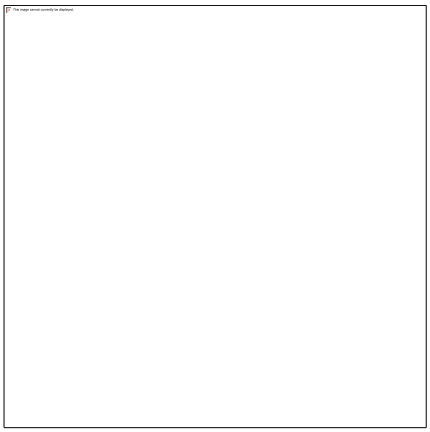
BINDURA UNIVERSITY OF SCIENCE EDUCATION



INVESTIGATING THE CAUSE OF LOAN DEFAULT. A CASE STUDY OF CELL INSURANCE'S USD14.4 MILLION OBLIGATION TO CELL MED COMPANY.

BY

(B220810B)

A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF ACCOUNTANCY (HONOURS) DEGREE OF BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

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RELEASE FORM

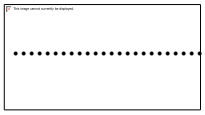
NAME OF AUTHOR : B220810B

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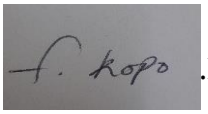
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APPROVAL FORM

The undersigned attests that they have perused and approved for acceptance by Bindura University of Science Education the research project entitled “Investigating the cause of loan default. A case study of Cell Insurance's USD14.4 Million obligation to Cell Med Company”, submitted in partial fulfilment of the requirements of the Bachelor of Accountancy Honours Degree.

To be completed by student

I attest that the preparation standards outlined in the faculty guidelines for dissertations have been met by this work.

Signature of student.  .Date: .19./.08./.2026.

To be completed by the supervisor

This dissertation is worthy of submission to the faculty. The dissertation has been reviewed and complies with faculty requirements.

Signature of supervisor.  Date: 19/08/2026

To be completed by Chairperson of the Department

To the best of my knowledge, I attest that the protocol has been adhered to and the dissertation preparation requirements have been satisfied.

Signature of Chairperson:  Date: 19/08/2026

DEDICATION

I dedicate this research paper to all those who motivated and assisted me throughout my studies. I would also like to express my appreciation to my parents, who always emphasised to me the importance of education and hard work.

ABSTRACT

This study investigated the causes of loan default at Cell Insurance Limited, with particular focus on the factors behind the company's failure to meet its USD14.4 million intercompany debt obligation to its holding company, Cell Med. The research was guided by five objectives: to determine the internal management factors contributing to loan default; to assess the financial and operational challenges constraining the company's ability to meet its obligations; to evaluate the effect of Zimbabwe's macroeconomic environment on the company's financial capacity; to assess the effectiveness of the company's existing financial management and loan monitoring strategies; and to recommend practical measures for reducing the risk of future loan default.

The study adopted a pragmatist research philosophy and a descriptive survey design, combining quantitative and qualitative data collected primarily through structured questionnaires, supplemented by documentary analysis of loan agreements, financial statements and repayment schedules. Using Slovin's formula with a 5% margin of error, a sample of 45 respondents was drawn from a target population of 50 management staff, loan officers, accounts personnel and loan clients at Cell Insurance Limited, using a combination of purposive and simple random sampling. Of the 45 questionnaires distributed, 42 were completed and returned, giving a response rate of 93%.

The findings indicate that loan default at Cell Insurance Limited was driven by a combination of internal and external factors. Internally, weak management oversight, poor cash flow management, inadequate loan monitoring and insufficient applicant evaluation were identified as the most significant contributors. Externally, high inflation, currency instability, the high cost of borrowing and foreign currency shortages, reflecting the broader macroeconomic environment in Zimbabwe, further constrained the company's capacity to service its debt. An overwhelming majority of respondents (88%) supported restructuring the company's approach to debt repayment.

The study concludes that the default was not attributable to a single cause but to the compounding effect of weak internal controls and an unstable operating environment. It recommends that Cell Insurance Limited strengthen its loan monitoring systems, improve cash flow management, renegotiate repayment terms with Cell Med, tighten financial management practices, and invest in borrower education, while pursuing

closer strategic alignment with its holding company to safeguard the group's long-term financial stability.

ACKNOWLEDGEMENTS

I would like to first thank God for guiding and strengthening me throughout this project and the entire learning process.

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CHAPTER I

INTRODUCTION

1.0 Introduction

This study examines the difficulties faced by Cell Insurance Limited in meeting its financial obligations, with specific reference to its failure to service a USD14.4 million intercompany loan owed to its holding company, Cell Med. This chapter presents the background to the study, the statement of the problem, the research objectives and questions, the significance of the study, its assumptions, delimitations and limitations, and definitions of key terms.

1.1 Background of the study

A loan default occurs when a borrower fails to meet the scheduled repayment of a debt obligation. Cash flow problems, the mismanagement of funds, rising debt levels and adverse market conditions have all been identified as contributing factors (Alade, 2020). Default not only disrupts the defaulting entity's operations but also damages its capacity to access future financing and undermines relationships with stakeholders, including lenders, regulators and business partners (Choi and Wang, 2009).

Globally, corporate default has become an increasingly common phenomenon, with emerging markets particularly exposed because of limited financial access and frequent economic shocks (Arellano, 2008). The COVID-19 pandemic further intensified this risk, prompting a wave of debt restructuring and bailout arrangements across affected economies (Van Zwieten et al., 2015).

Zimbabwe's own economic environment has compounded these global pressures. The country has experienced persistent high inflation, instability in monetary and exchange rate policy, and low levels of domestic and foreign investment, all of which have weakened business performance (Mbambi, 2024). The high cost of capital in Harare has made external borrowing prohibitively expensive for many businesses, pushing

companies toward intercompany and shareholder financing arrangements as an alternative source of funds.

The insurance sector has not been insulated from these pressures. Zimbabwean insurers, including Cell Insurance Limited, have faced chronic foreign currency shortages, declining premium collection rates and rising claims exposure. Weak alignment between holding companies and their subsidiaries, together with governance and management weaknesses, have further compounded financial distress within the sector (Luo et al., 2023). Insurance companies are additionally exposed to sector-specific pressures such as underwriting losses, reserve inadequacy and regulatory capital requirements, which can quickly erode liquidity when combined with a volatile macroeconomic environment.

Cell Insurance Limited, a Harare-based subsidiary of Cell Med, is currently in default on a USD14.4 million intercompany loan. The debt has remained outstanding for an extended period, during which the subsidiary has continued to experience declining premium income, strained cash flows and difficulty meeting its day-to-day obligations. The scale of the default, relative to the size of the subsidiary's operations, raises concerns not only for the continued viability of Cell Insurance Limited but also for the financial position of Cell Med as the guarantor of intra-group funding. It is against this background that the present study investigates the causes of the default and proposes measures that could support its resolution.

1.2 Statement of the problem

Cell Insurance Limited has failed to service its USD14.4 million intercompany loan owed to its holding company, Cell Med, for a sustained period. This default has coincided with declining premium collections, recurring cash flow shortfalls and an increasing reliance on the holding company for financial support, raising concerns over the subsidiary's operational sustainability and the wider financial exposure of the Cell Med group. The persistence of the default, despite the company's continued trading activity, suggests that the causes extend beyond a temporary liquidity shortfall and may be rooted in weaknesses in internal governance, financial controls and loan monitoring, as well as external macroeconomic pressures particular to the Zimbabwean operating environment. Despite the significance of this problem for both entities, the specific combination of internal and external factors driving the default has not been

systematically investigated. This study therefore seeks to establish the underlying causes of loan default at Cell Insurance Limited and to recommend measures for addressing them.

1.3 Research objectives

1. To identify the internal management factors contributing to loan default at Cell Insurance Limited.
2. To assess the financial and operational challenges constraining Cell Insurance Limited's ability to meet its loan obligations.
3. To evaluate the effect of Zimbabwe's macroeconomic environment on Cell Insurance Limited's financial capacity to service its debt.
4. To assess the effectiveness of Cell Insurance Limited's existing financial management and loan monitoring strategies.
5. To recommend practical measures for reducing the risk of loan default at Cell Insurance Limited.

1.4 Research questions

1. What internal management factors contribute to loan default at Cell Insurance Limited?
2. What financial and operational challenges constrain Cell Insurance Limited's ability to meet its loan obligations?
3. How does Zimbabwe's macroeconomic environment affect Cell Insurance Limited's financial capacity to service its debt?
4. How effective are Cell Insurance Limited's existing financial management and loan monitoring strategies in preventing default?
5. What measures can be recommended to reduce the risk of loan default at Cell Insurance Limited?

1.5 Significance of the study

1.5.1 Significance to the researcher

The study affords the researcher the opportunity to apply theoretical and analytical skills acquired during the Bachelor of Accountancy Honours programme to a real corporate

finance problem. It also fulfils part of the requirements for the award of the degree and deepens the researcher's understanding of corporate governance, credit risk management and financial distress in an intercompany lending context.

1.5.2 Significance to Cell Med and Cell Insurance Limited

The findings of this study provide Cell Insurance Limited and Cell Med with an evidence-based understanding of the factors driving the default on the USD14.4 million obligation. This can assist management in both entities to design targeted interventions, strengthen financial controls, and re-establish a sustainable intercompany financial relationship. The recommendations may also be of practical value to other distressed insurance subsidiaries operating within similarly constrained economic environments in Zimbabwe.

1.5.3 Significance to the insurance industry and academia

The study contributes to the limited body of literature on intercompany debt and default risk within Zimbabwe's insurance sector, complementing established theoretical perspectives such as Agency Theory and the Theory of Financial Distress. The findings may be of value to industry regulators, other insurance companies facing similar governance and liquidity challenges, and academics interested in corporate financial distress in developing economies.

1.6 Assumptions of the study

- The information provided by respondents at Cell Insurance Limited would be honest and accurate.
- Cell Insurance Limited would continue to operate as a going concern throughout the period of the research.
- The macroeconomic and business environment in Zimbabwe would remain relatively stable during the research period, without extreme changes capable of materially altering the study's findings.

1.7 Delimitation of the study

- The study is confined to Cell Insurance Limited's Harare operations, as a subsidiary of Cell Med, and does not extend to other subsidiaries within the group.

• The research focuses specifically on the USD14.4 million intercompany loan default for the period 2020 to 2025, the period during which the default arose and persisted.

• The study is limited to the financial, operational and macroeconomic factors influencing loan default, and does not examine broader corporate strategy issues unrelated to the loan obligation.

• Respondents were drawn from management staff, loan officers, accounts personnel and loan clients of Cell Insurance Limited, as these groups were considered best placed to provide relevant information on the causes of the default.

1.8 Limitations of the study

As with most academic research conducted within a live corporate environment, this study was subject to a number of limitations. Time constraints limited the depth and breadth of data collection and analysis that could be undertaken within the dissertation timeframe. Access to certain financial records was restricted by the confidential nature of intercompany loan agreements and financial statements, which limited the extent of documentary evidence available to corroborate respondents' views. Some respondents, particularly those directly involved in loan administration, may have been reluctant to disclose sensitive information for fear of professional repercussions, which could have introduced an element of response bias. Finally, budgetary constraints limited the scale of questionnaire printing and distribution. These limitations were mitigated, where possible, through the use of multiple data sources, assurances of confidentiality to respondents, and triangulation between questionnaire responses and documentary evidence.

1.9 Definition of key terms

• Loan default – the failure of a borrower to repay the full amount owed in accordance with the agreed terms of a loan.

• Intercompany loan – a financial arrangement in which a holding company advances funds to its subsidiary, or vice versa, within the same corporate group.

• Financial distress – a condition in which a firm is unable to meet its financial obligations because of insufficient cash flow.

• SMEs – small and medium-sized enterprises, defined by their relatively limited scale of operations, assets or turnover.

1.10 Chapter summary

This chapter presented an overview of the study, including the background to the research problem, the statement of the problem, the research objectives and questions, the significance of the study, and its assumptions, delimitations and limitations. The chapter established that the central concern of this research is to investigate the causes of loan default at Cell Insurance Limited, with specific reference to its USD14.4 million obligation to Cell Med. The next chapter reviews the relevant theoretical and empirical literature that informs this study.

CHAPTER II

LITERATURE REVIEW

2.0 Introduction

This chapter reviews existing literature on the causes of loan default within corporate groups, with specific reference to Cell Insurance Limited's failure to repay its USD14.4 million loan to its holding company, Cell Med. It examines the relationship between borrower behaviour, institutional governance, loan administration systems and macroeconomic conditions, and how these factors combine to affect repayment capacity.

The chapter draws on theories of corporate governance and financial distress, together with international and Zimbabwean empirical evidence on intra-group lending and risk management. According to Saunders, Müller-Bloch and Kranz (2015), a literature review enables researchers to identify gaps in existing knowledge, evaluate prior findings, and establish a conceptual basis for empirical investigation. This review accordingly explains how corporate governance failures, weak credit management, financial distress and adverse macroeconomic conditions combine to produce loan default within insurance entities.

The chapter is organised as follows. Section 2.1 presents the theoretical framework, drawing on Agency Theory, the Theory of Asymmetric Information and the Theory of Financial Distress. Section 2.2 reviews empirical studies on borrower-specific, loan-specific, institutional and macroeconomic determinants of default, as well as insurance-specific underwriting and claims performance indicators. Section 2.3 reviews prior studies of comparable lending situations. Section 2.4 presents the conceptual framework underpinning the study, and Section 2.5 identifies the research gap that justifies the present investigation.

2.1 Theoretical review

An understanding of loan default rests on a foundation of economic and financial theories that model the behaviour of borrowers and the risk assessment strategies of lenders. Three theories are of particular relevance to this study: Agency Theory, the Theory of Asymmetric Information, and the Theory of Financial Distress.

2.1.1 Agency Theory

Agency Theory, as formalised by Jensen and Meckling (1976), provides a primary lens for understanding loan default within corporate structures. The theory conceptualises the relationship between a principal, in this case Cell Med as the holding company, and an agent, Cell Insurance Limited as the subsidiary, in which the agent is expected to act in the best interests of the principal. Within intra-group lending, conflicts of interest, information asymmetry and goal incongruence may lead the subsidiary to engage in behaviour that increases the risk of default, such as pursuing high-risk activities or relaxing financial controls in the expectation that the parent company will provide financial support should problems arise. This behaviour is commonly described as moral hazard (Okamoto, 2009). Pisauro (2001) argues that the soft-budget constraint often present within corporate groups weakens a subsidiary's incentive for fiscal discipline, illustrating how group governance structures can inadvertently encourage financial recklessness.

Within the context of Cell Med and Cell Insurance Limited, Agency Theory is particularly relevant because the holding company advanced funds to its subsidiary on the expectation that they would be managed prudently and repaid as agreed. Where the subsidiary's management instead prioritises short-term objectives, personal interests or high-risk decisions, the likelihood of default increases. Panda and Leepsa (2017) note that agency problems arise from information asymmetry and conflicts of interest between principals and agents: the agent may withhold financial information, take on unnecessary risk, or fail to enforce internal controls, which weakens the parent company's ability to monitor and hold it accountable.

The theory also explains moral hazard more broadly, describing situations in which a borrower engages in riskier behaviour after receiving financial support because the consequences of failure may ultimately be borne by another party. Within corporate

groups, subsidiaries may assume that the parent will provide a financial rescue in times of distress, reducing the incentive for prudent financial management (Erens, Friedman and Mayerfeld, 2008). Admati (2017) similarly finds that weak governance structures encourage managerial opportunism and financial inefficiency, while Todeva (2005) links subsidiary default to ineffective board monitoring and poor strategic coordination within the group.

Agency Theory is not without limitations. It assumes that individuals are primarily motivated by self-interest and financial gain, and gives limited attention to social, ethical and institutional influences on behaviour. It also tends to emphasise the conflict between principal and agent while paying less attention to macroeconomic conditions such as inflation, recession and regulatory instability, which are equally relevant to the Zimbabwean context. Despite these limitations, Agency Theory remains a valuable lens for this study because it directly explains how governance weaknesses, managerial behaviour, and inadequate monitoring and control can result in loan default at Cell Insurance Limited.

2.1.2 Theory of Asymmetric Information

Akerlof's (1970) seminal work on “the market for lemons” introduced the concept of asymmetric information, which remains fundamental to the analysis of credit markets. The theory holds that one party to a transaction, typically the borrower, possesses more or better information than the other, typically the lender. This imbalance gives rise to two related problems. The first, adverse selection, arises before a loan is approved: because lenders cannot easily distinguish between low-risk and high-risk borrowers, interest rates set to compensate for average risk tend to attract disproportionately high-risk borrowers, while discouraging low-risk ones (Akerlof, 1970). In the case of Cell Insurance Limited, an incomplete assessment of the subsidiary's financial health, operational efficiency and revenue-generating capacity at the point of lending may have led Cell Med to under-estimate the true credit risk involved.

The second problem, moral hazard, arises after the loan has been advanced, when the borrower engages in riskier behaviour because it does not bear the full cost of failure. Tung (2012) shows that borrowers experiencing financial distress may divert funds, pursue speculative investments, or delay corrective action, each of which increases the likelihood of eventual default. Steijvers and Voordeckers (2009) argue that mechanisms

such as credit analysis, collateral requirements, loan covenants and regular monitoring can reduce the effects of asymmetric information on lenders, underscoring the importance of robust financial disclosure and reporting systems.

In developing economies, the challenges associated with asymmetric information are often amplified by weak accounting systems, limited corporate disclosure standards and restricted access to reliable credit information. Zimbabwe's financial sector has historically experienced weak financial transparency and limited institutional capacity, both of which increase credit risk exposure for lenders operating within corporate groups (Marimira and Gumel, 2025). The theory has clear strengths but is not without limitations: it assumes that information can generally be acquired cost-effectively, whereas in practice information acquisition may be costly, incomplete or distorted by external factors such as corruption and political and economic uncertainty. Nonetheless, the theory remains directly relevant to this study, as it demonstrates how poor information flow, weak monitoring and limited financial disclosure can undermine loan performance within corporate groups such as Cell Med and Cell Insurance Limited.

2.1.3 Theory of Financial Distress

The Theory of Financial Distress characterises a situation, distinct from outright insolvency, in which a business finds it increasingly difficult to meet its financial commitments. Minsky (2015) argues that financial distress is typically a gradual process, driven by a combination of internal inefficiencies and external shocks rather than a single, sudden event. Early warning indicators commonly include declining liquidity ratios, delayed payments to creditors, shrinking market share and increasing reliance on debt financing.

For an insurance company such as Cell Insurance Limited, financial distress may manifest as difficulty honouring claims or, as observed in this case, an inability to service intercompany debt. Weak underwriting performance, declining premium revenue and persistently negative operating cash flows are typical warning signals that precede default within the sector. From an institutional perspective, sustained losses within a subsidiary often reflect governance weaknesses at the level of the wider group rather than an isolated operational failure; a subsidiary's failure to meet its intercompany obligations can therefore be read as an indicator of insufficient supervision, inadequate

risk assessment and misaligned strategy across the group, with internal audit and board capacity closely associated with the severity of the resulting financial weakness.

The theory's principal limitation is that it describes the process of distress more comprehensively than it predicts its specific triggers, and its application to insurance-specific financial pressures, such as claims volatility and reserve adequacy, requires care. Even so, the theory is highly relevant to this study, as it provides a coherent framework for understanding how Cell Insurance Limited's failure to repay its intercompany debt may reflect a longer-term pattern of deteriorating financial and operational performance rather than a short-term liquidity event.

2.2 Empirical review

Empirical studies examining the determinants of loan default across different operating environments can be grouped into borrower-specific, institutional, macroeconomic and industry-specific factors, each of which is considered below in relation to Cell Insurance Limited.

2.2.1 Borrower-specific factors

A consistent finding across the literature is that a poor credit history, reflected in low credit scores or a record of past default, is a strong predictor of future default (Pennington-Cross, 2003), corresponding directly to the “character” component of the traditional 5Cs of credit. Similarly, low profitability, high leverage and weak liquidity ratios have been found to correlate strongly with default among small business borrowers, a group broadly comparable to Cell Insurance Limited's own client base (Hasan, 2025). Business age and size are also relevant: older, more established firms with a larger asset base tend to default less frequently, owing to greater operational experience, an established client base and stronger resilience to shocks (De Vries, Hamilton and Wenzel, 2014).

2.2.2 Institutional factors: loan default in corporate subsidiaries

There is a growing body of evidence indicating that subsidiaries of corporate groups, particularly in developing countries, face heightened default risk. Omwoyo, Farida and Ngaba (2013) found that subsidiaries in emerging markets were substantially more likely to default on intra-company loans than stand-alone firms, largely because they lack the internal capital market discipline that independent firms face from external

lenders. Similarly, an assessment of corporate groups in sub-Saharan Africa found that some groups deliberately shifted riskier operations onto subsidiaries, effectively pushing a disproportionate debt burden onto weaker entities within the group (African Development Bank, 2022). Where groups adopt strong portfolio management policies and disciplined inter-company lending practices, default rates among subsidiaries can be reduced substantially (Mirzaliyev, 2025). In Zimbabwe, however, the evidence suggests that subsidiary default has, if anything, increased, driven by hyperinflation, macroeconomic uncertainty and limited transparency in group governance structures (Plaatjie, 2025). This body of evidence points to a critical gap between what disciplined group governance can achieve internationally and the weaker, less transparent practices observed locally, a gap that is directly relevant to understanding Cell Insurance Limited's default.

2.2.3 Macroeconomic and industry-specific factors

A well-established inverse relationship exists between default rates and GDP growth: business incomes tend to decline during economic downturns, making debt servicing more difficult (Russo and Katzel, 2008). Rising interest rates similarly increase the cost of variable-rate borrowing and dampen broader economic activity, both of which raise the likelihood of default. Industry-specific shocks are also relevant for a specialised intercompany lender such as Cell Med: changes in insurance regulation, reductions in reimbursement rates, and technological obsolescence can each materially affect a subsidiary's income and its capacity to service debt (Schreyögg et al., 2009).

2.2.4 Underwriting and claims performance

For an insurance-specific case such as Cell Insurance Limited, underwriting and claims performance indicators provide additional diagnostic value beyond conventional financial ratios. Dlakama et al. (2025) describe the underwriting performance model as a statistical tool for evaluating both the profitability and the riskiness of an insurer's core business, using indicators such as the combined ratio, the loss ratio and the expense ratio. A persistently high combined ratio, above 100%, signals that a firm is not generating an underwriting profit and is a useful early warning indicator that would not necessarily be visible from historical financial statements alone (Bari, 2026). The International Association of Insurance Supervisors similarly recommends standard prudential indicators, including premium income growth, claims ratios and reserve

adequacy, as appropriate measures for assessing the financial health of regulated insurers such as Cell Insurance Limited.

2.2.5 Towards an integrated diagnostic framework

A recurring weakness identified in the literature is the reliance on siloed, reactive strategies for monitoring subsidiary performance. In the Zimbabwean context specifically, subsidiary oversight has often been described as passive and retrospective, responding to crises after they emerge rather than managing risk on an ongoing basis. This suggests the need for an integrated diagnostic approach combining operational indicators, such as underwriting audits and claims leakage monitoring, financial indicators, such as cash flow projections and liquidity stress testing, and governance indicators, such as clearly defined performance measures and independent board oversight. Buzbee (2022) proposes that parent companies should retain the authority to mandate management changes within struggling subsidiaries, directly addressing the enforceability gap that undermines otherwise sound governance frameworks.

2.3 Review of previous research

A number of prior studies of comparable lending and default situations provide useful precedent for this research. Shen and Snowden (2014) used panel data fixed-effects analysis to examine the determinants of corporate default across countries, finding that corporate governance quality and operational cash flow stability were the two dominant factors, with weak internal controls and high leverage ratios emerging as the strongest predictors of default, ahead of macroeconomic variables such as inflation. This finding underscores the primacy of internal governance failure over external shocks, a pattern that is directly relevant to the case of Cell Insurance Limited.

Abubakar et al. (2020), in a meta-analysis of more than 50 studies on early warning systems for corporate failure, found that models combining financial ratios with non-financial indicators, such as management competence and audit opinions, achieved predictive accuracy exceeding 85%. Importantly for the present study, they concluded that early warning systems need to be tailored to the specific industry, with insurers requiring particular emphasis on underwriting performance and reserve adequacy rather than generic financial ratios alone.

Other studies point to the importance of context-specific variables: research on agricultural loan default in Kenya found that borrower characteristics, farm characteristics and loan terms were significant determinants of default (Amwayi et al., 2012), while research on microfinance institutions found that group lending models and dynamic incentive structures helped to mitigate the effects of asymmetric information, highlighting lender methodology as a key variable in default outcomes (Naveen Kumar, 2012). Marco et al. (2017), in a study of Spanish banks, found that an aggressive institutional growth strategy was itself a significant driver of credit risk, as lenders relaxed credit standards to expand their loan books, a pattern that may be relevant to how Cell Med's own lending relationship with its subsidiary evolved over time.

None of these studies specifically examines intercompany lending within a Zimbabwean insurance group of the kind represented by Cell Med and Cell Insurance Limited. They nonetheless converge on a common conclusion: that a multifaceted, context-specific approach combining governance, financial and macroeconomic analysis is necessary to understand corporate default, a conclusion that directly informs the conceptual framework adopted in this study.

2.4 Conceptual framework

Drawing on the theoretical and empirical literature reviewed above, a conceptual framework was developed to guide the investigation into the causes of loan default at Cell Insurance Limited. The framework posits that the likelihood of default is a function of three interconnected categories of variables, moderated by the strength of the lender's credit assessment and monitoring policies.

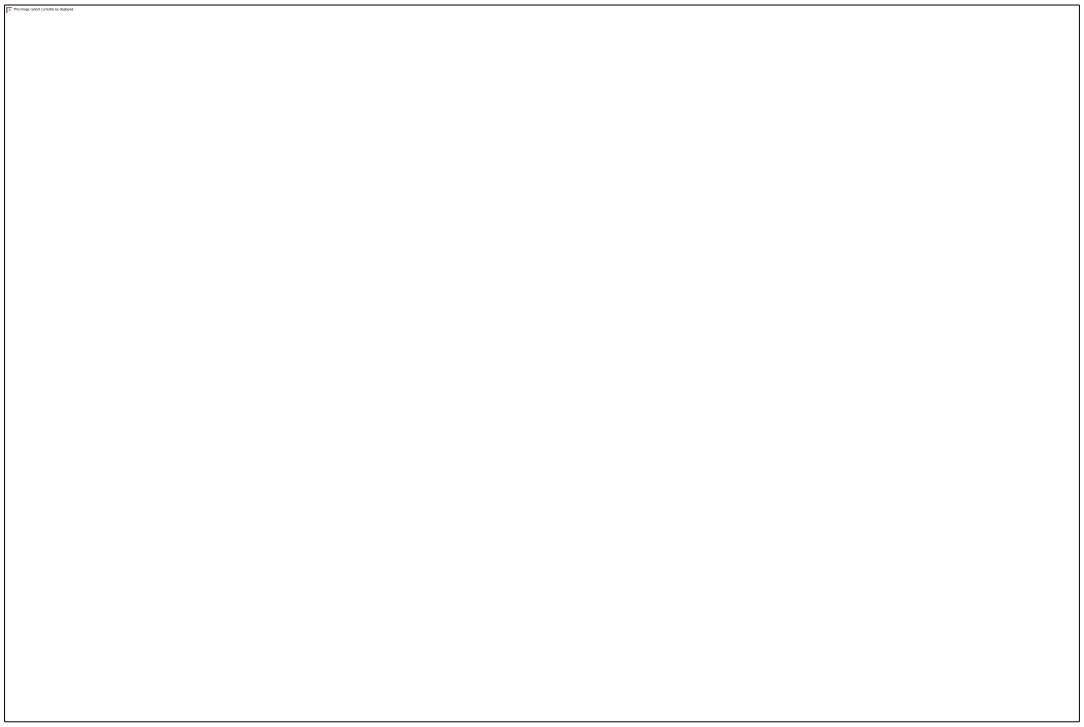


Figure 2.1: Conceptual Framework

The proposed relationships, restated here with measurable indicators to address the operational ambiguity in the original hypotheses, are as follows:

• H1: Adverse borrower-specific factors, measured through indicators such as declining premium collection rates, weak liquidity ratios and limited institutional capacity, are positively associated with a higher likelihood of loan default at Cell Insurance Limited.

• H2: Riskier loan-specific factors, measured through indicators such as the size of the debt relative to the subsidiary's asset base and the absence of a formal repayment schedule, are positively associated with a higher likelihood of loan default at Cell Insurance Limited.

• H3: Adverse macroeconomic and industry factors, measured through indicators such as the inflation rate, exchange rate volatility and insurance-sector claims trends, are positively associated with a higher likelihood of loan default at Cell Insurance Limited.

• H4: The strength of Cell Insurance Limited's credit assessment and monitoring policies, including the frequency of loan monitoring and the consistency of repayment reminders, moderates the relationship between the factors in H1 to H3

and the likelihood of default, such that stronger policies weaken the positive association between risk factors and default.

2.5 Gap analysis

The literature reviewed above demonstrates a sound understanding of the global and regional issues associated with corporate default and intra-group lending, with Agency Theory and the Theory of Financial Distress providing a solid theoretical foundation. However, a critical review of this literature in the specific context of a Zimbabwean insurance subsidiary reveals two focused gaps that this study seeks to address.

First, an integration gap exists: prior research tends to focus on individual interventions in isolation, such as early warning system models or governance reforms considered separately, rather than on a single, practical diagnostic framework that combines operational, financial and governance factors for a specific subsidiary within a holding group (Bastana et al., 2025). Second, a sectoral gap exists: the majority of empirical research on corporate default focuses on microfinance, mortgage lending and general commercial banking, with limited attention to the specific dynamics of intercompany lending within the insurance sector, where underwriting performance, claims exposure and regulatory capital requirements introduce risk drivers not captured by conventional default models.

In particular, while theories such as Agency Theory and the Theory of Asymmetric Information explain in general terms why loan default occurs, there remains limited empirical research on how the internal credit assessment and post-disbursement monitoring practices of a specific holding company, such as Cell Med, influence default risk within its own subsidiary. This study addresses that gap by examining Cell Med's internal lending and monitoring procedures as a factor shaping the loan default risk at Cell Insurance Limited, within the Zimbabwean macroeconomic context specifically.

2.6 Chapter summary

This chapter reviewed the theoretical and empirical literature relevant to understanding loan default within corporate groups, drawing on Agency Theory, the Theory of Asymmetric Information and the Theory of Financial Distress, together with empirical evidence on borrower, institutional, macroeconomic and insurance-specific determinants of default. The review found that, while the principles of sound corporate

governance and financial management are well established internationally, Zimbabwean evidence points to a recurring pattern of operational inefficiency, weak financial controls and disjointed group oversight that leaves subsidiaries such as Cell Insurance Limited vulnerable to financial distress and default on significant intercompany debt. The chapter concluded by identifying a specific gap in the literature: the absence of a customised, integrated diagnostic framework combining operational, financial and governance factors for insurance subsidiaries operating within Zimbabwe's macroeconomic environment. The next chapter presents the research methodology adopted to address this gap.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the methodology used to investigate the causes of loan default at Cell Insurance Limited. It covers the research philosophy, approach and design, the target population and sampling procedure, the research instruments used, and the procedures followed for collecting, presenting and analysing data.

3.1 Research philosophy

This study was guided by the pragmatist research philosophy. Pragmatism centres on identifying practical solutions to research problems and allows the researcher to select whichever methods best serve the study's objectives, rather than being confined to a single methodological tradition (Ormerod, 2021). This philosophy was appropriate because the research problem required both an objective analysis of loan performance statistics and a subjective understanding of management and staff perceptions of the causes of default. Pragmatism was preferred over positivism because positivism relies primarily on objective measurement and statistical testing, which alone would not adequately capture employee perceptions and management experiences of loan default (Ormerod, 2021). Guided by this philosophy, the study adopted a mixed-methods approach: quantitative data were collected through closed-ended questionnaire items to establish measurable patterns in the causes of default, while qualitative data were captured through open-ended questionnaire items that allowed respondents to describe their experiences and perceptions in their own words. This combination allowed the researcher to both quantify the extent of specific problems and understand the reasoning behind them, providing a more complete picture of the causes of loan default at Cell Insurance Limited than either approach could offer alone.

3.2 Research approach

The study adopted a predominantly deductive research approach. A deductive approach begins with existing theories and concepts, which are then tested against empirical

observations and collected data (Casula et al., 2021). This approach was appropriate because the study was guided from the outset by established theories relating to loan default, namely Agency Theory, the Theory of Asymmetric Information and the Theory of Financial Distress, from which specific, testable objectives and questions were derived before data collection began. The deductive approach enabled the researcher to establish, with reference to the study's five objectives, whether variables such as weak internal management, poor cash flow management and adverse macroeconomic conditions were associated with loan default at Cell Insurance Limited, as anticipated by the theoretical framework.

The deductive approach is consistent with the study's underlying pragmatist philosophy: while pragmatism does not require exclusive commitment to either deductive or inductive reasoning, the availability of well-established theory on loan default and financial distress made a theory-driven, deductive design the more efficient and defensible choice for this study. At the same time, the open-ended questionnaire items retained space for inductive insight, allowing themes not anticipated by the theoretical framework to emerge from respondents' own accounts, consistent with the mixed-methods orientation of the pragmatist design. According to Ormerod (2021), deductive research assists researchers in testing relationships between variables and drawing informed conclusions from the evidence collected, which is precisely the analytical task undertaken in Chapter 4.

3.3 Research design

This study adopted a descriptive survey research design, used to gather information from a group of respondents regarding their views, experiences and perceptions of a particular phenomenon, in this case, loan default at Cell Insurance Limited. This design was considered suitable because it allowed the researcher to collect data from a reasonably large number of respondents within a limited timeframe, while capturing both the extent and the underlying reasons for loan default as perceived by employees and clients involved in loan administration and repayment.

A key strength of the descriptive survey design is that it provides a clear picture of existing conditions and helps to identify relationships between variables. Its main limitation is that it cannot establish causality and is susceptible to respondent bias. Despite this limitation, the design remained appropriate for this study because

establishing statistical causality was not the primary objective; rather, the aim was to describe and explain the perceived causes of loan default in sufficient depth to inform practical recommendations.

3.4 Subjects (population and sampling)

3.4.1 Target population

The target population comprised 50 individuals at Cell Insurance Limited, drawn from management staff, loan officers, accounts personnel and loan clients who had obtained loans from the organisation. Management staff, loan officers and accounts personnel were included because of their direct institutional knowledge of Cell Insurance Limited's loan administration, financial controls and its intercompany relationship with Cell Med. Loan clients were included specifically to capture the operational, cash-flow side of the default: because premium and loan collections from clients directly affect the liquidity available to service the Cell Med obligation, client perspectives on repayment behaviour and the effectiveness of the company's collection systems provide relevant, if indirect, evidence on the causes of default. It is acknowledged, as a limitation, that loan clients would not be expected to have direct knowledge of the governance and strategic dimensions of the intercompany loan itself; this dimension of the study accordingly relies more heavily on the responses of management staff, loan officers and accounts personnel, who were purposively selected for their institutional knowledge. According to Casula et al. (2021), a target population should consist of individuals who possess information relevant to the research problem, a criterion each of the four respondent categories satisfies in a distinct but complementary way.

3.4.2 Sample size

A sample size represents the number of individuals selected from the target population to represent the population as a whole. Collecting data from the entire target population was not feasible within the time and budget available for this research. The sample size was therefore determined using the formula recommended by Asenahabi and Ikoha (2023) for descriptive survey research:

$$n = N / [1 + N(e)^2]$$

Where n is the sample size, N is the target population, and e is the margin of error.

A 5% margin of error was adopted, as it offers an appropriate balance between statistical accuracy and practical feasibility. Saunders et al. (2022) note that "a 5% margin of error is generally acceptable within descriptive survey research, as it ensures sufficiently reliable and valid data." Applying the formula to a target population of 50 gives a sample size of:

$$n = 50 / [1 + 50(0.05)^2] = 45 \text{ respondents}$$

Table 3.1: Distribution of Sample by Category of Respondents

Category of Respondents	Number of Respondents
Management Staff	8
Loan Officers	7
Accounts Personnel	12
Loan Clients	18
Total	45

3.4.3 Sampling techniques

The study used a combination of purposive and simple random sampling. Purposive sampling was used to select management staff, loan officers and accounts personnel, because these groups possess specific institutional knowledge of Cell Insurance Limited's loan system, financial controls and intercompany obligations that was essential to understanding the factors behind the default. Simple random sampling, by contrast, was used to select the sample of loan clients from the client register, giving each client an equal chance of selection and reducing the risk of selection bias within this larger, more homogeneous category. The combined use of the two techniques reflects the differing nature of the four respondent categories: purposive selection was necessary where specialised institutional knowledge was required, while random selection was appropriate where the researcher sought a broadly representative cross-section of client experience. Together, these techniques enabled the researcher to obtain data that was both relevant and reasonably representative of the target population.

3.5 Research instruments

Research instruments are the means by which data is collected from respondents. The main instruments used in this study were questionnaires and documentary analysis. Both primary and secondary sources of data were used to ensure that the information gathered was reliable and could be corroborated across sources (Ajayi, n.d.).

3.5.1 Questionnaires

Data was collected from loan clients and specific categories of Cell Insurance Limited staff using structured questionnaires, provided in full in Appendix 1. The questionnaire combined closed-ended items, which simplified analysis by allowing respondents to select from predetermined options, with a small number of open-ended items, which allowed respondents to describe the causes of loan default in their own words. This combination provided the qualitative dimension of the study's mixed-methods design, without requiring a separate interview process; because respondents were dispersed across four distinct categories and the researcher had limited access to management time, questionnaires with open-ended items offered a more practical means of capturing qualitative perspectives at scale than one-to-one interviews would have allowed. The main advantage of questionnaires as the principal instrument is that they enabled the researcher to collect data from many respondents within a limited period. To minimise the risk of unclear or incomplete responses, the researcher ensured that questions were clear, concise and directly related to the research objectives.

3.5.2 Documentation analysis

Documentation analysis was the second instrument used in this research. The researcher examined available records and written data held by Cell Insurance Limited relating to the loan and its default, including loan agreements, financial statements, repayment schedules, arrears statements, debt recovery reports, internal audit reports and correspondence records, as listed in Appendix 2. This analysis enabled the researcher to obtain objective, historical evidence to corroborate the views expressed in the questionnaires. Creswell (2014) notes that document analysis allows researchers to draw useful detail from records and reports already available within an organisation, while Curtin and Fossey (2007) argue that documentary evidence is particularly valuable because it can capture information that would be difficult to obtain through direct observation alone. By cross-validating questionnaire responses against

documentary evidence, the researcher was able to strengthen the overall validity of the study's findings. Access to sensitive financial and loan records was granted by Cell Insurance Limited's management on the condition that all information would be treated as strictly confidential and used solely for the purposes of this academic study, with no individual loan account or client identity disclosed in the resulting analysis.

3.6 Data collection procedures

Permission to conduct the research within the company was obtained from the management of Cell Insurance Limited before data collection commenced, and respondents were assured of the confidentiality of their responses at the outset.

For the questionnaire component, appointments with selected respondents were arranged by telephone and direct communication to schedule convenient times for administration. Questionnaires were administered by hand to ensure direct receipt, and the researcher explained the purpose of the study and the instructions for completion to each respondent before they began. Completed questionnaires were collected directly from respondents, which helped to achieve a high response rate, after which the data was organised and prepared for analysis.

For the documentation analysis component, the researcher was granted supervised access to the relevant financial and loan records at Cell Insurance Limited's offices. Records were reviewed on-site, and any information extracted for analysis was anonymised before being incorporated into the study, in line with the confidentiality undertaking given to the company's management. Together, these procedures ensured that data was collected systematically, ethically and within the available timeframe.

3.7 Data presentation and analysis procedures

Quantitative data obtained from closed-ended questionnaire items was analysed using descriptive statistics, specifically frequencies and percentages, computed in Microsoft Excel. The results are presented using tables, charts and graphs to make the findings easier to interpret. Responses to open-ended questionnaire items were analysed thematically: responses were read repeatedly, coded manually, and grouped into recurring themes relating to the causes of loan default, such as inadequate applicant evaluation, poor loan monitoring, cash flow difficulties and misuse of loan funds. These

themes were then used to support and contextualise the quantitative findings presented in Chapter 4.

3.8 Summary

This chapter presented the research methodology used to investigate the causes of loan default at Cell Insurance Limited. It described the study's pragmatist research philosophy, its predominantly deductive approach, and its descriptive survey design. Data was collected from a sample of 45 respondents, comprising management staff, loan officers, accounts personnel and loan clients, selected through a combination of purposive and simple random sampling. Questionnaires and documentation analysis were used as the primary research instruments, and the resulting data was analysed using descriptive statistics and thematic analysis. The next chapter presents and discusses the findings of this analysis.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter presents, analyses and discusses the data collected on the causes of loan default at Cell Insurance Limited. Its purpose is to convert the raw data gathered through questionnaires into meaningful information that addresses the research objectives and questions set out in Chapter 1. Data was collected from management staff, loan officers, accounts personnel and loan clients using structured questionnaires.

Quantitative data was analysed using frequencies and percentages to identify patterns, while responses to open-ended items were grouped into recurring themes. The findings are presented using tables, charts and explanatory discussion, organised broadly according to the study's research objectives: the response rate and respondent profile, the internal management and cash flow factors covered by Objective 1, the macroeconomic factors covered by Objective 3, and the effectiveness of existing loan monitoring and financial management practices covered by Objectives 2 and 4. The chapter concludes with a reliability assessment of the research instrument and a summary of key findings that sets up the conclusions and recommendations presented in Chapter 5.

4.1 Response Rate

Questionnaires were distributed to 45 respondents drawn from management staff, loan officers, accounts personnel and loan clients. Of these, 42 were completed and returned, giving an overall response rate of 93%. Nulty (2008) considers a response rate of 70% and above to be excellent for research of this kind, as it provides sufficient data for reliable analysis. This high response rate strengthens the credibility of the study's findings and reflects the effectiveness of administering the questionnaires by hand: as Ajayi (n.d.) notes, personal administration of questionnaires tends to increase participation rates, since respondents are able to seek clarification on questions they do not fully understand. Because the questionnaires were personally administered and their

purpose and confidentiality clearly explained, respondents were more willing to participate fully.

Table 4.1: Questionnaire Response Rate by Category of Respondents

Category of Respondents	Distributed	Responded	Response Rate
Management staff	8	7	87.5%
Loan officers	7	6	85.7%
Accounts personnel	12	11	91.7%
Loan clients	18	18	100%
Total	45	42	93.3%

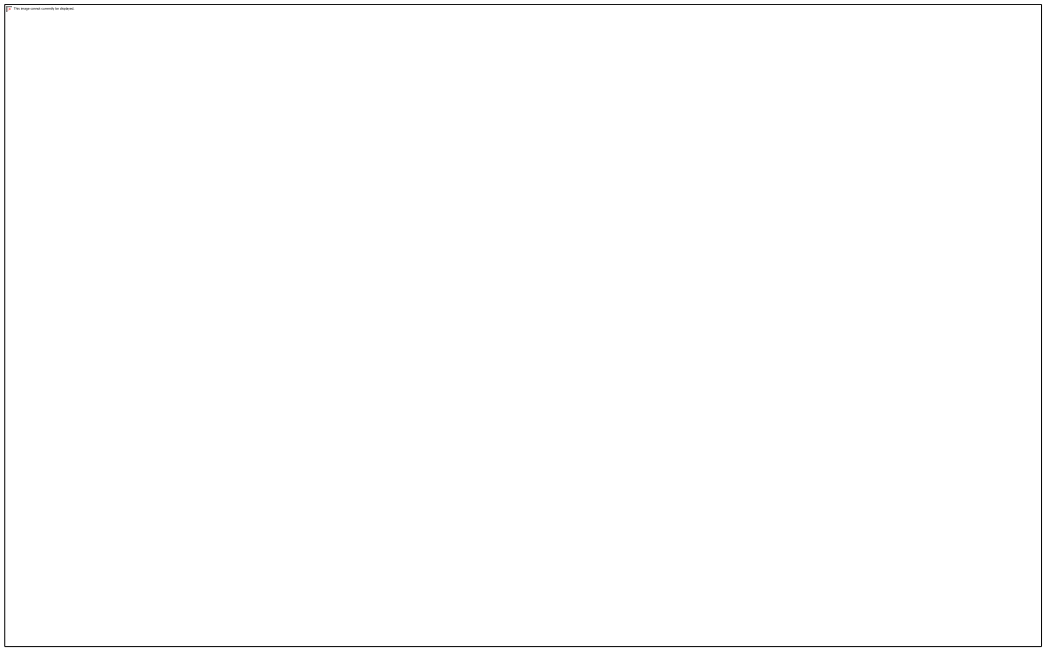


Figure 4.1: Questionnaire Response Rate by Category of Respondents

Source: Primary data (2026)

The three questionnaires that were not returned were attributable to a combination of factors, including time pressure on some respondents and, in a small number of cases, unwillingness to participate. This non-response was concentrated among management staff and loan officers, the two categories with the lowest response rates, which is consistent with the demands on these respondents' time; it does not appear to reflect a

systematic pattern that would bias the findings, given that the overall response rate remained well above the threshold considered acceptable for descriptive survey research. The 42 questionnaires retained nonetheless provided the researcher with sufficient data for meaningful analysis.

4.2.1 Extent to which poor internal management causes loan default



Figure 4.2: Respondents' views on the extent to which poor internal management causes loan default at Cell Insurance Limited

Of the 42 respondents, 21 (50%) considered poor internal management to be a moderate cause of loan default at Cell Insurance Limited, representing the largest single response category. A further 10 respondents (23.8%) considered internal management inefficiencies to be a major cause of default, citing weak decision-making, ineffective risk management and inadequate internal control systems as significant contributing factors. Seven respondents (16.7%) considered internal management to be a cause only to a small extent, while the remaining 4 respondents (9.5%) did not consider internal management to be a contributing factor at all.

Taken together, 73.8% of respondents (moderate and large extent combined) attributed at least a moderate degree of loan default to internal management weaknesses, indicating that this is a substantial, though not universally decisive, contributor to the company's difficulties. This is consistent with Wangyanwen et al. (2023), who argue that weak management structures and inefficient control systems increase operational risk and are detrimental to organisational performance. Internal management

inefficiency can accordingly be identified as one of the principal causes of loan default at Cell Insurance Limited, directly supporting the study's first research objective.

4.2.2 Difficulty managing cash flows

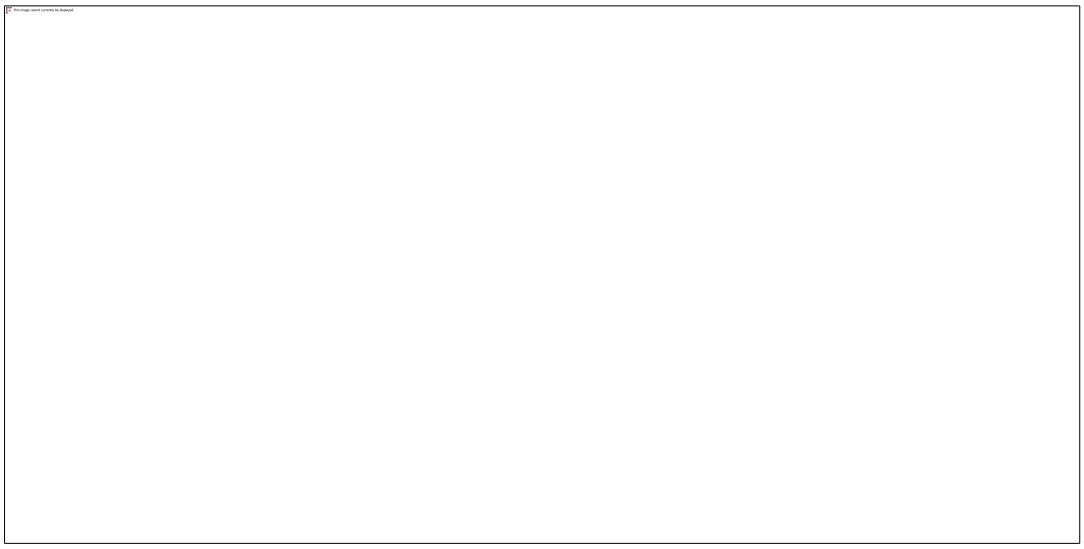


Figure 4.3: Respondents' views on whether the company has difficulty managing its cash flows

Source: Primary data (2026)

Of the 42 respondents, 19 (45.2%) indicated that Cell Insurance Limited faces significant challenges in managing its cash flows, which they associated with payment delays and broader operational difficulty. Sixteen respondents (38.1%) were unsure, which the researcher attributes to limited access to the company's financial information among some categories of staff and clients. The remaining 7 respondents (16.7%) did not consider cash flow management to be a problem, attributing the company's difficulties instead to broader economic conditions.

While respondents who indicated “Yes” were not an outright majority, they represented the largest single response category and were nearly three times the number who actively disagreed, suggesting that cash flow management is a genuine, if not universally recognised, concern. Barnabas and Oloyede (2012) note that sound cash flow management is essential if a business is to remain liquid and continue meeting its financial obligations in both the short and long term, while Nasimiyu (2024) argues that poor cash flow management is itself a driver of financial distress, rising debt levels and payment default. Read together with the findings in Section 4.2.1, this suggests that

cash flow management difficulties at Cell Insurance Limited are linked to, and may in part be a consequence of, the broader internal management weaknesses identified above, and are contributing to the company's difficulty in servicing its obligation to Cell Med.

4.2.3 Macroeconomic factors affecting debt repayment

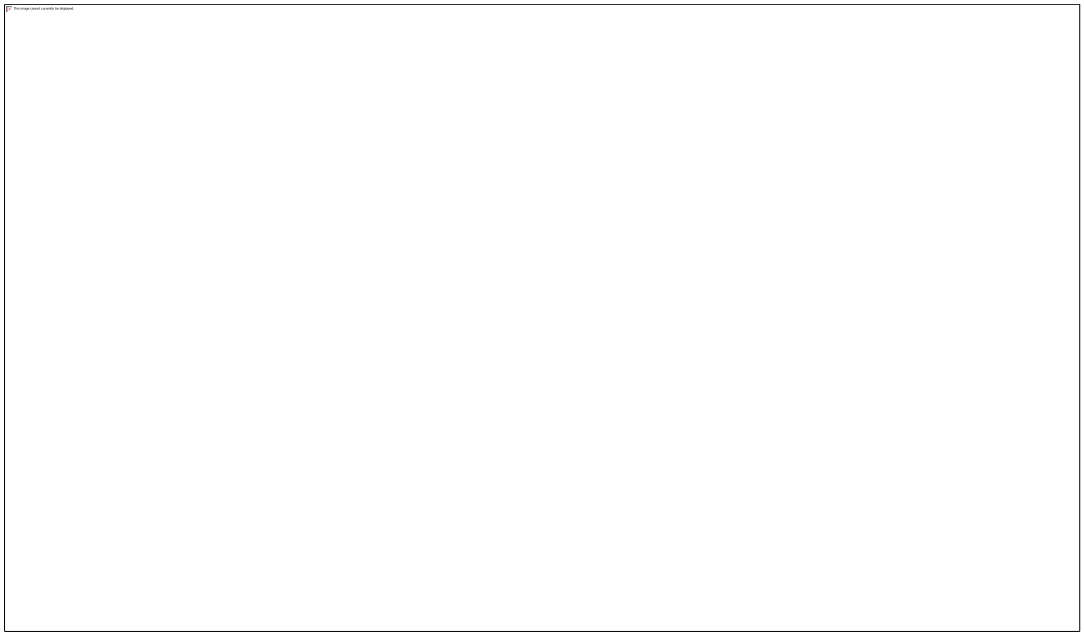


Figure 4.4: Respondents' views on macroeconomic factors affecting Cell Insurance Limited's ability to repay its debts

Source: Primary data (2026)

Respondents were asked to identify the macroeconomic factor with the greatest effect on Cell Insurance Limited's ability to repay its debts. Of the 42 respondents, high inflation was identified as the most significant factor by 19 respondents (45.2%). Aleke (2024) explains that high inflation distorts financial planning, erodes purchasing power and negatively affects business liquidity and debt-servicing capacity, which is consistent with this finding. Currency instability was identified as the most significant factor by 11 respondents (26.2%); Côté (2008) notes that exchange rate volatility creates uncertainty in business operations and significantly affects firms whose obligations are tied to unstable currencies, as is the case with Cell Insurance Limited's USD-denominated debt.

The high cost of borrowing was identified as the most significant factor by 8 respondents (19.0%). Turner (2014) argues that high interest rates increase financial

risk and weaken an organisation's ability to sustain operations and meet long-term obligations. Foreign currency shortages were identified as the most significant factor by the remaining 4 respondents (9.5%); although ranked lowest of the four factors, this still indicates a meaningful negative effect on the organisation, particularly given that foreign currency shortages can delay international and cross-border payments. In the context of Zimbabwe and similar developing economies, such shortages often result in delayed payments, increased transaction costs and reduced investor confidence (Dzirove, 2017). For clarity, each of the percentages reported in this section represents the proportion of the 42 respondents who identified that factor as the single most significant macroeconomic constraint on repayment, rather than the proportion selecting that factor among multiple possible responses.

4.2.4 Priority steps to improve the company's finances



Figure 4.5: Respondents' views on the steps management should prioritise to improve the company's finances

Source: Primary data (2026)

Respondents were asked, in a question permitting selection of more than one option, to identify the steps management should prioritise to improve the company's financial position. Of the 42 respondents, 21 (50%) identified improved premium collection as

the most important step, making it the leading priority identified in the study. Rosaly and Wachira (2018) note that strong revenue collection systems, prudent financial control and strategic coordination are critical determinants of organisational financial sustainability, which supports the emphasis respondents placed on this measure. The findings indicate a need for the company to strengthen its debt collection systems, enforce payment deadlines more consistently, and follow up proactively with clients in order to improve its financial stability.

Eight respondents (19.0%) identified reduced reliance on internal group funding as a priority. Barbera (2015) argues that organisations which depend heavily on external or intra-group funding face a heightened risk of financial distress, while RizkaAr Rahmah and Fred Ojochide Peter (2024) note that sound financial management is key to ensuring liquidity, reducing unnecessary expenditure and ensuring that funds are used appropriately. A further 8 respondents (19.0%) identified stricter management of internal funds as a priority, a closely related but distinct measure focused on internal budgetary discipline rather than the source of funding itself. Four respondents (9.5%) identified better strategic alignment with the holding company's goals as the priority; Choudhury et al. (2015) note that strategic alignment between subsidiaries and parent companies is important because it ensures that financial objectives, operational priorities and long-term business strategies complement one another. The remaining respondent (2.4%) identified other measures not captured by the predefined categories, most commonly referencing staff training and improved communication with Cell Med.

Taken together, these findings suggest that respondents view the causes of Cell Insurance Limited's financial difficulty as concentrated primarily on the revenue and internal control side of the business, with 88% of respondents identifying either improved premium collection or tighter internal financial discipline as the priority, rather than on the company's strategic relationship with its holding company.

4.2.5 Length of engagement with Cell Insurance Limited's loan system

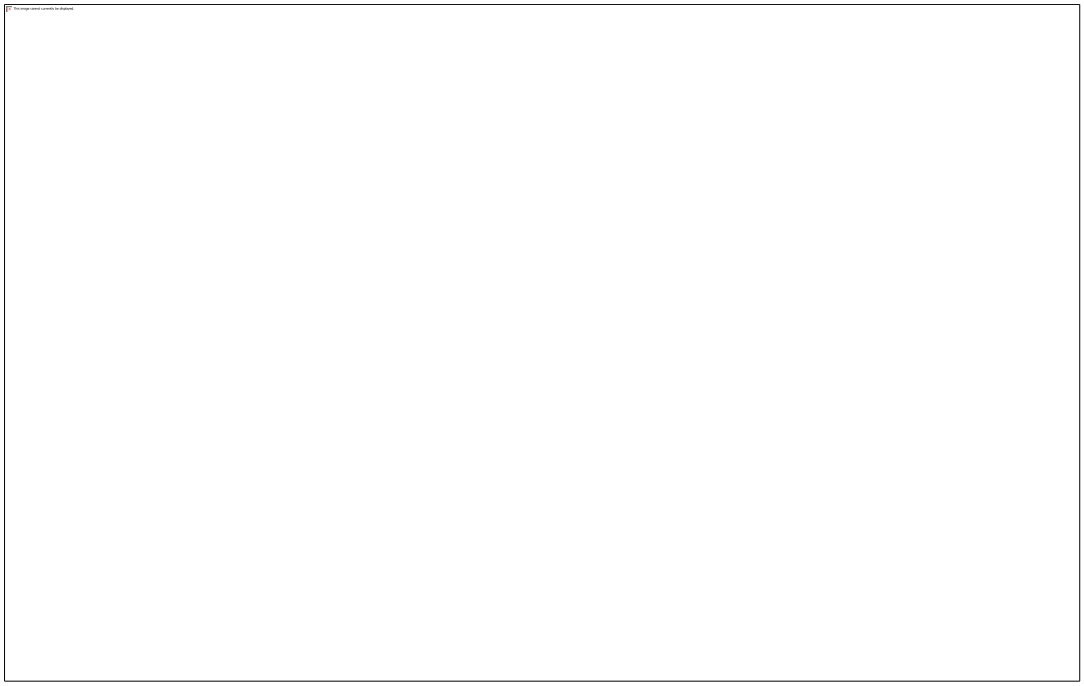


Figure 4.6: Respondents' length of engagement with Cell Insurance Limited's loan system

Source: Primary data (2026)

Respondents were asked how long they had been engaging with Cell Insurance Limited's loan system, as a proxy for the depth of their familiarity with its operation. Of the 42 respondents, 17 (40.5%) had been engaging with the system for less than one year, indicating that a substantial proportion of respondents were relatively new to it. Nguta, Guyo and Huka (2013) note that newer clients may face particular challenges in fully understanding loan repayment terms, conditions and procedures, which can increase the risk of repayment difficulty where adequate guidance is not provided; this is a relevant consideration given that this group represents the largest single category of respondents.

A further 15 respondents (35.7%) had between one and three years of engagement, indicating a medium-term relationship with the company; Tomasic and Akinbami (n.d.) note that longer-term relationships between borrowers and financial institutions tend to improve trust, repayment discipline and financial transparency. Eight respondents (19.0%) had between three and five years of engagement, and the remaining 2 respondents (4.8%) had more than five years of engagement, with Allan (2018)

highlighting that long-term client relationships of this kind are important indicators of stability and confidence in a financial institution. Taken together, these findings point to the importance of stronger borrower education and communication, particularly for the 40.5% of respondents with less than a year of engagement, as a means of improving borrowers' understanding of repayment obligations and reducing the risk of future default.

4.2.6 Support for changing the company's debt repayment approach



Figure 4.7: Respondents' views on whether the company needs to change its approach to repaying its USD14.4 million debt

Source: Primary data (2026)

Respondents were asked whether Cell Insurance Limited needed to change its approach to repaying its USD14.4 million debt in order to remain in business. Of the 42 respondents, 30 (71.4%) agreed that a change in approach, such as debt restructuring, was necessary, and a further 7 (16.7%) strongly agreed, meaning that 88.1% of respondents supported some form of change to the current repayment strategy. Only 4 respondents (9.5%) disagreed and 1 respondent (2.4%) strongly disagreed, indicating that very few respondents considered the current approach to be adequate.

This overwhelming level of support for change indicates that the current repayment strategy is placing considerable pressure on the company's liquidity and cash flow

position. High debt obligations of this kind can negatively affect an organisation's ability to finance day-to-day operations, invest in growth, and meet short-term commitments (African Journal of Commercial Studies, 2023). Companies facing comparable levels of debt typically pursue restructuring strategies such as extending repayment terms, reducing interest rates, improving cash flow management, or converting short-term debt into long-term debt (Moridu and Abidin, n.d.). Where Cell Insurance Limited adopts a revised approach to repayment, it can expect improved liquidity, a reduced financial burden and a greater likelihood of long-term viability; conversely, Guluma (2021) cautions that excessive, unmanaged leverage can also erode investor confidence and adversely affect company performance. These findings support the study's fifth objective by pointing directly toward debt renegotiation as a central component of any recommended solution.

4.2.7 Poor loan monitoring

Table 4.2: Respondents' Ratings on Loan Monitoring

Statement	Mean Score (out of 5)
Loans are regularly monitored and tracked	2.20
Loan repayment reminders are consistently sent	2.15
Clients are educated on repayment procedures	2.35
Delays in monitoring contribute to defaults	4.25

The results indicate that Cell Insurance Limited's loan monitoring practices are perceived as weak: mean scores for the regularity of loan monitoring (2.20), the consistency of repayment reminders (2.15) and the extent of borrower education on repayment procedures (2.35) all fall below the midpoint of the five-point scale used, indicating dissatisfaction with current practice in each of these areas.

By contrast, there was strong agreement, with a mean score of 4.25, that delays in loan monitoring directly contribute to default. Read together, these findings indicate a clear causal narrative: because loans are not tracked closely and reminders are not consistently issued, clients do not receive timely support or notice before falling behind on repayments, and this weak monitoring is, in the view of respondents, a material

contributor to default. Investment in improved monitoring tools, such as digital tracking systems and automated repayment reminders, would be expected to meaningfully improve repayment outcomes, directly addressing the study's fourth objective concerning the effectiveness of existing loan monitoring practices.

4.3 Reliability Examination

The reliability of the research instrument was assessed using Cronbach's Alpha, which measures the internal consistency of a set of questionnaire items. Cronbach's Alpha was computed across the full set of closed-ended Likert-type items in the questionnaire, covering internal management, cash flow management, macroeconomic factors and loan monitoring, rather than for each construct individually, given the moderate sample size involved. The computed coefficient of 0.712 exceeds the generally accepted threshold of 0.7 for social science research, indicating that the items included in the questionnaire measured the underlying constructs with an acceptable and consistent degree of reliability. This provides confidence that the findings presented in this chapter are not unduly affected by measurement error and can reasonably support the conclusions and recommendations developed in Chapter 5.

4.4 Summary of Key Findings

This chapter presented the findings of the study on the causes of loan default at Cell Insurance Limited, based on a 93% response rate that supports the reliability of the data collected. The findings indicate that both internal management weaknesses and external economic conditions are contributing to the company's inability to repay its USD14.4 million intercompany debt to Cell Med.

Poor internal management emerged as a major cause of default, with weak monitoring systems, inadequate financial controls and ineffective decision-making identified by respondents as key concerns; a related cash flow management problem was similarly identified as a significant contributor to the company's difficulties. Among external factors, high inflation was identified as the most significant macroeconomic constraint, followed by currency instability, the high cost of borrowing and foreign currency shortages. An overwhelming majority of respondents supported changing the company's approach to debt repayment, and loan monitoring practices were consistently rated as weak. These findings, addressing each of the study's first four objectives,

provide the evidentiary basis for the conclusions and recommendations presented in the next chapter.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of the study's findings, draws conclusions in relation to the research objectives, and sets out recommendations aimed at addressing the causes of loan default at Cell Insurance Limited. The findings from Chapter 4 are related back to the research objectives established in Chapter 1 and to the literature reviewed in Chapter 2. The chapter's central purpose is to provide practical, evidence-based guidance to help Cell Insurance Limited improve its financial performance, reduce the risk of future default, and strengthen its ability to meet its obligation to Cell Med.

5.1 Summary of the study

The purpose of this study was to investigate the causes of loan default at Cell Insurance Limited and to identify the major factors contributing to the organisation's failure to meet its USD14.4 million debt obligation to Cell Med. The study also examined the effectiveness of internal management systems, financial practices and strategic cooperation between the two entities.

The study was guided by five objectives: to identify the internal management factors contributing to default; to assess the financial and operational challenges constraining repayment; to evaluate the effect of Zimbabwe's macroeconomic environment on the company's financial capacity; to assess the effectiveness of existing loan monitoring and financial management strategies; and to recommend practical measures for reducing default risk.

Data was collected using questionnaires administered to 45 selected respondents comprising management staff, loan officers, accounts personnel and loan clients. Of the 45 questionnaires distributed, 42 were returned, giving a response rate of 93%, which Nulty (2008) considers excellent for research of this kind and which accordingly supports confidence in the study's findings. Quantitative data was analysed using

descriptive statistics, while qualitative data from open-ended items was grouped into themes, with both presented using tables, figures and explanatory discussion.

In relation to Objective 1, the findings showed that poor internal management, weak monitoring and inadequate financial controls were significant contributors to default. In relation to Objective 2, the study found that cash flow management challenges and the misuse of loan funds for purposes other than income-generating activity were compounding the company's repayment difficulties. In relation to Objective 3, high inflation, currency instability, the high cost of borrowing and foreign currency shortages were identified as the principal macroeconomic constraints on repayment. In relation to Objective 4, existing loan monitoring practices were rated poorly by respondents, particularly regarding the consistency of repayment reminders and borrower education. Finally, in relation to Objective 5, respondents strongly supported measures such as improving premium collection, reducing reliance on internal group funding, tightening financial management and renegotiating repayment terms with Cell Med.

5.2 Summary of Major Findings

5.2.1 Poor internal management

The findings show that poor internal management is one of the principal causes of loan default at Cell Insurance Limited, with 73.8% of respondents attributing at least a moderate degree of default to management weaknesses. Weak monitoring, slow decision-making and inadequate financial controls were identified as making it more difficult for the company to meet its repayment obligations. These findings are consistent with Nguta, Guyo and Huka (2013), who argue that organisations with weak management structures tend to experience unstable finances and heightened risk exposure. Strengthening management efficiency and organisational discipline is therefore central to resolving the company's loan default problem.

5.2.2 Cash flow management challenges

Cash flow management was identified as one of the most pressing issues facing Cell Insurance Limited, with 45.2% of respondents confirming that the organisation faces significant challenges in this area. Weak cash flow management contributes to late payments and an increased reliance on external and intercompany borrowing, reducing overall business stability. Nasimiyu (2024) confirms that effective cash flow

management is essential to an organisation's capacity to meet both its short-term and long-term obligations, and that failure to manage liquidity effectively increases financial distress, directly relevant to Cell Insurance Limited's difficulty in servicing its debt to Cell Med.

5.2.3 Macroeconomic factors

External economic conditions were found to be a significant contributor to Cell Insurance Limited's difficulty in repaying its debt, with high inflation identified as the most significant factor (45.2%), followed by currency instability (26.2%), the high cost of borrowing (19.0%) and foreign currency shortages (9.5%). Dzirove (2017) notes that an unstable inflationary environment reduces business profitability and undermines debt repayment capacity, while Nguta, Guyo and Huka (2013) similarly observe that exchange rate instability generates considerable operational uncertainty. Cell Insurance Limited, along with other Zimbabwean companies operating under comparable conditions, is therefore likely to continue facing macroeconomic instability as one of its most significant ongoing challenges.

5.2.4 Poor loan monitoring

The analysis found that Cell Insurance Limited's loan monitoring systems are not well designed or effectively implemented. Staff indicated that repayments are not checked closely on a regular basis, that reminders are not consistently issued to borrowers, and that limited support is offered regarding repayment strategy. This inadequate follow-up appears to be directly associated with rising defaults, consistent with Moulton et al. (2020), who find that efficient monitoring systems help detect delinquent payments at an early stage and thereby help to control loan default. Cell Insurance Limited should accordingly invest in an improved loan monitoring system, incorporating digital tracking, systematic follow-up and automated reminders, to maintain closer control over loan repayment.

5.2.5 Inadequate applicant evaluation

The organisation was also found to have weaknesses in its loan approval process, with respondents indicating that background checks, assessments of repayment ability and risk analysis were often insufficient before loans were granted. DeYoung et al. (n.d.) note that accurately assessing the credit risk associated with an applicant is essential to

an effective loan origination process, as it enables financial institutions to screen out high-risk borrowers before loans are disbursed, reducing the likelihood of future default.

5.3 Conclusions

This study concludes that loan default at Cell Insurance Limited on its USD14.4 million obligation to Cell Med was caused by a combination of internal and external factors, rather than any single cause. Internally, weak management practices, inefficient internal controls, ineffective loan monitoring and a slow decision-making process contributed to difficulties in managing loans and responding promptly to emerging problems, compounded by weaknesses in cash flow management that placed further pressure on the organisation. Externally, Zimbabwe's unstable macroeconomic conditions, particularly high inflation, exchange rate volatility and rising borrowing costs, made it materially more difficult for the company to service its debt. Weaknesses in loan origination and monitoring processes further contributed to default, with loans disbursed without adequate evaluation and repayment inconsistently tracked thereafter. Finally, the study concludes that the strategic relationship between Cell Med and Cell Insurance Limited requires improvement, particularly in respect of communication, financial planning and strategic integration between the two entities, in order to place their intercompany financial relationship on a more sustainable footing.

5.4 Recommendations

Based on the findings of this study, the following measures are recommended to Cell Insurance Limited:

5.4.1 Strengthen loan monitoring systems

Cell Insurance Limited should invest in digital loan tracking systems and automated repayment reminders, supported by regular follow-up from loan officers with every borrower. Ensuring that identified problems are addressed promptly would help to reduce default rates across the loan portfolio and support earlier identification of at-risk accounts.

5.4.2 Improve cash flow management

The organisation's cash flow management systems should be strengthened through regular cash flow forecasting and stricter monitoring of inflows and outflows. Timely

collection of premiums and tighter management of receivables would support more consistent revenue generation and improve overall cash holding.

5.4.3 Renegotiate debt repayment terms

Cell Insurance Limited should engage Cell Med to negotiate revised repayment terms for the USD14.4 million debt. Extending repayment periods or converting short-term obligations into longer-term debt would ease immediate liquidity pressure and support the company's financial recovery.

5.4.4 Improve financial management practices

Management should strengthen internal controls and budgeting processes to ensure that funds are used efficiently, and should review the company's financial performance on a more frequent basis so that emerging problems can be identified and addressed promptly.

5.4.5 Provide borrower education

Cell Insurance Limited should offer financial literacy training to loan beneficiaries, covering budgeting, loan terms and repayment obligations. This is likely to be particularly valuable given that 40.5% of surveyed clients had been engaging with the loan system for less than a year, and such a programme could improve understanding of productive loan use and strengthen repayment discipline.

5.4.6 Offer flexible repayment options

Given Zimbabwe's volatile economic environment, the organisation should consider offering flexible repayment alternatives, such as extended payment periods or grace periods during periods of financial hardship, to reduce the likelihood of client default and support closer collaboration between Cell Insurance Limited and Cell Med.

5.5 Areas for Further Research

This study offers meaningful insight into the causes of loan default at Cell Insurance Limited, but further research would help to deepen understanding of the issue. In particular, future studies could examine the relationship between interest rate movements and loan repayment behaviour in more detail, or investigate the role that social norms and borrower habits play in shaping repayment behaviour. Comparative

studies involving other institutions could also provide useful benchmarks for best practice in loan management and default reduction. Specific areas recommended for future research include:

1. The impact of digital financial systems on loan monitoring and repayment behaviour.
2. The effect of financial literacy on borrowers' repayment performance.
3. The effects of economic fluctuations on insurance and financial institutions in Zimbabwe.
4. The impact of corporate governance on loan default within intercompany lending arrangements.
5. Debt recovery measures employed by financial institutions in distressed economic environments.

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APPENDIX 1

Research Questionnaire: Investigating Loan Default at Cell Insurance Limited

SECTION A: DEMOGRAPHIC INFORMATION

1. Category of Respondent:

- Management Staff
- Loan Officer
- Accounts Personnel
- Loan Client

2. How long have you been engaging with Cell Insurance Limited's loan system?

- Less than 1 year
- 1–3 years
- 3–5 years
- Over 5 years

SECTION B: INTERNAL MANAGEMENT AND STRATEGIC ALIGNMENT

3. To what extent do you think poor internal management is causing loan default at Cell Insurance Limited?

- Not at all
- To a small extent
- To a moderate extent
- To a large extent

4. How well do Cell Med and its subsidiary, Cell Insurance Limited, work together on strategy?

- Very Poor
- Poor
- Neutral
- Good

- Very Good

5. Do you think the company has had difficulty managing its cash flows?

- Yes
- No
- Unsure

6. How effective are the current financial management practices at preventing loan default?

- Highly Ineffective
- Ineffective
- Effective
- Highly Effective

SECTION C: MACROECONOMIC FACTORS AFFECTING LOAN REPAYMENT

7. Which of the following macroeconomic factors has the greatest effect on Cell Insurance Limited's ability to repay its debt?

- Currency Instability
- High Inflation
- Foreign Currency Shortages
- High Cost of Borrowing

8. How has the low premium collection rate in the insurance sector affected the company's liquidity?

- No Impact
- Minor Impact
- Significant Impact
- Severe Impact

SECTION D: POSSIBLE SOLUTIONS AND RECOMMENDATIONS

9. Do you think the company needs to change its approach to repaying its USD14.4 million debt in order to remain in business?

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree

10. What steps should management prioritise to improve the company's finances? (Select all that apply)

- Improved premium collection strategies
- Reducing reliance on internal group funding
- Stricter management of internal funds
- Better alignment with holding company goals
- Other (please specify)

SECTION E: OPEN-ENDED FEEDBACK

11. In your opinion, what is the single greatest challenge preventing Cell Insurance Limited from meeting its USD14.4 million obligation to Cell Med?

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APPENDIX 2

Documentation Analysis Checklist

- Loan Agreements
- Financial Statements
- Repayment Schedules
- Debt Recovery Reports
- Internal Audit Reports
- Correspondence Letters

