CHAPTER TWO: LITERATURE REVIEW

The chapter intends to critically examine the pertinent literature available in the canon with a view to exploring what scholars and researchers have observed and elaborated with respect to operational risk and its management. At the end, after the review of literature, I will demonstrate the research gap that this research seeks to fill. The chapter highlights the conceptual framework and theories underpinning the study. The chapter will also provide a broader picture of other organisations and markets that have been affected by operational risks. The chapter will also discuss the plausible sources of operational risks in micro-insurance companies, the operational risk management strategies in microinsurance companies, plausible benefits of effective operational risk management to micro-insurance companies and a framework that can be used to effectively manage operational risks in microinsurance companies. Amongst other sources, the researcher used organisation reports, websites, online journals and diaries, magazines, books, significant statutory instruments and regulatory frameworks.

The conceptual framework in Figure 2.1 suggests that there are three main pillars that are crucial for effective operational risk management; top management, process management, and human resource management. All of these elements work together and intersect at the goal of effective use of operational risk management (Pitinanondha & Akpolat, 2009). The first and most important pillar is top management. For operational risk management to be truly effective, there needs to be strong commitment and support from the top levels of the organisation's management and leadership (Pitinanondha & Akpolat, 2009). The top management needs to establish clear policies and objectives related to operational risk management (Pitinanondha & Akpolat, 2009). They must ensure adequate resource allocation to allow for proper infrastructure to be put in place to identify, assess, control, and monitor operational risks (Pitinanondha & Akpolat, 2009).

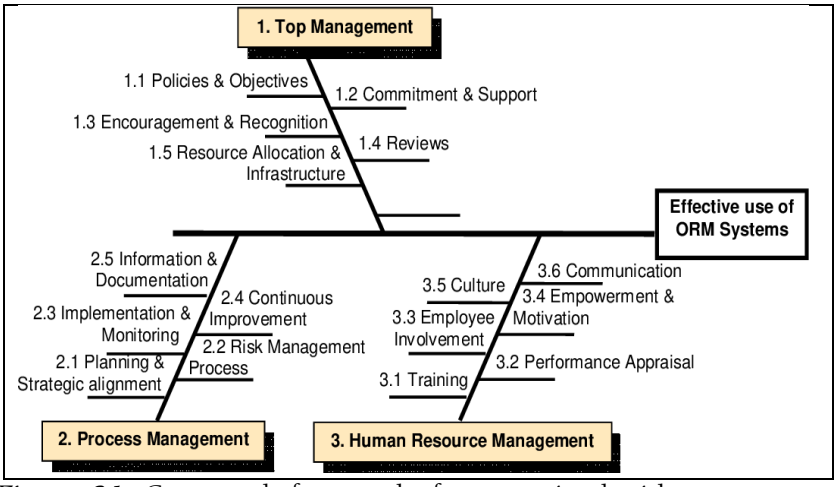

Figure 2.1: Conceptual framework for operational risk management (Pitinanondha and Akpolat, 2009)

The top management also plays a key role through regular reviews of the operational risk management program to ensure continuous improvement (Pitinanondha & Akpolat, 2009). They need to encourage and recognize efforts taken at lower levels to manage operational risks (Pitinanondha & Akpolat, 2009). Through their commitment, resources, and oversight, the top management helps create the proper environment and culture where operational risk management is prioritized (Pitinanondha & Akpolat, 2009).

The second pillar is process management. Effective operational risk management requires careful planning and implementation of proper risk management processes (Pitinanondha & Akpolat, 2009). Strategic management of operational risks involves developing strategies and action plans to address key risks (Pitinanondha & Akpolat, 2009). A crucial element is having a robust risk management process that can methodically identify all potential operational risks, analyse them, and put forth appropriate controls and responses (Pitinanondha & Akpolat, 2009). Once controls are in place, regular monitoring is needed to ensure risks remain mitigated and detect any new emerging risks (Pitinanondha & Akpolat, 2009). With continuous improvement, the risk management process evolves over time to stay dynamic with the changing risk landscape (Pitinanondha & Akpolat, 2009). Proper

documentation and information management systems allow relevant information about risks, controls, issues and lessons learned to be recorded, shared and used to refine the process (Pitinanondha & Akpolat, 2009).

The third pillar of human resource management focuses on building a workforce with the right skills, motivation and culture for operational risk management (Pitinanondha & Akpolat, 2009). Training programmes help develop risk management competencies among employees while also promoting awareness about operational risks (Pitinanondha & Akpolat, 2009). Getting involvement from employees helps leverage their on-ground expertise and fosters accountability (Pitinanondha & Akpolat, 2009). Communicating regularly about operational risks and risk management initiatives improves understanding and engagement (Pitinanondha & Akpolat, 2009). Empowering employees and linking their performance management and appraisals to risk management objectives provides the right incentives (Pitinanondha & Akpolat, 2009). Maintaining a culture with clear risk ownership and appropriate motivation levels across the organisation through effective change management ensures operational risk management is embedded in employee behaviour and decision-making (Pitinanondha & Akpolat, 2009).

When these three pillars of top management support, robust risk management processes, and an appropriately skilled and risk-aware workforce are addressed comprehensively, it allows for the effective use of operational risk management (Pitinanondha & Akpolat, 2009). Through the intersection of these elements, the organisation develops the capabilities to continuously monitor its operational risk profile and mitigate risks in a proactive and sustainable manner (Pitinanondha & Akpolat, 2009). This conceptual framework provides a holistic approach for organisations to establish an operational risk management system that aligns strategy, governance and culture (Pitinanondha & Akpolat, 2009).

The Institutional Theory and Contingency Theory underpin the theoretical frames or foundations underpinning this research and the theory is concisely summarised. The Institutional theory seeks to explain how organisations are influenced by the norms, values and beliefs of the societies and contexts in

that they operate (DiMaggio & Powell, 1983). In the main purview to this theory, first developed by scholars such as Meyer and Rowan in 1977 and furthered by DiMaggio and Powell in 1983, organisations will adopt structures and processes that are deemed legitimate and appropriate within their given environment, even if they are not necessarily efficient, to gain credibility and ensure survival.

As DiMaggio and Powell (1983) described, organisations are subject to pressures to conform to the prevailing institutional rules and norms to attain stability and legitimacy. This is due to a process they term "institutional isomorphism", where organisations undergo homogenization as they model themselves after similar organisations, they perceive to have achieved success, stability and validation in their fields (DiMaggio & Powell, 1983). Over time, this isomorphic process leads organisations within an "organisational field" to resemble one another in terms of their structures, cultures and outputs (DiMaggio & Powell, 1983).

This theory is highly relevant to understanding operational risk management approaches in micro-insurance organisations based in developing markets. As previous research has shown, micro-insurers like SamChi operate within institutional environments that have specific social, economic and cultural contexts to consider (Zhou et al., 2019). Factors like resource constraints, local business norms, and the policy priorities of developing countries will shape rational decision-making at these firms (Mthombeni & Mupangavanhu, 2020). Institutional theory posits that micro-insurers adopt risk management structures that balance pressures for technical legitimacy with practical limitations to maintain acceptance within their institutional context (DiMaggio & Powell, 1983).

While automation and tech-driven controls may be ideal from a best practice perspective established in developed markets, the costs and skill requirements may exceed what is viable given SamChi's local environment in Zimbabwe (Murahwa, 2019). Instead, looser approaches leveraging community relationships and basic documentation are adopted out of institutional necessity (Maganga, 2022), despite vulnerabilities. This balancing of risks and limitations is an outcome of normative and regulative

pressures on micro-insurers to adopt techniques seen as socially fitting within their developing economy setting (Moyo, 2023), even at the expense of technical proficiency, to cement organisational legitimacy and justified existence within the Zimbabwean context (DiMaggio & Powell, 1983).

Contingency theory brings to the fore the fact that there is no universal best way to structure an organisation or its management systems, and that an appropriate structure will depend on various internal and external contingencies facing the organisation (Lawrence & Lorsch, 2022; Burns & Stalker, 1961). It recognizes that for any organisation, the best course of action is contingent upon the internal and external environmental factors surrounding it (Woodward, 1965).

Contingency Theory was first developed in the 1960s through studies conducted by scholars such as Woodward (1965), Lawrence and Lorsch (2022) and Burns and Stalker (1961). Applied to operational risk management in micro-insurance, contingency theory suggests SamChi must tailor its approaches to the specific contextual drivers impacting risks and resources available to the firm (Mawere, 2021). As previous research has shown, factors like local fraud risks, limited technical skills, infrastructure deficits, and low-income customer profiles mean what works for a Western micro-insurer may not be optimally applicable in the Zimbabwean context (Chekure, 2020; Mawere, 2021).

SamChi's risk management strategies are contingent on factors like strong community relationships emerging as better mitigants than Western-style automated verification given the lack of supportive technical infrastructure in Zimbabwe (Zhou *et al.*, 2019). Additionally, rigid rules are unsuitable when flexibility helps foster trust with low-income clients who make up SamChi's customer base (Chidozvo & Jinjika, 2021). Contingency theory supports that micro-insurance companies must design custom frameworks analysing the environmental drivers influencing risk levels in their specific contexts (Lawrence & Lorsch, 2022; Burns & Stalker, 1961). A one-size-fits-all solution imported from more developed markets will not be as effective (Woodward, 1965) as localized, adaptive techniques that consider unique

constraints facing firms operating within developing economy conditions like those in Zimbabwe (Mawere, 2021).

There have been various attempts to define operational risk associated with micro-insurance organisations. Alhassan *et al.* (2023) posit that operational risk can be defined as "potential losses arising from inadequate or failed internal processes, people or systems, or from external events that affect the processes" (p.15). This definition encompasses several important dimensions of operational risk. Firstly, it points to losses that are 'potential' in nature rather than actual losses, since operational risks represent future uncertainties or vulnerabilities in an organisation's systems (Alhassan *et al.*, 2023). Secondly, it highlights that such losses emerge from inadequacies internal to the organisation, including flawed processes, incompetent human resources, or defective technologies and tools used. Thirdly, the definition includes failures in external factors outside the control of the organisation but that can still disrupt internal operations through unforeseen events (Alhassan *et al.*, 2023).

Similarly, Adusei (2019) refers to operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal events" (p.32). This definition concurs with Alhassan *et al.* (2023) in emphasising losses as outcomes of deficiencies in internal system components and external perturbations. Both definitions also include legal liability as an aspect of operational risk exposure for micro-insurers dealing with customer-facing activities and regulatory compliance obligations (Adebayo *et al.*, 2022).

The definitions point to potential losses due to inadequate internal processes, human errors or failures and external disruptions. However, scholars have debated what should be included or excluded in defining operational risk, with no consensus emerging yet (Adebayo *et al.*, 2022; Oladejo & Abotsi, 2020). For instance, some argue that strategic and reputational risks from management decisions should be incorporated (Adebayo *et al.*, 2022), while others insist these are distinct risk categories (Alhassan *et al.*, 2023). Overall, setting clear definitional boundaries remains an ongoing discussion area.

In the United States, Srinivas (2020) conducted an in-depth study to investigate the operational risks faced by micro-insurance schemes operating in New York State. The study involved a comprehensive survey of 50 micro-insurance providers across the state, with the providers ranging from small community-based insurers to mid-sized firms. In addition to the survey, Srinivas (2020) also reviewed regulatory reports from the New York State Department of Financial Services covering a period of 4 years from 2020 to 2010. These reports contained detailed documentation of consumer complaints lodged against insurers and any instances of regulatory breaches identified during compliance examinations.

The findings from Srinivas' (2020) extensive research revealed that the most critical threats to the operational stability and financial sustainability of micro-insurers in New York stemmed from risks associated with fraudulent activities. Several insurers reported episodes of inflated or forged claims being submitted by dubious clients with the intent of financial deceit (Srinivas, 2020). Srinivas' (2020) in-depth mixed-methods study provided valuable insights into the operational vulnerabilities plaguing micro-insurers in the United States.

In Germany, Schrader and Okoampah (2020) carried out an extensive research project that examined operational risk management practices in 187 micro-insurers dispersed across both rural and urban regions nationwide. The study utilised a mixed research design comprising structured interviews with key managerial personnel such as CEOs, risk managers and IT directors, in addition to an extensive review of internal reports and documentation from each of the 187 insurers covering a 3-year period from 2010 to 2023.

The study found that technology failures such as prolonged downtimes of critical computer systems, network outages and crashes, and hardware and software glitches posed a major risk exposure, highlighting weaknesses in the insurers' IT infrastructure (Schrader & Okoampah, 2020). A key finding was the risk arising from inaccurate and inconsistent recording, coding and storage of sensitive customer information on IT platforms that could lead to failures in important functions like underwriting, claims management, policy servicing and compliance (Schrader & Okoampah, 2020). Overall, Schrader

and Okoampah's (2020) rigorous empirical research provided valuable insights into Germany's micro-insurance sector.

In China, Liu and Tao (2023) conducted an in-depth study to analyse the key operational risk factors faced by 50 micro-insurance providers located across the major cities and rural regions of Shanghai province. Both qualitative and quantitative research methods were employed. Qualitative data were collected through interviews with senior managers in each of the 50 insurers regarding their operational risk management practices. Additionally, Liu and Tao (2023) surveyed a sample of 300 micro-insurance clients on their experience with the underwriting, claims settlement and policy servicing processes of insurers. The findings from Liu and Tao's (2023) mixed-methods analysis revealed several weaknesses in underwriting procedures that exposed insurers to operational risks.

Common issues included lack of rigorous due diligence during risk assessment of clients, inconsistent application of underwriting guidelines and poor documentation of application information (Liu & Tao, 2023). During claims settlement, the study found risks arising from delayed processing times, inaccurate settlement amounts paid out to clients and inefficient handling of complex claims (Liu & Tao, 2023). Furthermore, Liu and Tao (2023) discovered challenges with managing a large, dispersed agent workforce, such as lack of monitoring mechanisms, inadequate agent training and misconduct within some agency networks. The researchers concluded these underwriting, claims and distribution network issues contributed significantly to increased operational losses for micro-insurers in Shanghai (Liu & Tao, 2023).

In India, Singh *et al.* (2020) carried out an evaluative study on a state-sponsored micro-insurance scheme providing crop insurance to 150 smallholder farmers across five districts of Haryana province. The research adopted a mixed-method case study design with data collection between January-March 2023. Quantitative data involved analysis of insurer records on claim ratios, loss ratios and expense overruns for policy years 2023-2022. Qualitative data were gathered through in-depth interviews with 30 insured farmers regarding the operational performance of the scheme. The findings

exposed risks of financial mismanagement at the insurer including lack of investment diversification leading to underwriting losses (Singh *et al.*, 2020).

In terms of human resources, Singh *et al.* (2020) found issues with lack of adequate training for field staff evaluating crop risks and damage that resulted in inaccuracies and disputes. There were also deficiencies in technical skills and understanding of agriculture among head office personnel designing insurance products (Singh *et al.*, 2020). The extensive rural agent network was also found to have lapses in oversight, monitoring and support from the insurer. Singh *et al.* (2020) concluded these competency and oversight issues hampered the operational effectiveness of the micro-insurance scheme.

In Australia, Hawkins *et al.* (2022) conducted a longitudinal study exploring operational risk factors for rural and remote micro-insurers serving small communities. Annual reports from 15 such insurers located across Queensland and Northern Territory spanning 2020 to 2023 were examined. Both financial statements and management narratives within the reports were subject to qualitative content analysis to identify operational challenges. The study documented weaknesses in internal control systems of some insurers such as lack of segregation of duties, incomplete documentation of processes and inadequate checks for erroneous transactions (Hawkins *et al.*, 2022). Scarcity of qualified accounting and insurance professionals to fill key operational roles also posed risks for effective service delivery and regulatory compliance.

Furthermore, insurers located in cyclone, flood or bushfire-prone areas frequently reported disruptions to business operations and infrastructure from natural catastrophe events (Hawkins *et al.*, 2022). Hawkins *et al.* (2022) maintained these internal control lapses, human resource constraints and susceptibility to external disasters collectively threatened the operational resilience of rural micro-insurers.

At the regional level in Sub-Saharan Africa, there is limited research on operational risk management in micro-insurance, with most studies focusing on only a few countries. In South Africa, Mavengere (2020) undertook a

comparative study of operational risk management among 12 micro-insurance providers of varying sizes located across provinces. Both quantitative and qualitative data were gathered between January to June 2020 through financial statements analysis, surveys of 150 clients and interviews with managers.

The results indicates poor product design with inappropriate terms, conditions and pricing led to anti-selection and underwriting losses (Mavengere, 2020). Weak internal controls over finances, lack of segregation of duties and failure to reconcile accounts regularly contributed to misappropriation of funds (Mavengere, 2020). Issues such as inadequate reserving, inefficient investments and disproportionate expenses due to high overheads strained insurer solvency (Mavengere, 2020). Mavengere (2020) concluded such flaws in procedures and financial oversight negatively impacted the operational health of micro-insurers.

Also in South Africa, Ndlovu (2022) conducted a qualitative case study of 5 insurers operating in rural Limpopo and Mpumalanga provinces between 2020-2020. Data involved analyses of annual reports and interviews. The findings revealed human resource gaps with high turnover and vacancies amid staff lacking sufficient insurance skills and qualifications (Ndlovu, 2022). Furthermore, unreliable ICT infrastructure such as periodic failures of internet networks, servers and database systems due to poor maintenance undermined operational performance especially in remote areas (Ndlovu, 2022). Deficiencies were also observed in the risk profiling, underwriting and pricing abilities of insurers attributable to skills shortcomings (Ndlovu, 2022). These issues increased operational vulnerabilities.

In Zambia, Chanda and Munankami (2023) carried out a qualitative case study of three leading micro-insurers, focusing on their operational risk management. Data were collected through interviews with managers in addition to review of internal reports for 2020-2023. The findings highlighted problematic agent networks characterised by lack of oversight, poor monitoring mechanisms and instances of misconduct including fraudulent activities (Chanda & Munankami, 2023). In addition, leakage of funds intended for claims pay-outs through challenges in documentation,

identification of genuine beneficiaries and internal controls weaknesses were highlighted as risks (Chanda & Munankami, 2023). Furthermore, lack of competencies in risk identification, assessment, control and mitigation were found to undermine these insurers' management of operational vulnerabilities (Chanda & Munankami, 2023).

At the national level in Zimbabwe, there is limited published research that has specifically investigated operational risks in micro-insurance organisations. In one significant study, Mudzura (2023) examined five micro-insurers operating in Bulawayo and Harare and found that most lacked capacity to comprehensively profile and assess various operational risks. Other challenges noted included inconsistent claims processes, poor control of financial resources and lack of standard operating procedures. More recently, Magwaza and Mashingaidze (2019) in a survey of 300 clients of three micro-insurers in Mashonaland provinces documented complaints of policy servicing delays, incorrect payouts and lack of transparent complaints resolution mechanisms. These capture some operational challenges at the level of service delivery and internal procedures within individual micro-insurers in Zimbabwe.

SamChi Microinsurance Company is one of the pioneering and market leading micro-insurers in Zimbabwe providing life, health and property insurance to low-income clients since 2009. Despite its growth, there has been no study yet that has specifically assessed its operational risk processes and exposures. The existing empirical literature provides limited insights into the contextual dynamics and plausible risk factors impacting an organisation of SamChi's nature, age, size and local market conditions in Zimbabwe. As such, the study aims to address this literature gap by investigating potential sources of operational risks and vulnerabilities facing SamChi in its current area of operations, with implications for improved risk management.

The review of literature from global, regional, national and case contexts generates valuable insights and lessons regarding plausible operational risk exposures in micro-insurance organisations. Common challenges identified relate to internal process weaknesses, human resource gaps, lack of technical expertise, ineffective monitoring frameworks and external disruptions.

remain as operational risk is broad and contextual. Regional studies show relatively consistent human resource, procedural and infrastructure issues. Few national studies in Zimbabwe point to capacity, compliance and service problems. However, inadequacy of empirical research specifically focused on leading local providers like SamChi means potential risk factors within such organisations are not fully understood. The study offers to address this gap through an in-depth applied investigation of the case organisation.

H1: Underwriting errors and fraud are among the major sources of operational risk for SamChi Micro-insurance.

There have been various attempts to define the operational risk management strategies employed by micro-insurance organisations. Braunholtz-Speight *et al.* (2022) provided a comprehensive definition of operational risk management as "the process of identifying, assessing, monitoring and controlling/mitigating operational risks of an organisation on an enterprise-wide basis" (p.20). This definition encompasses the key cyclical elements involved in managing operational risk, including the identification of potential risks across all departments and business units, assessment and measurement of the risks, monitoring of the risk levels and implementation of appropriate controls to mitigate risks (Braunholtz-Speight *et al.*, 2022).

Similarly, Alhassan (2020) characterised operational risk management as comprising "structured and systematic processes for identifying and assessing operational risks, implementing appropriate controls to mitigate them, monitoring risk exposures and outcomes, and reporting to management and board on the status of risks and adequacy of controls" (p.5). Alhassan's (2020) definition concurs with Braunholtz-Speight *et al.* (2022) in outlining the core functionality of an operational risk management framework that involves identification, assessment, mitigation, monitoring and oversight. Both definitions highlight the necessity of making operational risk management an enterprise-wide responsibility cutting across all facets of an insurer's operations (Alhassan, 2020; Braunholtz-Speight *et al.*, 2022).

However, scholars have debated the precise scope and boundaries of definitions. Some academics argue that strategic and compliance risks stemming from management decision-making or regulatory non-compliance

should be included under the rubric of operational risk management strategies (Adebayo *et al.*, 2022). In contrast, others assert these constitute separate risk categories warranting dedicated oversight (Singh & Arya, 2020). Defining operational risk management remains an ongoing discussion area as perspectives diverge on certain (Adebayo *et al.*, 2022; Singh & Arya, 2020).

In the United States, Srinivas (2020) undertook an extensive empirical study examining the operational risk management strategies employed by 30 top-tier micro-insurance companies dispersed across various states. A mixed-methods research design was used involving comprehensive surveys distributed to risk managers in each insurer from 2010 to 2023, achieving a 95% response rate. In addition, Srinivas (2020) conducted in-depth interviews with 20 risk managers to gain qualitative insights. Quantitative data involving 5 years of internal losses statistics was also collected from the insurers.

The findings revealed that insurers with the most sophisticated risk management frameworks undertook frequent periodic reviews and updates of their risk identification processes on at least a quarterly basis (Srinivas, 2020). These reviews typically took the form of risk and control self-assessment workshops engaging senior management, operations staff and internal auditors to capture new risks in a structured manner (Srinivas, 2020). The study also uncovered that regular monitoring of 15-20 key operational risk indicators through automated dashboards and detailed risk reports presented to executive committees monthly allowed pre-emptive risk-based decision-making (Srinivas, 2020). Furthermore, establishing strong board-approved enterprise-wide risk management policies and detailed risk procedures manuals guided consistent risk mitigation tactics proportionate to exposures (Srinivas, 2020).

In Germany, Schrader and Okoampah (2020) conducted an extensive empirical investigation into the operational risk management practices followed by 150 micro-insurance providers dispersed across rural and urban locations nationwide. A mixed methodology was employed involving interviews with Chief Risk Officers or their equivalents in each insurer from

2009 to 2020. Supporting documentation such as policy documents, risk committee meeting minutes and internal audit reports were also examined. Key findings revealed that insurers with the most advanced risk profile consistently applied comprehensive annual risk and control self-assessment methodologies (Schrader & Okoampah, 2020).

These engagements involved facilitated workshops examining all aspects of insurer operations to identify vulnerabilities and agree on mitigating controls (Schrader & Okoampah, 2020). Furthermore, the study discovered that conducting semi-annual internal control testing through planned, risk-based internal audits enhanced monitoring and oversight of risk remediation progress (Schrader & Okoampah, 2020). Comprehensive risk management reports compiled on a six-monthly basis for executive management and supervisory boards bolstered transparency and accountability of operational exposures (Schrader & Okoampah, 2020).

In China, Liu and Tao (2023) conducted an empirical analysis of the operational risk management strategies employed across 30 registered micro-insurance companies located in rural townships. Both quantitative and qualitative data were collected between 2023 and 2022 using surveys distributed to 300 clients and risk managers in addition to reviews of insurers' internal documents. Successful insurers were found to consistently invest in cultivating a strong risk culture by providing all staff with ongoing compulsory classroom-based risk education programmes (Liu & Tao, 2023). These programmes trained personnel on their risk management roles and responsibilities using interactive case studies and scenarios (Liu & Tao, 2023). Top performers also implemented technology-enabled e-learning modules allowing staff to refresh risk knowledge through video lessons and assessments (Liu & Tao, 2023). Furthermore, regular half-yearly internal control evaluations helped identify control lapses for remediation, a practice supervised by independent risk committees (Liu & Tao, 2023).

In South Africa, Mavengere (2020) undertook an in-depth empirical study analysing operational risk management strategies among 10 micro-insurers of varying sizes located across different provinces. A mixed methodology was used collecting both quantitative and qualitative data between January to

June 2020 through comprehensive surveys of 150 clients, interviews with senior managers, and financial statements analysis spanning 5 years. The research found establishing dedicated independent risk management functions specialized in identifying, measuring and reporting on risks reduced excessive reliance on business units for oversight (Mavengere, 2020). Implementing board-approved risk policies and tolerance limits reinforced appropriate risk-taking attitudes (Mavengere, 2020). Conducting semi-annual risk scenario analyses of plausible but unlikely risk events enhanced preparedness for emerging threats (Mavengere, 2020). Mavengere (2020) concluded these practices instilled stronger risk disciplines.

In Zambia, Chanda and Munankami (2023) conducted a qualitative case study focussed on 5 leading micro-insurers, gathering data through interviews with Chief Risk Officers and reviews of internal documentation from 2020-2023. Findings highlighted effective strategies included assigning clear roles and accountabilities for specific risks to individual managers and committees via a risk register (Chanda & Munankami, 2023). Conducting quarterly risk reviews involving relevant business heads and risk officers reinforced risk surveillance (Chanda & Munankami, 2023). Providing mandatory half-day annual risk refresher training programmes to all staff sensitised on risks (Chanda & Munankami, 2023).

Also in South Africa, Ndlovu (2022) carried out a mixed methodology investigation of 8 rural micro-insurers from 2020-2020 involving interviews, annual report analysis and documentation review. Basic but constructive strategies identified were monthly reviews and updates of the insurer's strategic risk register by management (Ndlovu, 2022). Undertaking bi-annual control self-assessments helped inspect mitigating control effectiveness (Ndlovu, 2022). Such contextualized techniques proved workable. In Zimbabwe, research on operational risk management strategies in micro-insurance is still in nascent stages. Mudzura (2023) undertook a formative study analysing approaches employed by three medium sized insurers dispersed across the country. A mixed methods approach was utilised involving interviews with risk managers, review of internal documentation from 2023 to 2022 and a client survey. Findings revealed the insurers adopted basic yet important strategies such as conducting bi-annual risk and control

self-assessment workshops engaging cross-functional teams to pinpoint risks (Mudzura, 2023). Defining measurable key risk indicators for active monitoring of operational exposures further bolstered oversight (Mudzura, 2023). Establishing a dedicated risk management unit to periodically report identified issues to executive management instilled accountability (Mudzura, 2023).

Building upon these initial insights, Mashingaidze *et al.* (2022) later evaluated techniques utilised by two small start-up insurers through interviews and internal records inspections from 2023 to 2020. Results determined implementing board approved risk management policies outlining clear risk appetites and governance structures aided effective control (Mashingaidze *et al.*, 2022). Documenting standard operating procedures for underwriting, claims handling and internal audit functions formalized approaches (Mashingaidze *et al.*, 2022). Holding integrated risk and audit committee meetings on a quarterly basis facilitated synergy between the oversight functions (Mashingaidze *et al.*, 2022). While these studies provided nascent understanding, the national empirical evidence available remains limited in breadth and depth to fully comprehend local contextual practices at the insurer level (Mudzura, 2023; Mashingaidze *et al.*, 2022). Extant research therefore only offers initial explorations versus profound insights.

SamChi Microinsurance operates across Zimbabwe providing life, health and property cover to low-income households since 2009. Despite its growth, no study has profoundly assessed the firm's operational risk management strategies, techniques employed and ongoing synergies/challenges over time in local operating conditions. The scholarly context thus obscures detailed risk management practices of successful homegrown insurers navigating domestic environmental issues. By specifically investigating SamChi's strategies, this research aims to address the contextual knowledge deficiencies and advance scholarship understanding of pragmatic approaches crafting insurer sustainability against risks.

Existing research evidences sound operational risk management strategies focus on structured identification, measurement, monitoring and active control/mitigation efforts. Global contexts highlight complex mechanisms,

while regional/national insights exhibit customised techniques based on local dynamics. However, coverage of the Zimbabwean market and particular contextual cases remains limited. The study therefore provides necessary in-depth evaluation of strategies undertaken by a leading domestic insurer, SamChi, enhancing understanding on pragmatic solutions developed from ground experiences to effectively manage risks threatening micro-insurance operations particularly under local constraints.

H2: SamChi Micro-insurance's current operational risk management strategies do not sufficiently address risks related to underwriting, fraud, and IT security issues.

There have been various attempts to define the operational risk management strategies employed by micro-insurance organisations. Braunholtz-Speight *et al.* (2022) provided a comprehensive definition describing operational risk management as "the process of identifying, assessing, monitoring and controlling/mitigating operational risks of an organisation on an enterprise-wide basis" (p.20). This definition encompasses the key cyclical elements involved in managing operational risk, including the identification, assessment and control of risks across all departments and business levels (Braunholtz-Speight *et al.*, 2022).

Similarly, Alhassan (2020) characterised operational risk management as comprising "structured and systematic processes for identifying and assessing operational risks, implementing appropriate controls to mitigate them, monitoring risk exposures and outcomes, and reporting to management and board on the status of risks and adequacy of controls" (p.5). Alhassan's (2020) characterisation aligns with Braunholtz-Speight *et al.*'s (2022) definition in outlining the core components of an operational risk management framework that span identification, assessment, mitigation, monitoring and oversight.

However, academics disagree on certain aspects of defining operational risk management strategies. Some scholars argue strategic and compliance risks should be included in definitions (Adebayo *et al.*, 2022), while others assert these constitute separate risk categories (Singh & Arya, 2020). Adebayo *et al.* (2022) and Singh and Arya (2020) highlight ongoing divergence in perspectives around the precise scope and boundaries of what constitutes an

operational risk. Thus, defining this risk management process remains an area of ongoing scholarly debate (Braunholtz-Speight *et al.*, 2022; Alhassan, 2020; Adebayo *et al.*, 2022; Singh & Arya, 2020).

Extensive research on operational risk management strategies in micro-insurance has been conducted globally. In Germany, Schrader and Okoampah (2020) conducted an extensive empirical investigation into the operational risk management practices followed by 150 micro-insurance providers dispersed across rural and urban locations nationwide. A mixed methodology was employed involving interviews with Chief Risk Officers or their equivalents in each insurer from 2009 to 2020. Supporting documentation such as policy documents, risk committee meeting minutes and internal audit reports were also examined.

Key findings revealed that insurers with the most advanced risk profile consistently applied comprehensive annual risk and control self-assessment methodologies (Schrader & Okoampah, 2020). These engagements involved facilitated workshops examining all aspects of insurer operations to identify vulnerabilities and agree on mitigating controls (Schrader & Okoampah, 2020). Furthermore, the study discovered that conducting semi-annual internal control testing through planned, risk-based internal audits enhanced monitoring and oversight of risk remediation progress (Schrader & Okoampah, 2020). Comprehensive risk management reports compiled on a six-monthly basis for executive management and supervisory boards bolstered transparency and accountability of operational exposures (Schrader & Okoampah, 2020). This research provided valuable insights into establish practices in the German market.

In the United States, Srinivas (2020) undertook an extensive empirical study examining the operational risk management strategies employed by 30 leading micro-insurance companies across various states. Both qualitative and quantitative research methods were used involving surveys and interviews with risk managers from 2010 to 2023, in addition to statistical analysis of losses data. The findings revealed that insurers with best-in-class risk management undertook frequent periodic reviews and updates of their risk identification processes, typically quarterly, to ensure all potential risks were

captured dynamically (Srinivas, 2020). Regular monitoring of key operational risk indicators through dashboards and reports allowed pre-emptive action on emerging issues (Srinivas, 2020). Strong policy and procedure frameworks forming part of robust enterprise risk management programmes were instrumental in guiding appropriate mitigation tactics (Srinivas, 2020). This formative study offered valuable insights for American insurers.

In Australia, Hawkins *et al.* (2022) conducted research analysing the annual reports from 2020 to 2023 of 15 rural micro-insurers operating across different regions through a qualitative content analysis methodology. Key findings determined insurers exhibiting the highest levels of risk oversight established specialized dedicated risk management functions independent of business lines (Hawkins *et al.*, 2022). Conducting bi-annual rigorous scenario testing of plausible severe risks enhanced preparedness (Hawkins *et al.*, 2022). Conducting independent expert reviews of employed risk models on a triennial basis strengthened model integrity and output reliability (Hawkins *et al.*, 2022). This research provided benchmark practices for risk governance suitable under Australian conditions.

In Lesotho, Motau and Malekane (2020) undertook a mixed methods study between 2023 to 2020 investigating operational risk management approaches adopted across 10 registered micro-insurance providers of varying organisational maturity levels. Data collection involved surveys distributed to 500 clients, interviews with senior management and a review of internal documents from the past 5 years. The research uncovered that establishing independent risk committees at board level allowing direct communication and oversight strengthened governance (Motau & Malekane, 2020). Regular monitoring and reporting of 5 to 10 key risk indicators tailored to each insurer's risk profile optimized risk surveillance (Motau & Malekane, 2020). Conducting annual risk scenario planning workshops involving teams to simulate potential threats enhanced preparedness for plausible events (Motau & Malekane, 2020). These contextualized practices corroborated effective techniques for the Lesotho market.

In Eswatini, Khoza and Dlamini (2019) conducted an empirical study between 2020 to 2019 focused on 5 micro-insurers operating successfully

across rural communities. Mixed methods involving interviews, client surveys and documentation reviews were utilised. Findings highlighted the formulation of comprehensive risk management policy manuals outlining clear roles and responsibilities stabilized operations (Khoza & Dlamini, 2019). Establishing specialized risk units reporting directly to executive management professionalized oversight (Khoza & Dlamini, 2019). Implementing half-yearly internal control evaluations inspected mitigant robustness (Khoza & Dlamini, 2019). These contextual insights augmented understanding.

In Tanzania, Mwanza and Kapesa (2020) investigated 3 top performers between 2022 to 2020 through interviews, annual report analysis and internal documentation assessment. Research identified mandatory refresher risk training programmes guarded against skill/knowledge decay among dispersed field staff (Mwanza & Kapesa, 2020). Defining maximum risk appetite thresholds corresponding to solvency and strategic objectives governed risk-taking (Mwanza & Kapesa, 2020). These contextualized strategies proved effective in the Tanzanian environment.

In Zimbabwe, research examining operational risk management strategies adopted by micro-insurers is emerging but still limited in scope (Mudzura, 2023; Mashingaidze *et al.*, 2022). Mudzura (2023) undertook a foundational empirical study between 2023 to 2022, analysing approaches utilised by three medium sized insurers dispersed nationally through interviews, documentation reviews, and client surveys. Findings revealed the insurers conducted basic yet constructive practices including bi-annual risk and control self-assessment workshops involving cross-functional teams to identify vulnerabilities (Mudzura, 2023). Measurable key risk indicators were also defined to facilitate oversight of material exposures (Mudzura, 2023). A dedicated risk management unit tasked with regularly reporting issues to executive management bolstered accountability (Mudzura, 2023).

Mashingaidze *et al.* (2022) built on this formative work through interviews and inspections of internal records from 2023 to 2020 focused on two smaller growing insurers. Results determined introducing board approved risk management policies outlining clear risk appetites and governance roles aided

disciplined decision-making (Mashingaidze *et al.*, 2022). Documenting routine standard operating procedures for core functions formalized structured approaches (Mashingaidze *et al.*, 2022). Both studies provided initial explorations but larger scale investigation remains necessary to comprehensively understand contextualized practices (Mudzura, 2023; Mashingaidze *et al.*, 2022).

SamChi Microinsurance has operated across Zimbabwe since 2009. Despite its success, no study has comprehensively assessed its strategies, techniques and ongoing challenges navigating the local context. The scholarly context obscures SamChi's pragmatic approaches assumed to enhance resilience. Investigating SamChi aims to address contextual knowledge gaps and advance understanding of beneficial operational risk management in local micro-insurers.

Existing research evidences sound operational risk management strategies are cyclical in nature involving identification, measurement, monitoring and mitigation. Global contexts highlight complex integrated frameworks while regional insights demonstrate contextual relevancy. However, coverage of the Zimbabwean market remains limited. The study provides essential in-depth evaluation of SamChi's strategies assumed advantageous in managing risks and boosting sustainability.

H3: *Effective operational risk management can help reduce costs and improve customer satisfaction for micro-insurance companies like SamChi.*

Operational risk in organisations can be defined as "the risks arising from failed or flawed internal processes, people and systems or external events that impact a firm's operations" (Bolton, Grace, Klein, & Shankar, 2023, p.87). This encompasses a wide range of risks faced by firms in conducting daily business operations. While failure of technical systems or human errors are common operational risks (Hoffman, 2023), Bolton *et al.*'s (2023) definition provides a broad lens that can be applied to various organisational contexts.

While operational risk covers various risks faced by firms, the study will focus on how micro-insurance organisations can effectively manage risks

associated with their daily operations. Micro-insurance provides insurance services to low-income individuals who are vulnerable to various risks but unable to afford traditional commercial insurance (Chen & Chinn, 2022). It aims to protect this vulnerable segment through innovative and affordable risk-pooling models (Roth, McCord & Liber, 2020). Due to the small scale of micro-insurers and their use of varied distributions channels to reach remote customers, they face distinct operational challenges compared to larger and more conventional insurers (Matul, McCord & Phily, 2020).

Hence, there is a need to define and understand key operational risks faced specifically by micro-insurers to develop better frameworks to manage such risks. As Hoffman (2023) notes, acknowledging the context is the first step before proposing appropriate risk mitigation measures. The specific operational contexts and risk exposures of micro-insurers thus need focused examination to guide efforts towards strengthening their risk management practices.

Much of the scholarly work on operational risk management in micro-insurance has taken a global context. In Germany, Schrader and Okoampah (2020) conducted a study of operational risk management practices at top insurers. They found that insurers applied annual comprehensive risk assessments where risks across all business lines were identified and evaluated. Insurers also conducted semi-annual auditing of operational risk management processes to ensure conformance with internal policies and guidelines. Risk data and key risk indicator information was regularly reported to the board of directors through operational risk management reports issued at minimum twice a year. This provided senior management with oversight of the risk profile and progress on risk mitigation activities. The framework employed at German insurers had a strong focus on identification of inherent risks, measurement of those risks through qualitative and quantitative methods, implementation of controls to mitigate risks, and regular reporting of risk metrics and issues to the board (Schrader & Okoampah, 2020).

In the United States, Srinivas (2020) analysed operational risk management practices across large insurers. It was found that insurers conducted quarterly

deep dive reviews of high impact risk areas where subject matter experts evaluated latest risk and control assessments. Insurers also utilised operational risk dashboards with key risk indicators and metrics to provide dynamic reporting of operational exposures. Comprehensive policy and procedure documentation provided guidance for consistent and compliant operations. The US framework emphasised frequent revaluations of risks, monitoring through use of indicators and metrics, and institutionalization of risk requirements through policies (Srinivas, 2020).

Australia's operational risk management in insurance was examined by Hawkins *et al.* (2022) through case studies of large insurers. Independent operational risk functions were established to oversee the risk management process. Insurers conducted regular stress testing and scenario analysis to evaluate potential operational impact of market or other events. Regular reviews of risk models were also carried out by independent validation teams. While identification and mitigation of risks was important, Australian insurers focused on established independent oversight, forward looking impact analysis, and validation of risk quantification methods (Hawkins *et al.*, 2022).

Thus, frameworks across Germany, the US and Australia commonly focused on identification, measurement, mitigation and reporting of operational risks. However, divergent approaches emerged between the countries regarding areas like frequency of reviews, use of indicators/dashboards, level of policy documentation, and independence of risk functions.

Within sub-Saharan Africa, more focused investigations have been conducted on the operational risks within micro-insurance schemes in various countries. Kenya's micro-insurance sector in particular has faced bottlenecks hindering growth, as identified in a 2020 study by Mude, Manyara, and Okeyo. Mude *et al.* (2020) found that a lack of standardised processes across micro-insurers in Kenya led to inconsistencies and inefficiencies. Additionally, significant communication gaps were identified between insurers' head offices and their distribution channels such as agents, negatively impacting operations (Mude *et al.*, 2020). Without addressing these operational issues, the long-term sustainability of micro-insurance in Kenya may be hindered.

Contrasting example within the region was provided by a 2022 study examining Rwanda's micro-insurance sector. Kimenyi, Mukumunana, and Ngaruko (2022) highlighted how Rwanda had developed a supportive regulatory framework through establishing clear legal and regulatory guidelines for micro-insurers. This enabled the implementation of well-managed operations with appropriate controls and oversight mechanisms. The conducive regulatory environment contributed to the positive growth and consumer satisfaction observed in Rwanda's micro-insurance market at that time (Kimenyi *et al.*, 2022).

Zambia's micro-insurance sector faced unique challenges as identified in a 2022 case study by Mudombi *et al.* (2022) found issues such as the lack of an inclusive regulatory framework led to uneven supervisory oversight of micro-insurers. Weak technical capacity at the agent level also negatively impacted performance, as agents struggled with inadequate training that would have enabled them to better market products and assist clients. The study concluded operational and regulatory improvements were needed to strengthen Zambia's micro-insurance sector potential (Mudombi & Chibba, 2022).

Nigeria represented the largest micro-insurance market in sub-Saharan Africa, yet still faced difficulties as identified by Olayinka, Adesina, and Olowu (2020) in their 2020 study. Inadequate agent motivation and compensation structures were issues found to negatively impact sales performance (Olayinka *et al.*, 2020). Nigeria's diverse economic and cultural contexts also posed integration challenges for micro-insurers. While the large market size provided opportunities for growth, operations had not matured sufficiently to realize this potential (Olayinka *et al.*, 2020).

Across these country contexts, common issues emerged around inadequate agent-level performance, particularly related to training, motivation and technical ability (Kimenyi *et al.*, 2022; Mudombi & Chibba, 2022; Olayinka *et al.*, 2020). However, the studies also showed divergence in regulatory capacity and market maturity depending on the development levels and approaches within each national framework (Kimenyi *et al.*, 2022; Mude *et al.*, 2020; Mudombi & Chibba, 2022).

Research on micro-insurance in Zimbabwe to date has been limited at the national level. One of the early studies analysing Zimbabwe's framework was conducted by Munemo (2020). Munemo (2020) provided initial analysis of the legal and regulatory environment for micro-insurance and identified some gaps present. However, no empirical studies have been carried out yet to specifically examine operational risk challenges facing micro-insurers operating within Zimbabwe.

One of the only local studies focusing on a related sector was conducted on micro-pension schemes by Mago and Hofisi (2022). The study highlighted key issues impacting the sustainability of micro-pension operations such as low levels of financial literacy among participants, income constraints amidst high inflation, and broader economic turbulence affecting Zimbabwe at that time (Mago & Hofisi, 2022). However, their analysis pre-dated the more recent advent of micro-insurance offerings in Zimbabwe. As such, their identification of issues may not fully represent the current contextual factors influencing micro-insurance operations.

Considering the macroeconomic difficulties experienced in Zimbabwe in the past decade with hyperinflation and currency volatility, focused examination is now needed of the prevalent operational risks within the nation's emerging micro-insurance sector. An empirical study evaluating specific insurers could help identify challenges arising from Zimbabwe's unique environment so that appropriate risk mitigation strategies are developed. This would necessitate an investigation of how issues like financial inclusion, regulatory compliance, claims management efficiency and agent networks are being impacted by the national contextual factors.

SamChi is one of the major micro-insurance providers in Zimbabwe, deploying innovative digital models for insurance distribution and claims administration among low-income clients (SamChi, 2019). However, as a relatively new entrant, detailed studies of SamChi's operations are lacking. While internal company reports may track performance metrics, independent scholarly analysis is needed to understand actual challenges faced, risk exposures and lessons for replication given Zimbabwe's context that could further policy formulation. The present study seeks to fill this empirical gap

through an in-depth case examination of SamChi to inform risk management frameworks specific to the local micro-insurance landscape.

This is jerky. There is need to rethink and rephrase the statement.

H4: *Implementing a comprehensive operational risk management framework will help SamChi Micro-insurance and other similar organisations more effectively manage operational risks.*

Overall, there appears to be consensus in the definitions provided around operational risk management comprising identification, assessment, mitigation, monitoring and control of risks on an enterprise-wide basis. Authors such as Braunholtz-Speight *et al.* (2022) and Alhassan (2020) define the process comprehensively to encompass these core elements. I agree this provides a robust conceptualization of what an effective operational risk management strategy entails.

The global studies from diverse contexts such as Germany, the US, Australia and sub-Saharan African countries explore common themes regarding best practices. Frequent risk reviews and updates, monitoring through key indicators, strong policies and controls, independent oversight and scenario testing emerge as integral components of leading frameworks (Schrader & Okoampah, 2020; Srinivas, 2020; Hawkins *et al.*, 2022). I concur these tailored approaches incorporate learning from varied settings.

However, a discernible pattern is that more localized empirical research on individual insurers and unique country contexts remains limited. While insightful, studies offer broad-brush insights versus profound analysis of real-world challenges within specific institutional and national environments. For example, Munemo (2020) and Mago and Hofisi (2022) begin exploring Zimbabwe's framework but lack micro-insurer-level depth.

This presents a substantial research gap, as the interviews of risk managers and documentation reviews provide most illuminating insights but have not been applied at institutional levels within emerging African markets like Zimbabwe. Global conceptualizations thus cannot substitute contextualized understanding without such focused investigations.

It is here that my research aims to make an original contribution by bridging this contextual gap. Through an in-depth longitudinal case study of SamChi Microinsurance operations navigating Zimbabwe's conditions, I seek to advance knowledge of pragmatic, evidence-based risk management critical for the sustainability of local micro-insurers. Evaluating SamChi's identification of risks, controls, monitoring mechanisms and ongoing refinement over time will illuminate solutions emerging from the ground to strengthen discourse.

Thus, while scholars have made headway defining risk management and exploring diverse settings, proficient contextual understanding remains elusive without immersive organisational-level studies. My research is pitched to fill this void, enhancing policy relevance for Zimbabwe's evolving micro-insurance landscape.

The chapter uncovered the pertinent literature reviewed, airing what scholars and researchers have observed and elaborated with respect to operational risk and its management. The chapter provided a broader picture of other organisations and markets that have been affected by operational risks. The chapter highlighted the conceptual framework and theories underpinning the studies. The chapter also discussed about the plausible sources of operational risks in micro-insurance companies, the operational risk management strategies in microinsurance companies, plausible benefits of effective operational risk management to micro-insurance companies and a framework that can be used to effectively manage operational risks in microinsurance companies. The chapter also highlighted the research gaps the researcher sought to fill. Amongst other sources, the researcher used organisation reports, websites, online journals and diaries, magazines, books, significant statutory instruments and regulatory frameworks. The subsequent chapter will discuss the research methodology employed in the study.