins (Roger, Smith, & Morrissey, 2017). Globally, insurers in markets such as the US and Europe have adopted hedging strategies particularly derivatives to mitigate transactional risks (Lia, Moshirian, Weeb, & Wua, 2005). However, in Zambia, reliance on such instruments is limited, making insurers more vulnerable to profitability shocks.

Liquidity and Solvency Impacts

Liquidity and solvency are critical dimensions of insurer stability. Exchange rate depreciation can devalue foreign-denominated assets, leading to liquidity constraints and reduced solvency ratios (Eun & Resnick, 2014; Gibson, 2012). In Zambia, insurers face the dual challenge of ensuring sufficient liquid assets for claim settlements while also

protecting long-term investments from currency erosion (Kang'ombi & Mungule, 2023). This vulnerability is compounded by Zambia's relatively shallow capital markets, which limit diversification options compared to more developed economies. Solvency pressures also undermine regulatory compliance, potentially threatening sector-wide stability.

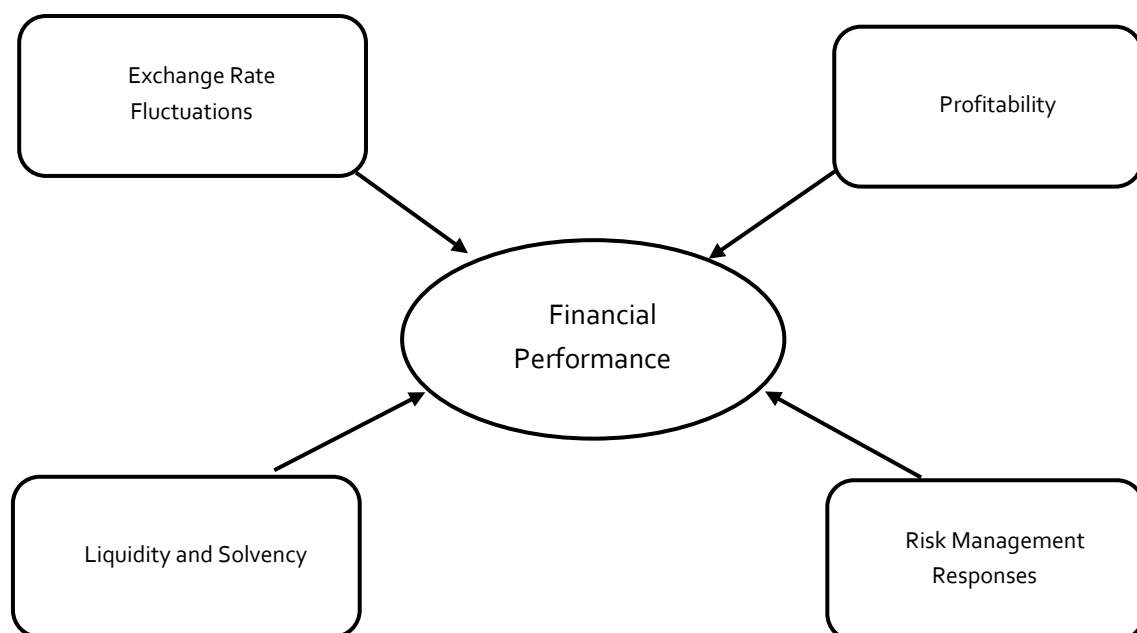
Risk Management Responses

Insurers worldwide adopt a variety of risk management strategies to cushion the effects of currency volatility. These include premium adjustments, investment diversification, and hedging techniques such as currency swaps or futures contracts (Lia et al., 2005). In Zambia, risk management approaches remain less sophisticated. Kang'ombi and Mungule (2023) found that underwriting practices, liquidity management, and portfolio diversification are the most common strategies, though their effectiveness remains moderate. Similarly, Lushibashi and Mweshi (2023) highlighted the importance of strengthening institutional frameworks and government interventions to reduce foreign exchange volatility. This suggests that Zambian insurers need to adopt more robust tools, supported by policy reforms, to mitigate exchange rate risks effectively.

Conceptual Framework

The reviewed literature highlights three main channels through which exchange rate fluctuations influence the financial performance of insurance companies:

1. **Profitability:** Affected through premium pricing, claims costs, and operational expenses.
2. **Liquidity and Solvency:** Influenced by the valuation of foreign-denominated assets and ability to meet short-term obligations.
3. **Risk Management Responses:** Strategies insurers adopt to mitigate exchange rate exposure, which in turn mediate financial performance outcomes.



Methodology

Philosophical Underpinning

This study is grounded in the pragmatist paradigm, which prioritises practical solutions and the integration of complementary methods to address complex phenomena. Given the objective examining how exchange rate fluctuations affect the financial performance of insurance companies in Zambia a mixed-methods design was adopted to quantify financial effects and capture practitioner perspectives on risk management and operational responses.

Research Design

A mixed-methods, descriptive–correlational design was used. The quantitative strand modelled the statistical relationship between exchange rate fluctuations and firm-level performance indicators over 2018–2023. The qualitative strand used a structured questionnaire (with both closed- and a small number of open-ended items) administered to industry practitioners to contextualise the quantitative results (e.g., pricing adjustments, hedging, diversification). Previous research supports this methodological choice, with Nyongesa (2017) and Ponsian et al. (2014) employing correlational designs to investigate financial relationships, while Ochieng and Jagongo (2020) successfully integrated qualitative and quantitative techniques to explore economic dynamics. By utilizing both approaches, this study strengthened the validity of its findings and provides a holistic understanding of the impact of exchange rate fluctuations on Zambia’s insurance sector.

Target Population and Sampling

The target population comprised professionals in Zambia’s insurance sector (finance, risk, underwriting, reinsurance, and executive roles). The sector includes 34 insurers (23 general, 11 life). Three focal firms were selected for firm-level time-series analysis owing to market relevance and data availability: Professional Insurance Corporation Zambia (PICZ), Prudential Zambia, and Klaption Reinsurance Zambia. Sampling technique (survey): Purposive sampling was employed to recruit respondents with direct knowledge of exchange-rate impacts on performance (e.g., finance managers, risk managers, executives). Questionnaires distributed/response rate: 70 questionnaires were distributed; 47 were returned (response rate = $47/70 = 67\%$), which is acceptable for management surveys.

Data Collection Methods

Quantitative data: Annual average exchange rate data (ZMW per USD) were obtained from the central bank/official statistical sources. Firm performance data (2018–2023) were extracted from the three companies’ published financial statements (e.g., profitability/income measures aligned to the PICZ, Prudential, and Klaption-Re series used in the analysis).

Qualitative data: A structured questionnaire captured practitioner assessments of: (i) perceived exchange-rate impact on profit margins, claims, operating costs; (ii) risk responses (pricing, diversification, hedging); (iii) perceived effectiveness of strategies.

Empirical Model, Variables and Estimation

Core Specification (Firm-Specific Models)

For each firm $j \in \{\text{PICZ, Prudential, Klapton-Re}\}$ and year $t \in \{2018, \dots, 2023\}$, the baseline regression is:

$$\text{Perf}_{j,t} = \alpha_j + \beta_j \text{EXRATE}_t + \varepsilon_{j,t}$$

Where:

- i. $\text{Perf}_{j,t}$ = firm-level financial performance measure used in the dataset for firm jj (the three series labelled PICZ, Prudential, Klapton-Re).
- ii. EXRATE_t = Average exchange rate (ZMW/USD) in year t .
- iii. α_j = firm-specific intercept (mean performance when $\text{EXRATE} = 0$).
- iv. β_j = marginal effect of exchange rate on firm j 's performance.
- v. $\varepsilon_{j,t}$ = error term.

Estimation: Ordinary Least Squares (OLS), separately for each firm (three regressions).

Reported statistics: $\hat{\beta}$, p-value, R^2 , Adj- R^2 , F-statistic, and residual diagnostics.

Pooled (Panel-Style) Robustness Check (Optional)

Stacking the three firm series yields $N=18N=18$ observations (3 firms $\times$ 6 years). As a robustness check, a pooled OLS with firm dummies can be estimated:

$$\text{Perf}_i = \alpha + \delta_{\text{PICZ}} D_{\text{PICZ},i} + \delta_{\text{PRU}} D_{\text{PRU},i} + \beta \text{EXRATE}_i + u_i$$

Where: D_{PICZ} and D_{PRU} are firm indicators (Klapton-Re is the reference). Standard errors can be heteroskedasticity-robust (HC1/White) given the small sample.

Variable Summary

- i. **Independent variable (X):**
EXRATE = Annual average ZMW/USD (higher values imply a weaker ZMW).
- ii. **Dependent variables (Y):**
PICZ, Prudential, Klapton-Re = firm-specific financial outcome series provided (e.g., income/profitability measure per firm).
- iii. **Sample:** 2018–2023 (6 annual observations per firm; 18 pooled).

Assumptions and Diagnostics

- **Linearity** (visual check of Y vs. EXRATE scatter and residual plots).
- **Independence** (annual data; Durbin–Watson where feasible).
- **Homoscedasticity** (Breusch–Pagan; or use robust SEs).

- **Normality of residuals** (Shapiro–Wilk/K-S; Q–Q plots). Given the small TT, results are interpreted cautiously and triangulated with qualitative evidence.

Qualitative Coding and Analysis

Open-ended responses (where present) were analysed via directed content analysis:

1. Codebook development. A priori categories derived from literature and the questionnaire blueprint:
 - a. *Perceived impact areas*: profit margins, claims settlement, operating costs, reinsurance, investment returns.
 - b. *Risk responses*: pricing adjustments, currency hedging, asset/liability currency matching, investment diversification, cost containment.
 - c. *Effectiveness ratings & constraints*: capability, data/skills gaps, market structure, regulatory constraints.
2. Pilot coding. Two researchers independently coded a 20% subsample; discrepancies reconciled to refine definitions/examples.
3. Reliability. Inter-coder reliability assessed (target Cohen's $\kappa \geq 0.70$).
4. Full coding. Codes applied to all responses; outputs aggregated to themes with frequency counts.
5. Integration. Qualitative themes were used to explain or challenge quantitative findings (e.g., moderate statistical links but strong practitioner reports of premium repricing or claims pressure).

Closed-ended items were summarised with frequencies/percentages; Likert-type items were presented as distributions and, where appropriate, treated as ordinal summaries.

Data Analysis

The study employed content analysis, a systematic approach to analyzing written or visual materials to identify and quantify themes, phrases, or occurrences. This method has been widely recognized in qualitative research for examining historical records, policy documents, and company reports, enabling researchers to develop coding schemes for data interpretation (Krippendorff, 2018). Furthermore, to quantitatively explore the relationship between exchange rates and insurance company performance, the study incorporates statistical analysis through regression models. These models are used to assess the impact of exchange rate fluctuations on key performance indicators such as profitability ratios and underwriting performance (Gujarati & Porter, 2009). Analyses were carried out to study the relationships between the financial performance of insurance companies and exchange rate as independent variables, and financial performance metrics as dependent variables. This is crucial in stating the significance level and strengths of the relationships (Schindler, 2017).

Validity and Reliability

Quantitative validity: Data sourced from official statements/regulators; consistent definitions across years.

Reliability: Multi-year series (2018–2023) to observe stable patterns; reproducible extraction protocol.

Qualitative trustworthiness: Expert-informed instrument, pilot-tested for clarity; inter-coder reliability checks; audit trail of coding decisions.

Ethical Considerations

The study adhered to ethical research principles to ensure the integrity, confidentiality, and voluntary participation of respondents (Banda, J., & Tembo, B., 2022). All participants were provided with detailed information regarding the study's purpose, objectives, and expected outcomes before their involvement. Informed consent was obtained from each respondent, ensuring that participation was voluntary and that individuals had the right to withdraw from the study at any stage without facing any consequences (Tembo, M., and Chanda, S., 2021). To maintain confidentiality and anonymity, personal data and business information were kept secure and were anonymized in all research outputs. Names and identifiable details were not disclosed in the final report, protecting participants' privacy. Additionally, the study ensured that ethical research standards were upheld by obtaining approval from relevant academic and government authorities responsible for overseeing research on Exchange rate fluctuations and Insurance company performance in Zambia. The approval process confirmed that the study complied with national and institutional ethical guidelines, ensuring credibility and adherence to professional research standards (Zulu, K., & Mumba, E., 2022). The methodology adopted in this study provided a robust framework for assessing the impact of exchange fluctuations on insurance company performance in Zambia (Zulu, K., & Mumba, E., 2022). The mixed-methods approach ensured a comprehensive analysis by integrating quantitative financial data with qualitative insights from key stakeholders. The combination of survey questionnaires, interviews, and document analysis allowed for a well-rounded examination of how exchange rate fluctuations affect financial performance of Insurance companies. The study's findings were expected to enhance understanding of the impact of exchange rate fluctuations on the financial performance of insurance companies in Zambia, focusing on risk management, regulatory frameworks, and strategic decision-making (Sinyangwe, T., & Chanda, P., 2024).

Findings and Results

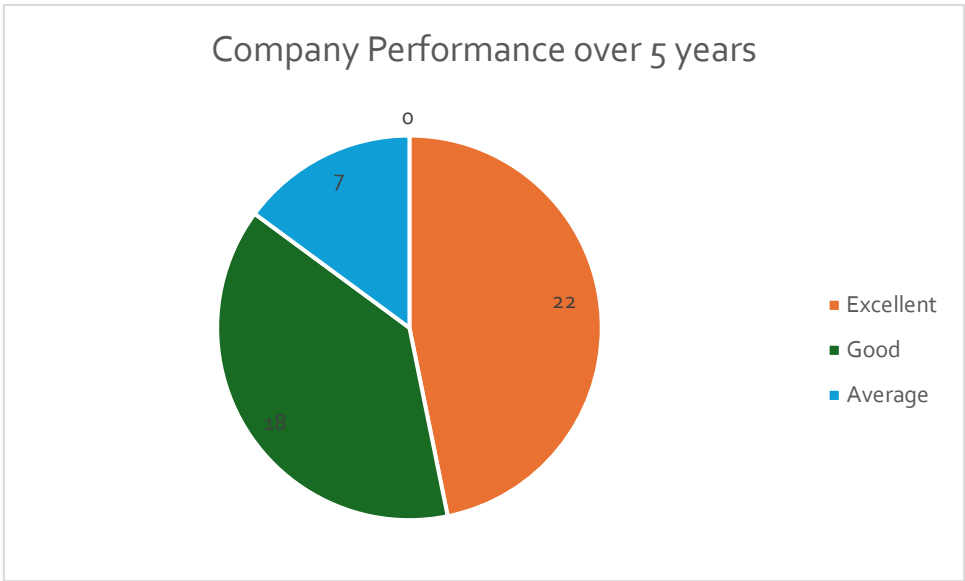


Figure 4.1 Financial Performance
Data Source: Field Data 2025

The findings underscore that (47%) rated the performance as excellent, while 18 (38%) considered it good. Only 7 respondents (15%) described the performance as average. This indicates that a majority of insurance companies have performed relatively well over the last five years, suggesting resilience and effective financial strategies despite economic fluctuations.

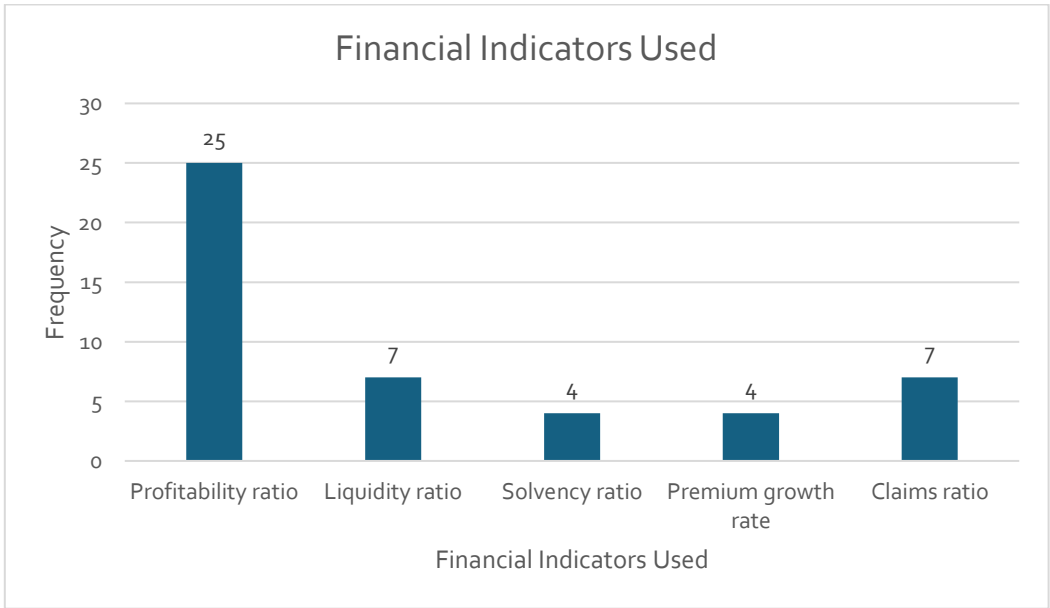


Figure 4.2 Financial Indicators Used
Data Source: Field Data 2025

As presented in Figure 4.4, profitability ratios were the most widely used indicator (53%), followed by liquidity ratio (15%) and claims ratio (15%). Additionally, premium growth rate and solvency ratios were each utilized by 9% of respondents. The dominance of profitability ratios suggests that insurance companies prioritize financial returns and profitability as key measures of success.

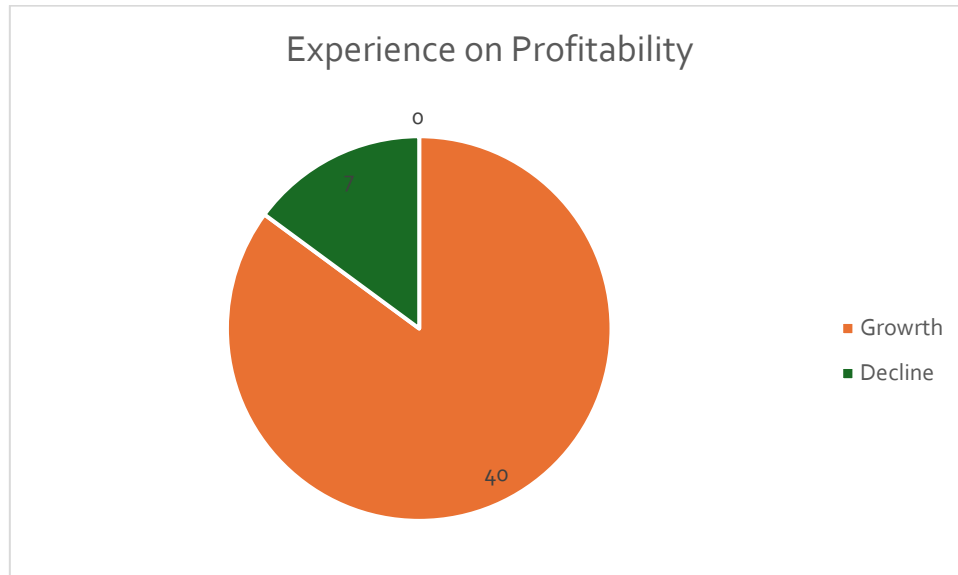


Figure 4.3 Profitability Changes over the past 5 years

Data Source: Field Data 2025

Respondents were asked to indicate whether their company had experienced growth or decline in profitability over the past five years. The majority of respondents, 40 out of 47 (85%), reported experiencing profitability growth, highlighting a positive trend in financial performance within the industry. Conversely, 7 respondents (15%) indicated a decline in profitability, signaling potential challenges faced by a minority of companies.

Effect of Exchange Rate on PICZ's Financial Performance

The regression analysis for PICZ against the average exchange rate yielded an R^2 value of 0.035, indicating that only 3.5% of PICZ's financial performance variations can be attributed to exchange rate fluctuations. Furthermore, the p-value of 0.880 suggests that this relationship is not statistically significant. This implies that the exchange rate does not have a meaningful influence on PICZ's financial performance, and other factors may be more critical in determining its profitability.

Impact of Exchange Rate on Klapton-Re's Performance

For Klapton-Re, the regression results showed an R^2 value of 0.014, meaning that only 1.4% of the company's financial variation is explained by the exchange rate. Additionally, the p-value of 0.924 indicates no statistically significant relationship. This suggests that exchange rate movements have an insignificant effect on Klapton-Re's performance, reinforcing the

likelihood that other market or operational factors play a more substantial role in shaping its financial outcomes.

Relationship between Exchange Rate and Prudential's Performance

Among the three companies analyzed, Prudential exhibited the highest explanatory power in the regression model, with an R^2 value of 0.403, suggesting that 40.3% of Prudential's financial performance variation is linked to exchange rate fluctuations. However, despite this relatively higher correlation, the p-value of 0.562 indicates that the relationship remains statistically insignificant. This finding suggests that while exchange rate movements may have some influence on Prudential's financial performance, the effect is not strong enough to be considered a decisive factor.

Overall Interpretation

The regression results indicate that exchange rate fluctuations do not significantly impact the financial performance of PICZ, Klapton-Re, or Prudential within the dataset. Although Prudential's model showed a stronger relationship, it still lacks statistical significance. This suggests that other financial, operational, or macroeconomic variables are likely more influential in shaping the financial outcomes of these insurance companies.

The study's findings align with existing literature on the relationship between exchange rate fluctuations and financial performance in the insurance sector. Studies such as Lia et al. (2005) and Roger et al. (2017) have demonstrated that insurance firms globally are significantly affected by foreign exchange movements. Moreover, findings from Offiong et al. (2020) and Pretoria & Egoro (2022) suggest that while exchange rate volatility affects profitability, its impact on claims settlement varies by region and economic conditions. The results also resonate with Kang'ombi & Mungule (2023), who identified underwriting risk, premium growth, and company size as critical factors affecting financial performance.

Overall, this study provides evidence that exchange rate fluctuations moderately to significantly impact the financial performance of insurance companies in Zambia. Insurance firms must therefore develop robust financial management strategies, including premium adjustments, investment diversification, and risk hedging techniques, to mitigate these effects and ensure financial stability.

Discussion

This study provides insights into the financial performance of insurance companies in Zambia and the role of exchange rate fluctuations in shaping operational and strategic outcomes. While descriptive evidence suggests that insurers view exchange rate volatility as a notable risk factor, the regression analysis revealed largely insignificant statistical relationships between exchange rate movements and financial performance indicators. This section interprets the findings in relation to prior studies, explains the weak regression outcomes, and highlights implications for both theory and practice.

Financial Performance of Insurance Companies

The survey findings suggest that Zambia's insurance sector has demonstrated considerable resilience over the past five years. A large majority of respondents (85%) reported profitability growth, consistent with the industry's overall expansion. Profitability ratios emerged as the most commonly used performance metric, reflecting insurers' prioritization of financial returns over alternative indicators such as solvency or liquidity.

These findings mirror the conclusions of Mwaba (2021), who observed that profitability remains the dominant lens through which Zambian insurers assess financial health, even in volatile macroeconomic environments. The emphasis on profitability, however, also reveals a possible vulnerability: by focusing on short-term earnings, firms may underweight solvency and liquidity, which are critical for long-term resilience. The results suggest that although firms perceive themselves as financially strong, their reliance on profitability as the primary benchmark could obscure systemic risks linked to macroeconomic instability.

Impact of Exchange Rate on Financial Performance

Survey responses indicated that most insurers consider exchange rate fluctuations to have a moderate or very significant impact on their operations, particularly in profit margins, claims settlement, and reinsurance costs. This perception aligns with Offiong et al. (2020), who found that exchange rate volatility had a long-run impact on insurance sector outcomes in Nigeria, as well as with Chileshe & Banda (2019), who reported that exchange rate shocks contribute to operational pressures in Zambian financial institutions.

However, the regression analysis in this study revealed statistically insignificant relationships between exchange rate fluctuations and firm-level performance (PICZ, Prudential, Klaption-Re) during 2018–2023. Several factors may explain this divergence. First, the small sample size (six years of data per firm) limited the statistical power of the models, making it difficult to detect systematic effects. Second, exchange rate movements are only one of many macroeconomic shocks others such as inflation, interest rate changes, and regulatory reforms may have exerted stronger influence during the study period, diluting the measured impact of exchange rates. Third, insurers appear to have deployed adaptive risk management strategies (e.g., premium adjustments, diversification), which may have buffered their financial outcomes from direct currency effects.

From a theoretical perspective, these findings temper claims of a deterministic relationship between currency volatility and insurance performance. While contingency and risk management theories suggest that environmental shocks like exchange rate movements should directly shape firm outcomes, this study indicates that strategic responses may neutralize or mediate such effects. In practice, this implies that insurance firms' resilience is not only determined by macroeconomic conditions but also by the effectiveness of managerial adaptation.

Strategies for Leveraging Exchange Rates Fluctuations

Respondents highlighted a range of strategies to mitigate exchange rate risks, with premium adjustments, diversification into foreign-denominated assets, and hedging techniques being the most common. These strategies are broadly consistent with Kang'ombi & Mungule (2023), who recommended that insurers strengthen balance sheets through diversified investments and improved risk management frameworks. The finding that just over half of respondents considered their strategies effective suggests a gap between design and execution, echoing Kanyenze (2020), who noted that many Zambian financial institutions adopt ad hoc risk measures without embedding them into long-term strategy.

The study also revealed that exchange rate fluctuations influence reinsurance purchasing decisions, with most respondents acknowledging cost pressures. This aligns with Achieng & Muturi (2022), who found that currency depreciation increases the cost of reinsurance and reduces insurers' capacity to underwrite large risks. At the same time, the fact that some firms reported no impact reflects heterogeneity in business models, with locally focused insurers being less exposed than those reliant on foreign-denominated transactions.

Implications for Theory and Practice

The mixed and largely insignificant regression results suggest that exchange rate volatility, while a salient operational concern, may not systematically drive financial outcomes in Zambia's insurance sector at least not in isolation. This supports the argument that firm-level strategic responses act as buffers, moderating the direct impact of macroeconomic shocks (Contingency Theory). For theory, this underscores the importance of incorporating mediating variables such as risk management strategies into models linking macroeconomic volatility to firm performance.

For practice, the findings highlight the need for insurers to go beyond reactive measures like premium adjustments. More robust approaches, including structured hedging, asset-liability currency matching, and building foreign-denominated reserves, could enhance resilience. Regulators may also play a role by encouraging stronger risk-based capital frameworks that account explicitly for currency risk.

Conclusions and Recommendations

Conclusions

This study examined the impact of exchange rate fluctuations on the financial performance of insurance companies in Zambia. The findings revealed that most insurers have recorded strong financial performance in recent years, with profitability ratios serving as the primary measure, followed by liquidity, claims, premium growth, and solvency indicators. While exchange rate volatility was found to influence performance, its effect was often moderated by other macroeconomic factors such as inflation, interest rates, and market

competition. Profitability growth was evident in over 80% of firms, suggesting resilience despite exchange rate pressures.

Insurance companies employed several risk management strategies to counter currency fluctuations, including premium adjustments, investment diversification, and hedging techniques. These approaches were generally effective, though some firms still reported challenges in settling foreign-denominated claims. The results highlight that while exchange rate risks pose threats to operational costs and claims settlement, proactive financial strategies can enhance resilience and sustainability.

The study implies that insurers must strengthen financial risk management by adopting more robust hedging practices, aligning liabilities with foreign-denominated assets, and reducing reliance on foreign currency transactions. However, the research was limited by its reliance on survey responses and financial data from a five-year period, which may not fully capture long-term or sector-wide variations. Future studies could incorporate larger samples, longer time frames, and cross-country comparisons to provide deeper insights into how exchange rate dynamics affect insurance markets in emerging economies.

Recommendations

To enhance financial sustainability amidst exchange rate fluctuations, the study recommends the following:

1. Diversify Revenue Streams

Insurance companies should explore opportunities beyond local markets to reduce dependence on a single currency. Expanding into regional and international markets can help mitigate risks associated with exchange rate volatility that most insurance companies reported strong financial performance but remained vulnerable to exchange rate fluctuations due to high reliance on the local currency.

2. Enhance Financial Risk Management

The study found that some companies relied primarily on basic risk management strategies such as pricing adjustments and investment diversification, with limited adoption of advanced tools. as such companies should adopt more advanced financial risk management strategies, including the use of derivatives and forward contracts to hedge against currency fluctuations.

3. Regularly Adjust Pricing Models

Insurers should incorporate currency fluctuations into their pricing models to ensure that premium rates reflect changing exchange rates. This will help protect profit margins as respondents indicated that pricing adjustments were one of the most common strategies to cope with depreciation of the local currency.

4. Increase Reserves for Exchange Rate Volatility

Although many companies maintained good financial performance, some reported difficulties in settling foreign-denominated claims during periods of currency depreciation.

Establishing financial reserves specifically to cushion against exchange rate fluctuations will help insurance companies maintain stability during periods of currency depreciation.

5. Invest in Foreign-Denominated Assets

Companies should consider further diversifying their investment portfolios to include foreign-denominated assets, which can act as a natural hedge against currency risk as the study highlighted that diversifying investments was among the key strategies already in use to manage exchange rate risks.

6. Leverage Exchange Rate as an Opportunity

While most companies viewed exchange rate movements as a risk, some acknowledged opportunities linked to favorable currency shifts companies should view exchange rate fluctuations purely as a risk and explore ways to take advantage of favorable currency movements, such as investing in high-growth foreign markets.

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