INSURANCE EMPLOYEES PERCEPTION ON THE CHALLENGES AFFECTING PERFORMANCE OF INSURANCE COMPANIES IN KENYA

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DECLARATION

This research project is my original work and has not been submitted for an award of a degree in any other university.

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This research project has been presented for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this work to my Mother Patricia Otedo (Nyathiambo) for the support and encouragement she offered me during my entire academic life. Her unconditional Sacrifices and unwavering prayer has been of great inspiration in my life. Tribute to my late step mother Anjelina Otedo, her love for education has been the force behind my studies. The support, prayer and encouragement she gave me in my childhood played a significant role in my academic life

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ACRONYMS AND ABREVIATIONS

IRA	-	Insurance Regulatory Authority.
AKI	-	Association of Kenyan Insurers.
IAIS	-	International Association of Insurance supervisors.
COMESA	-	Common Market for Eastern and Southern Africa.
CAPM	-	Capital Asset Pricing Model.
MIP	-	Medical Insurance Providers.
SAGA	-	Semi-Autonomous Government Agency.
EAC	-	East Africa Community.
SADC	-	Southern Africa Development Community
ROA	-	Return on Assets.
GIMAR	-	Global Insurance Market Report.
GDP	-	Gross Domestic Product.
CIMA	-	Chartered Institute of Management Accounts.
SPSS	-	Statistical Package for Social Sciences.
PWC	-	Price Waterhouse Coopers
IIA	-	Institute of Internal Auditors
IIROC	-	Investment Industry Regulatory Organization of Canada.
CBR	-	Central Bank Rate

ABSTRACT

The objective of this study was to determine the challenges affecting the performance of insurance companies in Kenya. The study used a descriptive survey approach in collecting data from the respondents. A questionnaire was used as primary data collection instruments. Descriptive statistics such as means, standard deviation and frequency distribution was used to analyse the data. Qualitative data was analysed using content analysis. The study concluded that fraud, inadequate skilled human resource, cybersecurity risk and inflation are the major challenges affecting performance of insurance companies in Kenya with fraud largely affect composite and general insurance as compared to life insurance. This study also concluded that lack of innovation, inadequate access to information technology and ineffective marketing strategy moderately affect the performance of insurance companies in Kenya. Amendment of banking act regulating interest rate charged by commercial bank has largely affected the performance of life insurance companies as compared to composite and general insurance companies. The study recommends that IRA should formulate policies that aim at making colleges offering insurance training accessible to all parts of the country to deal with shortage of trained human resource in this field. In addition, IRA should also collaborate with ministry of education especially the department of curriculum development to ensure that insurance studies is incorporate in high school syllabus. The management of insurance companies should develop strategies that are directed towards penetrating other regions in Africa. Besides this, the companies should also be involved in a vigorous product differentiation as a strategy to make them more competitive in the eyes of competitors. IRA and insurance companies should carry out public campaign against fraud to promote public understanding on the demerits of fraud and how it can be avoided. Besides antifraud training by the insurance companies, there should be network that ensures a due diligence is carried out before one is hired to some sensitive areas of the companies such as audit, claims and risk management department. Human resource management should also develop some strategies that enhance staff retention such as continuous evaluation of performance and compensation program.

CHAPTER ONE: INTRODUCTION

1.0 Background of the study

Analoui (2007) defined perception as an act of being aware of one's environment through physical sensation which denotes individual's ability to understand. It's ultimately influenced by individual's approach. This means that an individual's attitude defines his or her interests. Different scholars have given diverse meaning and offered a range of model for measuring and analyzing performance. Kasturi (2002) defined performance of an organization as "the outcome of activities of individuals and units of the organization". Lebans&Euske (2006) "gave a definition of performance as doing today what will result to measured value outcomes tomorrow". "Company Performance is a set of financial and nonfinancial indicators which offer information on the degree of achievement of objectives and results" (Lebans&Euske 2006 after Kaplan & Norton, 1992).

Archer (2009) "defines insurance as an economic institution that allows the transfer of financial risk from an individual to a pooled group of risks by means of two-party contracts". Insurance is one of the most superior method of managing risks since it transfers risks to those with the financial ability and technical knowledge to handle them. Business institutions face quite a number of challenges, some of these challenges are unique to one company or similar to some of them. The challenges are both the explanations and the consequences of series of direct and indirect facts.

This study was based on the "porter's theory of competitive advantage", economic theory of insurance and theory of capital market. Researchers elsewhere have tried to link the theory of capital market with pricing of insurance products in minimising the incidence of claims. Insurance companies do not operate in isolation, the environment

is becoming more competitive and only competitive firms survive. "Competitive advantage theory" championed by Michael Porter provides a better platform for evaluating firm's competitiveness.

The insurance Companies play a vital role in a country's financial sector and their contributions cannot be undermined. They are important for both businesses as well as individuals for they compensate losses and reinstate the insured to the initial state before the occurrence of risk. Moreover, insurers provide economic as well as social welfares to the society such as mitigating the effect of losses, reduction in fear and uncertainty and creation of employment opportunity. Likewise, insurance companies are integral part of Kenyan economy in terms of creation of employment opportunity, risk bearing, payment of tax and providing platform for financial investment services. According to the Kenyan Insurance Act 2006, there are three categories of insurance companies: life insurance companies and non-life (General) insurance companies and composite insurance companies. The desire to make Kenyan insurance companies more competitive as compared to other countries has been the drive behind this study.

1.1.1 Concept of performance

"Performance is a set of financial and nonfinancial indicators which offer information on the degree of achievement of objectives and results" (Lebans&Euske2006). Normally, firms' performance plays a vital part when it comes to management since it's a result which has been attained by a person or a team in an organization with respect to its authority and responsibility in realizing its objective legitimately while upholding moral and ethical standard (Almajali 2012).Generally performance is understood as an attainment of an organization based on its set objectives. It includes outcome realized through involvement of an individual or various teams to the organizational strategic goals.

There are two main types of performance; financial performance such as ROA, ROE among others and non-financial performance which comprise of market share of the company, growth in the number of policies, rate of policy processing, research and development etc. (Kasturi, 2006). Financial performance is based on variables that are directly financial activities. “Company’s performance is evaluated in three dimensions. The first dimension is company’s productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company’s earnings are bigger than its costs. The third dimension is market premium, or the level of which company’s market value is exceeding its book value” (Walker, 2001).

“There are two key types of measurement dominant in the organization: performance measurement and evaluation. Evaluation uses quantitative research to determine whether a program achieves its intended results, or outcomes” (Neely, 2002). Performance measurement, on the other hand, measures both social impact and organizational performance, though in a less rigorous manner. Key Performance indicators refers to criteria that companies apply to assess their performance. “In insurance, performance is normally expressed in net premiums earned, profitability from underwriting activities, annual turnover, returns on investment and return on equity” (mwangi, 2015).Mwangi (2014) also noted that organization performance is influenced by factors which are specific and varied in different markets.

Profit is the most important pre-requisite for the existence, growth as well as competitiveness of insurance companies. Profit is defined as the positive difference between revenue and expenses. Besides improving insurers’ solvency state, profit also plays an important role in mobilizing policyholders and shareholders to provide funds

to insurance companies. "Without profits insurers would find it difficult to attract external funds to achieve their set goals in this dynamic and competitive globalized environment. Thus, one of the objectives of management of insurance companies is to attain profit as an underlying requirement for conducting any insurance business" (Chen and Wong, 2004; and Harrington and Wilson, 1989).

Abdelkader (2014) provided numerous explanations for the positive relation between growth and firm performance. Growth is one of the most important determinant that facilitates investment opportunity in new equipment and technologies that improves production process as a whole. "Premium growth measures the rate of market penetration. Empirical results showed that the rapid growth of premium volume is one of the causal factors of insurers' insolvency" (Kim et al. 1995). IRA annual report (2015) outlines net written premium, claims incurred, net commission paid, management, investments, shareholders' funds and underwriting result as the key performance indicators for insurance companies in Kenya.

1.1.2 Concept of perception

Several authors have given meaning of perception in different ways but share some similarities in their definitions. Cambridge advanced learner's dictionary defines perception as "a belief or opinion held by many people and based on how things seem or quality of being aware of things through the physical sense especially sight. "Nelson and Quick (1997) define perception as the process of interpreting information about someone or something. This definition implies that the opinion one forms about someone or something mainly depends on the nature of information he/she has about the person or object and the ability to correctly interpret the information.

This study adopted a definition of perception fronted by Rao and Narayan (1998) that considered perception as" the process through which people select, organize, and interpret sensory stimulations into meaningful information about their work environment." Their definition suggests that perception is a psychological mechanism that individuals use to understand their environment.

1.1.3 Concept of Insurance

The concept of insurance is founded on the principles that the losses of the few are paid by many insured who may have taken the same policy; the insurer is at a position of predicting possible losses, calculating the cost of loss and determine the rates for premiums that will provide the cover for such losses and their administration cost (Ibrahim, 2013). According to Archer (2009) "insurance is an economic institution that allows the transfer of financial risk from an individual to a pooled group of risks by means of two-party contracts". Another leading business writer (Taylor, 2010) refers to insurance as "a promise of compensation for specific potential future losses in exchange for a periodic payment". Therefore, insurance refers to the pooling of risk by the policyholder with an aim of indemnifying them in an event of unforeseen risk occurring. Butt (1985:141) noted that insurance involve covering against events that may or may not occur. Transacting insurance involves soliciting insurance, collection of premiums and dealing with claims.

In legal terms, Insurance is essentially a contract between two parties in which one party gives a consideration, especially paying some money, in exchange for a promise from the other party for a return payment if a certain loss has occurred. It depicts, " A contract between two parties whereby one party called insurer undertakes in exchange for a fixed

sum called premiums, to pay the other party called insured a fixed amount of money on the happening of a uncertain event."(http://profit.ndtv.com).

1.1.4Business Challenges

According to Schich (2008) conventional insurance has become the true image of insurance industry and it's popular among many people across the continents. It has transformed away from mutual assistance and mutual risk taking and moved towards creating values for shareholders and maximization of the profit (Ayub, 2010).Commercial insurance has advanced such that it makes up greater portion of market share of the commercial sector despite a huge number of challenges that have been suffocating its penetration and development, especially in third world countries as compared to developed economies like European countries and USA where penetration is significantly high.Global Insurance Market Report (2015) shows that global insurance industry is highly affected by the world's macroeconomic and financial environment, characterized with low inflation rates, volatile financial market, weak economic growth and persistent low interest rate.

Wekesa (2010) observed that there was perceived integrity issues of the industry on the face of the public with respect to settlement of claims and the range of products that they offer. Ramadhan (2009) also noted that inadequate awareness had resulted to low penetration of the industry. Hagel and Davison (2010) was concerned that there was lack of emphasis on investment in training, career development and recruitment among majority of insurers, this has negative effect on their human resource competitiveness and thus affecting their service delivery. Insurance companies offer financial security to the general public but their human capital challenges may weaken the company to the point of financial distress.

1.1.5 Insurance Industry in Kenya

This study will be investigating challenges affecting performance of insurance companies in Kenya**.** The genesis of insurance in Kenya is traced back to the colonial era when the market was dominated by branches of foreign insurance companies working under the Insurance Companies Act of 1960. With the legislation of a new Insurance Act in 1984, the regulatory authorities for the insurance sector were given to the Ministry of Finance, functioning under the Commissioner of Insurance. The Insurance (Amendment) Act 2006 formed the Insurance Regulatory Authority (IRA), a Semi-Autonomous Government Agency (SAGA), mandated to regulate the insurance industry in Kenya (AKI 2015).

The Participants of this industry subscribe to an association refers to as the Association of Kenya Insurers (AKI) whose main goal is to enhance observance of ethical behaviors in business by members and also enlighten other participants of the industry with a sole objective of improving its performance. IRA annual report (2015) shows that there are fifty one (51) insurance companies under the regulation of IRA, three (3) reinsurance companies, one public and the others private. There are One hundred and thirty nine insurance brokers (139), twenty nine (29) Medical Insurance Providers (MIPs) and six thousand four hundred and twenty four (6424) insurance agents, thirty (30) insurance surveyors, twenty seven (27) loss adjusters, One hundred and seventeen (117) motor assessor and seven risk managers (AKI 2015).

“Insurance industry in Kenya has enjoyed stable business volume growth over the last ten years. As at the end of 2015, insurance premiums amounted to KES 174.06 billion, representing an increase of 10.4% from that reported in 2014. General insurance

business contributed 63.8% which makes two third of total premiums. The industry's asset base has continuously improved over the period under review to amount to at KES 478.75 billion, an improvement of 11.2% from KES 430.54 billion reported at the end of 2014. 81.5% of these assets was held in income generating assets that grew by 9.9% to KES 390.23 billion at the end of the year. However, investment income shrunk in the year, denying insurers the much needed income supplements" (IRA 2015).

Ndungu (2013) noted that insurance industry in Kenya was experiencing some negative sentiments as a result of closure of some insurance due to insolvency arising from high claims and that as a result of this negative image, those potential customers who could afford insurance cover do not willingly purchase it . Thus in exception of the case of statutory insurance, many do not voluntarily buy insurance policy. Consequently, notwithstanding the role of insurance as a risk management mechanism, insurance continues to be the last option among the methods of risk management. (Wachira, 2013) noted that insurers have turned to underpricing for survival and underwriting profits for the industry is at an average of 3% over the past 4 years and have however, remained low due to weak pricing and increased fraudulent claims.

Insurance penetration has remained low currently at 2.77. According to AKI annual report on insurance performance 2015, Kenyan's insurance premium accounts to 75% of the total premium written by East African countries and it's also leading in the region with penetration rate of 2.77%. Nevertheless, insurance in Kenya is still underdeveloped as compared to the rest of the world, its penetration has been declining since 2013 when it was highest at the rate of 3.44%. Compared to South Africa at 11.6% (Ndung'u, 2013). There are a number of factors that affect penetration of insurance in

Africa and Kenya in particular. Yaari, (2009) linked the low penetration of insurance in third world countries like Kenya to lack of disposable income. In a country where a large group of people are below poverty line, it is not easy for people to think about their future security. They are more concerned about their basics such as; food, shelter, clothing and basic education and people subscribe to a belief that the future will take care of itself.

1.1.6 Insurance companies in Kenya

Insurance companies in Kenya are the main providers of insurance products in the country. Currently there are fifty One insurance companies operating fully in Kenya according to IRA annual report (2015), Sixteen (16) of which transact long term insurance business only, twenty five (25) transact general insurance business only, while ten (10) are composites. Composite insurance companies are those companies that provide both life and general insurance services.

Kenya insurance companies have been expanding beyond the country into the areas under EAC, SADC and COMESA. "This has been dictated by insurance in Kenya with varied appetite in tourism, transport & communication, manufacturing, building and construction across the region to be covered by the same insurer. Insurers have found it necessary to establish offices across East, Central and to a certain extent Southern African" (AKI 2014).

1.2 Research problem

The performance of insurance in Kenya has not been good as compared to other countries such as South Africa. Kenya is underinsured at penetration rate of 3% for a population of 40 million compares poorly with India at 4% penetration for a population

of over a billion and contrasts with South Africa with a penetration of 16% for a population of 50 million (Mwangi, 2013). "During the year 2015, only 107,591 new policies were underwritten falling from 152,133 policies underwritten in 2014.General insurance business premiums grew by 11.4% in the year 2015 which is lower than the average growth rate of 17.4% experienced in the sector during the last five years. In 2015, the industry reported an underwriting loss of KES 226.28 million under general insurance business and the increasing underwriting management expenses has resulted to the current underwriting loss under general insurance business" (IRA, 2015).

IRA annual report 2015 shows that some long-term insurance players have been making losses overtime hence rendering industry a negative surplus. The penetration has also been dropping since 2013 when it was highest at 3.44%, 2.93 in 2014 and finally at 2.79 in 2015 (AKI, 2015). "Kenya is underinsured at penetration rate of 3% for a population of 40 million compares poorly with India at 4% penetration for a population of over a billion and contrasts with South Africa with a penetration of 16% for a population of 50 million" (Mwangi, 2013).

Studies have been carried out in insurance industry both locally and at international level towards improving the performance of various sectors within the industry. Some of those international studies include; Mehari and Aemiro (2013) studied "firm's specific factors that determine insurance companies' performance in Ethiopia" and concluded that insurers' size, leverage and tangibility of the assets had positive effects on insurance performance. These findings were later confirmed by Derbaly (2014) who carried out a research on determinants of insurance performance in Tunisia. Ibrahim (2013) carried out "an investigation into factors that influence the performance of

insurance industry in Tanzania (case study of Zanzibar Insurance Corporation)", the study noted that increase of retention and earning capacity, timely settling of claims, risk management and improvement of intermediaries relation together with the company plans to improve value of its services had positive impact on the performance.

Some of the local studies include Mwangi (2013) investigating factors determining "financial performance of insurance companies in Kenya" and concluded that fluctuation in interest rate, competition and liquidity are the key factors influencing financial performance. Muriuki (2013) studied challenges affecting marketing of insurance products in Nairobi, Kenya and established that ineffective advertisement of insurance services, high competition in the market, incompetence and lack of experiences of staff, rigorous regulations and lack of customer awareness on insurance services greatly hindered marketing of insurance services by insurance agencies to a great extent. Ochieng (2013) carried out a study on challenges in adoption of Takaful insurance in Kenya and noted inadequate public awareness, chronicle shortage of skilled human capital and lack of capacity by the regulator as major challenges.

Despite a number of research being carried out in insurance industry, no clear research that has conclusively covered "the challenges affecting the performance of insurance companies in Kenya". This study intends to fill that knowledge gap. It will therefore seek to find out the underlying challenges affecting the performance of insurance companies in Kenya and give answer to the question; what is the perception of insurance employees on the challenges affecting the performance of insurance companies in Kenya?

1.3 Research objectives

To establish insurance employees perception on the challenges affecting the performance of insurance companies in Kenya.

1.4 Value of the Study

This research will be of great significance to various groups of people. The findings from this study will contribute and advance the body of knowledge for better understanding of the challenges that affect the performance of insurance companies in Kenya, this will benefit by providing information to prospective as well as current scholars on this area. It will also enhance their understanding of the industry and enable them identify some areas that require further studies.

The study will create insight to all the existing insurance agencies in the insurance industry in Kenya. The findings will help the managers of various insurance companies to device methods and strategies of enhancing their performance by improving on their service delivery. Those who are in charge of policy making and the public at large will be well informed by this literature and enable them to make convincing decision whenever buying any of the insurance product.

Insurance regulators and other supervising bodies as well as government ministries will be at a position of formulating new policies and plans that will enhance the performance of these companies in Kenya. IRA will be able to develop strategies and supervisory procedures to mitigate these challenges that may thwart them in executing their constitutional mandate.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter outlines theoretical foundation, performance and performance measures, challenges affecting performance and summary of literature review.

2.2 Theoretical Foundation

The theories discussed in this section are economic theory of insurance, Porters theory of competitive advantage and Capital pricing theory together with their application to the area under study**.**

2.2.1 Economic Theory of Insurance

Early writers on insurance concluded that, insurance was intended to safeguard the society from any form of unexpected risk that may endangered an individual or society as a whole, individuals were goosed to contribute certain amount towards common pool to be used in compensation in case of those risk occurring (Al Sadah, 2006). According to classical economic theorists of insurance, the existence of risk is an anticipated state that causes an economic loss. On the other hand, assumption of risk is a source of gain to society, and a part of the gain is obtained by the risk-takers as their special reward.

Economists have shown through various research studies that inequalities in the degree of risk involved in different investments of capital bring about inequalities in productivity (Allan, 1951). Though it is apparent that the risk– taking does not generate the extra product but the capital itself, it has been proven that capital in a hazardous investment will create more product than that which is not exposed to risk. Assumption of risk is rewarded in the sacrifice in the same sense as labor and hence risk taking is productive only in the secondary sense that it occasions the increase in the productivity of capital. The assumption of economic risk is not always productive, but only when it

takes place under certain conditions. Rono (2015) noted that when the risk is voluntarily and unnecessarily created, as in case of wager, it is not productive to the society but it is productive only when it is a necessary and unavoidable. This aspect of economic theory is what underlie the risk taking by underwriters where insurable risks are those which are fortuitous in nature in as far as the insured is concerned.

2.2.1 Porter's Theory of Competitive Advantage

Porter (1996) argued that "competitive advantage" is at the centre of the firm's performance in competitive markets and firms throughout the world face slower growth. Organizational strategies have to be perceived in a global perspective. Even though a firm may not be operating with an intention of exporting or importing directly, the management must take into consideration the changes in international business environment, where an action of buyers, sellers and competitors may affect home market."Michael Porter developed a model that enables analysing the reasons why some countries are more competitive and why some industries within nations are more competitive than others are"(Jhamb,2016). It proposes that the national home ground of a firm plays a vital role in determining the extent to which it is likely to realize advantage on a global scale. The home base provides essential factors, which support or deter an organizations in building advantages in global competition. Porter differentiates four determinants of firm's performance which include factor conditions, demand conditions, related and supporting industry and firm's strategy, structure and rivalry.

According to Johnson, Scholes and Whittington, (2008) for a company to be at a position of offering quality services to its customers, it must understand the few things that it must do right in order to attain competitive advantage. Managers have to be aware

of what it takes to be successfully competitive in an industry and what factors are unnecessary to success. Insurance companies are just like any other company striving to gain competitive advantage in terms of factor condition, products design, strategy, structure and rivalry. This study applied porter's theory of competitive advantages in analysing challenges affecting insurance companies.

2.2.2 Capital Market Theory

The capital market theory is an extension of the portfolio theory of Markowitz. Portfolio theory is an explanation of how rational investors built efficient portfolios. Capital market theory shows how prices of assets should be determined in capital markets if indeed everyone behaved in the way portfolio theory suggests. Kahane (1976) suggested that insurance risk loading must be determined objectively other than through subjective consideration of the insurance company, meaning that the loading should not depend on management attitude towards the risk and that CAPM model may be used to find the exact parameter of the risk loading.

CAPM which was suggested by Sharp (1964) to enhance explanation of how weighing of risk and expected return assist in determining security prices has been acknowledged as the simplest and widely utilized theory of asset pricing. The theory is commonly applied in present day in the field of financial literature and influencing the decisions process of bankers, brokers, government agencies and a number of investors worldwide. Investors make their investment decision depending on the relationship between risk and return on investment. Returns are based on level of risk, investors can minimize unpredictability by diversifying investments.

2.3 Organisational Performance

The concept of performance is not unique when it comes to academic literature. However, its definition vary depending with the context under which it's applied. For this reason, there is no generally recognized definition of this concept. Almajali (2012) noted that "performance is a challenging concept, in relations to its definition and measurement, it has been defined as the result of activity, and the suitable measure chosen to evaluate business performance is considered to depend on the nature of the company to be assessed and the goal to be achieved through that assessment". Company performance is the extent to which an organization is achieving its objective for a certain period of time. "Performance is the ability of an organization to gain and manage its resources in several different ways to develop competitive advantage" (Iswatia and Anshoria, 2007). High performance depicts the effectiveness and efficiency of management in utilizing company's resources.

Research always differentiate between two main types of organization performance; innovative performance and financial or economic performance. Healy&Ruback (1992) define "financial performance as the degree of how well a firm can use assets from its primary mode of business and generate revenues". Moreover, financial performance basically measures financial viability of an organization for a period of time, applied in comparing firms in the same industry or in comparing industries or sectors. Hagedoorn&Cloodt,(2003) opined that "Financial or economic performance is usually stated in terms of growth of sales, employment, turnover, or stock prices, while innovative performance is normally expressed in terms of patents, expenditures, rate of innovative sales, or self-reported innovations".

Generally, the performance of companies can be estimated by measuring their profitability, which is a relative measure of success for a business and it acts as a proxy of financial performance (Batsirai, Mbakisi,&Tendai2017).Profitability reflects a companies' ability to manage their economic exposure to unexpected losses. Most study in the field of insurance underlines ROA as the main indicator of a company’s profitability. ROA refers to profit before tax divided by total assets. Batsirai (2014) argued that claim is the determining measure in the relationship between insurance provider and the insured since it gives an opportunity to prove that the period taken paying premium worth it. The cost of claim payouts and expenses contributes the largest proportion of insurance spending, accounting to about 80% of the total premium paid (Harrington, Mann and Niehaus, 1995). Low claim ratio depicts a better profitability since high ratio shows poor selection of risk implying that that the insurer will incur more in settlement of claims.

Growth in companies is measured in terms of relative change in total assets or proportionate change in premium. Growth is assumed to be directly related to profitability. Premium growth is used to ascertain the rate of market penetration. Empirical evidence by Ahmed and Usman (2011) in Pakistan, Li (2007) in United Kingdom and Al-Shami (2008) in United Arab Emirates found a positive and statistically significant relationship between growth and profitability of insurance companies. Browne, Carson and Hoyt (2001) offered an evidence that performance is positively related to the proportion of liquid assets in the asset mix of a company. Being in possession of resources to cover obligations is important since people do make claims at any time or there may be a natural phenomenon resulting to a huge number of claims forcing the company to incur a huge amount of compensation.

Bourke (1989) found a positive relationship between total profits and staff expenses. Operating expense is a key determinant and criterion for successful performance, since expenditures are manageable expenses. If well managed, they can contribute to improvement in performance of companies. Where a company is expanding, there is always a progressive decline in the operation expense. Most researches have shown positive relationship between performance and retention ratio. Retention ratio is the proportion of the underwritten business which is not ceded to reinsurers. “A more efficient insurance company in underwriting decisions accompanied by higher retention should have higher profitability” (Charumathi, 2012).

According to Johnson (2008) information strategies can have a deep influence on creating and destroying the capabilities of an organization and hence it’s competitive advantage. IT has significantly transformed business processes thereby making them more effective and customer focused. Innovation is another important key indicator of company performance. “The term innovation refers to both radical and incremental changes in thinking, things, and processes or in services”, (Mckeown, 2008).“The ability to innovate is increasingly viewed as the single most important factor in developing and sustaining competitive advantage” (Tidd, 2001).HRM practices have been mentioned by some researchers as one of the performance indicator, it creates value by “attracting and retaining employees, reinforcing employee behaviors and developing employee skills through compensation, hiring and selection, staffing, training, work organization and employee involvement”.

"Some of the non-financial performance measures may include growth in number of policies, market share of the company or branch or division in the local area, number of branches and divisions, rate of policy processing, speed in delivery of the policy notes, timely reminders to the customers, number of drop outs from the policies, growth in products and product lines, customer satisfaction, speed in settlement of claims, employee training, research and development, market intelligence and surveys, number of policies per agent, agents training, and retention of efficient agents (Kasturi, 2006)".

2.4 Employees Perception

Rao and Narayan (1998) contended that "perception is the process through which people select, organize, and interpret sensory stimulations into meaningful information about their work environment." Their definition submits that perception is a psychological mechanism that individuals use to understand their environment. According to Michener, DeLamater and Myers, (2004) perception is the process through which individuals form impressions of other people's traits and personalities. Kuhlmann (2010) opined that "employees behave in a given manner based not on the way their external environment actually is but rather on what they see or believe it to be. He further argues that employee's perception of their work situation will influence their productivity more than the situation itself."

According to Godwin (2009) "there are three types of characteristics that influence the perception of an individual. The first is the perceiver's specific characteristics such as the perceiver's familiarity with the object and attitude. The second category of characteristics target specific ones such as the physical appearance of the target and the intention of the target as understood by the perceiver. The last category includes

situations specific characteristics such as social context of interaction. Perception largely determines how people relate with others and how they react to various situations in their environment."

2.5. Challenges affecting performance of Business

Company performance is faced with a number of challenges. Some of these challenges are common while others are unique to a specific company depending on the type of product and nature of production process as discussed below.

2.5.1 Inflation

Inflation is best described as general increase in prices of commodities, it has the effect of decreasing purchasing power of a currency (McConnell and Brue, 2008).The rate of inflation is the change in the general level of prices within an economy. Few authors have documented the impact of the inflation rate on the non-life insurance industry. D'Arcy (1979) founded that underwriting profits are correlated with the inflation rate. Deflation and high inflation each present significant risks to insurers. Payment of premiums by clients does not reflect inflation. However, payment of claims by a company might reflect inflation for example, the value of an asset insured might change price as a result of inflation resulting to company paying more. Doumpos and Gaganis (2012) analyzed the "performance of non-life insurers" and found that macroeconomic factors like inflation and income inequality have impact on performance of companies.

2.5.2 Lack of skilled personnel

Adequate skilled human resources is one of the success factors pointed out by Porter's theory of competitive advantage. Osinuga (2016) carried out a research into challenges affecting companies in Nigeria and noted a shortfall of skilled professionals (underwriters, brokers, actuaries, etc.) as one of the key challenges affecting the

industry. He was concerned by the fact that companies inadequately train their staffs. Most of the companies appeal to less skilled workforce as a result of poor compensation package thus making them unable to retain competent employees. Makau (2013) indicated that inexperienced employees or management was the single most important reason for low performance of companies. Kariuki (2007) identified the core competencies such as staff skills, unique services, and experience in the market as the Key success factors at that point in time.

2.5.3 Cybersecurity Risks

According to IIROC, "The National Institute of Standards and Technology defines cyber security as the process of protecting information by preventing, detecting, and responding to attacks." Similar to financial and reputational risk, cyber security risk affects a company's bottom line. It can drive up costs and impact revenue. It can harm an organization's ability to innovate and to gain and maintain customers.

IAIS (GIMAR, 2016) noted that cybersecurity risks was becoming have become increasingly significant since vital information of customers, health and financial related information were being stored in electronic media and as corporate gather and maintain information about their customers, the opportunity for cyber-attacks to cause complications for the business and general public explodes. Cybersecurity risk is more complex being that it's continuously evolving and rapidly expanding in terms of its definition. Moreover, there is scanty historical data surrounding this risk, this pose a major challenge to insurer providing this kind of products in terms of underwriting and pricing the policies appropriately.

2.5.4 Inadequate access to information Technology

Osinuga (2016) Noted that despite being in a world where information technology seems to be ruling everything, many companies have not adopted “automated and/or integrated computer software system “and the challenge here is the poor system in which documents are managed as compared to other sectors. Manual services are still predominant in most companies which leads to delay in clearance of claims, mistakes and errors and fraudulent practices in the whole business operations. Walker (1994) was of the opinion that technology must be part of service delivery for the firm to minimize its cost and satisfy the dynamic customers’ need. Hence, businesses which are still reluctant to adopt emerging technology and embrace the current service delivery devices such as internet, their products will appear underprivileged and less competitive in eyes of prospective customers.

2.5.5 Lack of innovation

Innovation refers to new services offered to satisfy the changing demands of the consumers or attract other potential users; some of these services include invention of non-existence service , improvement on existing service or adopting services provided by the competitor; from the marketing perspective, any product that is brought to the market for the first time to meet the needs of a certain group of customers is considered new, for instance a new investment ,membership cards, or a new type of personal loans and soon (Naji, 2003).

Innovative ideas cannot be easily offered as collateral. Thus, innovation, is sometimes said, requires high cost funds that come from venture capital groups or from internally generated funds. Innovation results to diversification of products that match with

customer's specifications, without it companies may end up producing uniform products which may be less competitive in the eyes of prospective buyers.

2.5.6 Fraud

CIMA (2009) noted that fraud is a matter faced by all organization irrespective of size, industry or country and that if the organization has valuable property, for example, cash, goods, information or services, then fraud is likely to be attempted. Fraud is committed when someone willingly submit or influence another person to give in to fabricated or misleading information for use in determining the amount of benefit payable. Karimi (2011) indicated that "for most employers, fraud increases the cost of providing benefit to their employees and therefore their overall cost of doing business increase".

According to IIA managing the risk of fraud practical guide, "an organization's HR function plays a crucial part in fraud prevention by implementing the following procedures; performing background investigation of people hired, new and existing suppliers, customers, and business partners to identify any issues of financial health, ownership, reputation, and integrity that may represent an unacceptable risk to the business. Conducting anti-fraud training, evaluating performance and compensation program and carrying out exit interviews to determine whether there is an issue with management integrity".

2.5.7 Market Orientation

Protko&Donberger (2014) noted that "Most of the researchers on market orientation agreed that market orientation has positive effect on business performance such as new-product success, sales growth , profitability levels or return on investments (ROI) of small firms". Ford &Gioia (2000) pointed out that "some of the challenges encountered while implementing new business model are due to; failure to understand

the customers, inadequate -or incorrect marketing research and inability to predict environmental reactions”.

Marketing is not only link to performance of business but also to some marketing issues such as product design and innovation (Takeuchi &Quelch, 1983). Marketing inefficiency and marketing ineffectiveness has negative impact on companies’ financial performance. Marketing effectiveness refers to the degrees at which chosen market-based objectives are attained and marketing efficiency is the proportion of marketing expenses against gross revenue.

2.5.8 Interest Rate

The interest rate is yearly price charged by a lender to a borrower in order for the borrower to obtain a loan. It is always stated in terms of percentage of the total amount loaned. Interest rates affect banks capability to transact business as high interest rates show that debtors charged high rates on borrowed loans this has the effect of lowering their demands for commercial loan. High rates also show that depositors are receiving low rates for their savings and can therefore redirect their funds to other investment activities rather than saving, this reduces the funds available for loaning; all these have effect on the financial institutions ‘performance in an economy (Kashyap& Jeremy, 2004).

2.6Summary of Literature Review and Gap

Table 2.1 below give the summary of literature review, gaps and how this study has dealt with those gaps.

Table 2.1 Summary of literature Review and gap

Author	Area of study	Findings	Gap	Dealing with the gap

Nthenge, Phylip 2012	Challenges facing the success of insurance service provision in Tanzania	Regulatory factors and immature legal framework, lack of strong market–led initiatives, claims fraud, under-capitalization and legal constraints to new channels	Addressed challenges in penetration of life insurance but did not relate it with the general performance of the entire insurance industry	This study addressed these challenges with respect to the companies in the entire industry
Gitau B.N 2013	Strategies adopted by Kenyan Insurance Companies to alleviate low insurance penetration	Extensive marketing by the companies, technological development resulting to easier access to information and reduction in transaction costs.	Study did not consider other challenges affecting insurance. It only provided solution to one challenge	This study has considered all those challenges affecting the performance as perceived by insurance employees
Rono, J. C. 2015	Challenges affecting penetration of marine insurance in Kenya.	Perceived high cost of premiums, negative, perception of insurance, lack of awareness	The study only considered one performance indicator and failed to consider	This study has considered all the performance indicators as well as all the lines of insurance business.

		of insurance benefits, lack of trust in local insurance firm.	other challenges affecting other type of insurance business.	
Osinunga, D. 2016	Challenges of Nigerian insurance industry	Inadequate access to IT, weak regulatory framework, and poor knowledge of insurance services by the prospective assured and lack of skilled	Kenya &Nigeria are in different geographical location and also differ in both political and economic organization hence the challenges in Nigeria may not apply in Kenyan context.	This study was carried out in Kenyan insurance companies, it therefore examined these challenges in Kenyan context

CHAPTER THREE: RESEARCH METHODOLOGY

3.1Introduction

This section outlines various methods that were applied in the process of collection and analysis of data to enable answering of the research question. Its main focus are on research design, target population, sampling technique and description of the research instruments, data collection procedures and analysis of data.

3.2 Research Design

This study adopted a descriptive survey design to enable deeper understanding of the Challenges affecting the performance of insurance companies in Kenya. “The design enhances collection of large amounts of relevant data from sizeable population in the most economical way since it adopts both interview and survey approach. Descriptive studies aims at finding out "what is," so observational and survey methods are commonly used when collecting this type of data” (Borg & Gall, 1989).

3.3 population of study

According to Mugenda and Mugenda (2003) “population is an entire group of people, individuals, events or objects that have a common observable characteristic”. The population of this study were all the fifty one insurance companies in Kenya since they are the custodian of vital information for this study. The respondents were both top level and lower level management.

3.4 Sampling and Sample Size

This study employed a purposive sampling. The method was applied to include insurance companies with relevant information, i.e. Composite, life or general insurance. Max-well (1997) referred to “purposive sampling as a type of sampling in which, particular settings, persons, or events are intentionally chosen for the important

information they can offer which cannot be gotten as well from other choices''. Mugenda and Mugenda (2007) contend that a 10% sample can be used to represent a population. However, they argued that broader samples are more representative of the population. For this study, 30% of the total insurance companies in Kenya were selected. The study purposively sampled senior officers from each of the 16 insurance companies selected. The study randomly selected an average of five senior insurance officers, giving rise to 80 respondents as shown in the table below.

Table 3.1: sample Size

Type of Insurance Company	No. of companies in Kenya	Sample Size (30%)	No. of Respondent
General	25	8	40
Life	16	5	25
Composite	10	3	15
Total	**51**	**16**	**80**

3.5 Data Collection

The study relied on both qualitative and quantitative data from both primary and secondary source. Primary data was collected by administering questionnaires embodying closed and open-ended questions so as to overcome any fear and sensitivity that were associated withsharingof information. "A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents" (Mugenda & Mugenda, 2003). The questionnaire was administered through drop and pick method. Mwangi (2013) noted that, this method is the most appropriate for administering questionnaires since it gives

the respondents time to fill them and allows the researcher an opportunity for review before picking them to ensure completeness of responses. Secondary data will be extracted from the recorded data related to insurance.

3.6 Data Analysis

Data analysis is an activity involving transforming data with an aim of extracting useful information and facilitating conclusions. Ngechu (2006) contended that the simplest approach to present information is in descriptive statistics. "Descriptive statistics enabled the researcher to meaningfully describe a distribution of scores or measurements using a few indices or statistics" (Kothari, 2008). SPSS program can give such descriptive statistics and therefore it was the most appropriate for this analysis. The questionnaires were checked for completeness in preparation for analysis. Each research question had quantitative and qualitative data. For the quantitative data, the responses were coded, tallied and their frequencies and percentages identified. The qualitative was analyzed through content analysis. "It is systematic and objective means of describing and quantifying phenomena" (Sandelowski1995)

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter outlines analysis of data, their interpretations and presentation of findings based on the objectives of the study. The objective of this study was to establish the perception of insurance employees on the challenges affecting the performance of insurance companies in Kenya.

4.2 Questionnaire Return Rate

The population of the study was all 53 insurance companies operating in Kenya where 30% of them were purposively sampled and in each company 5respondents were randomly selected from both top and lower management level. Out of 80 targeted respondents who were given questionnaires to fill, 75 of them returned duly filled questionnaires. This contributed to 93.75% response rate. Mugenda and Mugenda (2003) indicated that a respondent rate of 50%-70% is sufficient for a study, a response of 93.75% was therefore satisfactory for this study.

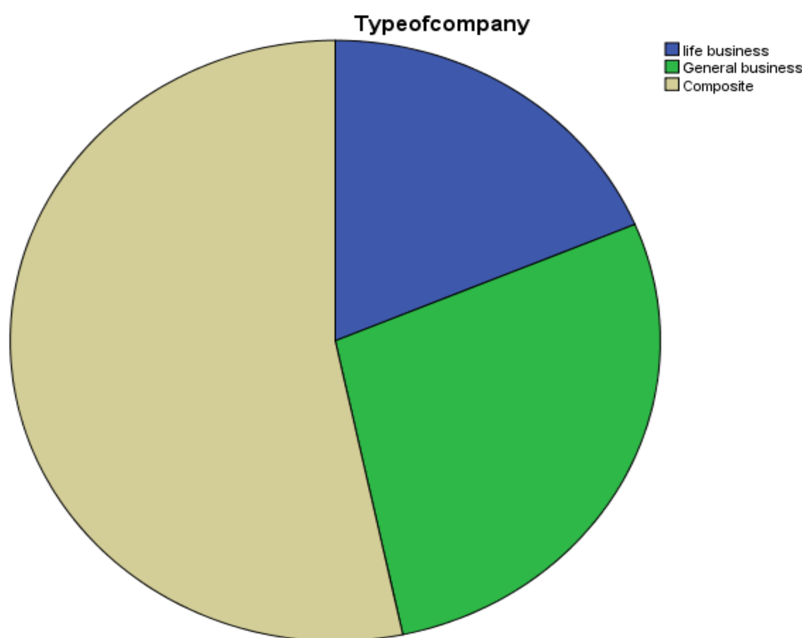
4.3 Background Information

The study sought for the background information of the respondents in terms of the nature of the company, position of the respondent in the company, the period the respondent had been working in the insurance industry and the period the respondent had been in his/her current company.

4.3.1 Nature of the insurance company

The findings indicated that the respondents were drawn from all the three types of insurance business with composite insurance companies accounted for 40% of the total respondents, general business was 21.3% while life business constituted 18.7% of the total respondents as shown in the pie-chart in figure 4.1 below. This implies that the information gathered reflect the true picture of insurance companies operating in Kenya.

Figure 4.1: Types of Insurance Companies



4.3.2 Position of the respondent

From the findings, respondents were drawn from both top level management and lower level management. Top level management respondents constituted 49.3% while lower level management respondents accounted for 50.7%. This composition of the respondents' shows that the information on challenges affecting performance of insurance companies was collected from the relevant individuals hence data was valid.

4.3.3 Period of working in the insurance industry

Table 4.1:Period of working in the Industry

	Frequency	Percent	Valid Percent	Cumulative Percent
Below 5years	31	41.3	41.3	41.3
5 - 10 years	41	54.7	54.7	96.0
10 - 15years	3	4.0	4.0	100.0
Total	75	100.0	100.0	

Source: Research findings

Table 4.1 above shows that 41.3% of the respondents specified that they had been working in insurance industry for a period of less than 5years, 54.7% of the respondents had been in the industry for 5-10 years while 4% of the respondents had been working in the insurance industry for 10-15year. This shows that the majority of respondents had been working in the insurance industry for a long period of time hence had relevant experience on challenges affecting the performance of insurance companies.

4.3.4 Period of working in the current company

Table 4.2: Period of working in the Current Company

	Frequency	**Percent**	**Cumulative Percent**
Below 5yrs	68	90.7	90.7
5 - 9yrs	7	9.3	100.0
Total	75	100.0	

Source: Research findings

Table 4.2 above shows that 90.7% of the respondents had been working in their current companies for a period of less than 5 years and only 9.3% had been working in their current companies for a period of 5-9years. This trend shows high employee's turnover among the insurance companies.

4.4 Factors Influencing Performance of Insurance Companies

The results in Table 4.3 indicates that Information Technology had very high influence on the performance of insurance companies in Kenya with a mean of 4.77 and standard deviation of 0.421.The findings also pointed out that claims management, marketing, innovation and invention had relatively high influence on performance of the companies while human resource management practices and research and development had moderate influence on the performance of insurance companies. Research and development had the least influence among the factors influencing performance of companies with a mean of 2.92 and standard deviation of 1.1. The findings also noted that most insurance companies had not established research and development department and relied on marketing department to determine the changing needs of customers.

Table 4.3: Factors Influencing the Performance of Insurance Companies

Performance Indicators	Mean	Std. Deviation
Information Technology	4.77	.421
Innovation and Invention	3.84	.772
Marketing	4.07	.684
HRM practices	3.16	.931
Research and Development	2.92	1.100
Claims Management	4.40	.493
Regulation IRA	3.83	.950

Source: Research findings

4.4.1 Innovation and invention

Findings revealed that most insurance companies have been very active in developing new products. 94.7% of the respondent contended that their companies had developed new products in the last 2year. Only 5.7% of the responded indicated that their companies had not developed any new product for the past 2year.

4.4.2 Role of IRA in improving performance of Insurance companies

This was both an open ended and closed question that was seeking to confirm the effectiveness of IRA in improving the performance of insurance companies and how the regulators could improve on weaknesses. The findings, shows that 82.7% of the respondent were in agreement that IRA had been effective in improving performance, only 7.3% felt otherwise. In addition, all respondents agreed on one thing that IRA is the autonomous government agency with sole responsibility of regulating and promoting insurance growth in Kenya. Moreover, there were varied response on the ways in which IRA can improve on its performance. Most respondents were of the opinion that IRA had played critical role in educating public on the operation of insurance companies and their contribution towards the economy hence improving insurance penetration which has positive effect on the performance of the companies. However, other respondents felt that regulator had not managed to formulate policies that control insurance market successfully.

4.4.3Challenges Affecting Performance of Insurance Companies

From the findings in Table 4.4 most respondents indicated that apart from fraud, inadequate human resource is a major challenge affecting performance of insurance companies in Kenya with a mean of 4.13. Inflation and cyber security were noted to be having a greater effect on the performance with a mean of 3.89 and 3.67 while inadequate access to information technology, ineffective marketing strategy and lack

of innovation and invention were noted to have moderately affected the performance of insurance companies in Kenya.

Table 4.4: Challenges Affecting Performance of Insurance Companies

Challenges Affecting Performance	Mean	Std. Deviation
Inadequate access to IT	3.29	.882
Ineffective Marketing Strategy	3.20	1.162
Lack of innovation	3.21	.722
Inflation	3.89	.559
Inadequate skilled H. resource	4.13	1.166
Cybersecurity Risk	3.67	1.166
Effect of fraud on performance	4.44	.793

Source: Research findings

Table 4.5 below shows extend in which these challenges (discussed above) affect various types of insurance companies. Inadequate skilled human resource largely affect life insurance business with a mean of 4.71 compared to composite with a mean of 4.37 and general insurance business with a mean of 3.29. Fraud highly affect Composite insurance business and General business with a mean of 4.78 and4.62 as compared to life business with a mean of 3.21.

Table 4.5: Extent of Challenges on the Types of Insurance Companies

Type of company		Mean	Std. Deviation
life business	Inadequate skilled H. resource	4.71	.469
	Inflation	4.07	.730
	Lack of innovation	3.00	.000
	Ineffective Marketing Strategy	3.14	1.292
	Inadequate access to IT	2.86	1.027
	Cyber security Risk	3.14	.864
	Fraud	3.21	.426
General business	Inadequate skilled H. resource	3.29	1.102
	Inflation	4.00	.000
	Lack of innovation	2.86	.727
	Ineffective Marketing Strategy	2.86	1.276
	Inadequate access to IT	3.00	.837
	Cyber security Risk	3.14	1.276
	Fraud	4.62	.498
Composite	Inadequate skilled H. resource	4.37	1.148
	Inflation	3.78	.620
	Lack of innovation	3.48	.751
	Ineffective Marketing Strategy	3.40	1.033
	Inadequate access to IT	3.60	.744
	Cyber security Risk	4.13	1.017
	Fraud	4.78	.577

Source: Research findings

4.4.4Fraud

Fraud was given special attention as one of the major challenges affecting the performance of insurance companies. The respondent were asked to state the extend in which fraud affect the performance of insurance companies, 62.7 % of the respondents were satisfied that fraud affect performance to a very great extent, 18.7% confirmed great extend and moderate extend as shown in table 4.6 below. It was found to have a mean of 4.4 and standard deviation of 0.739 implying very great effect on the

performance of insurance companies. However, there is little extend of fraud on life insurance business as compared to both general and composite insurance business as shown in table 4.5 above.

Table 4.6: Effects of fraud on Performance

	Percent	Cumulative Percent
Moderate extend	18.7	18.7
Great extend	18.7	37.3
Very great extend	62.7	100.0
Total	100.0	

Source: Research findings

Controlling Fraud

Majority of the respondent unanimously agreed with anti-fraud training as the main approach of controlling fraud as suggested by IIA managing the risk of fraud practical guide. Table below indicates that antifraud training had a mean of 4.39 and background investigation constituted a mean of 4.08. This shows that anti-fraud training and background investigation of staffs are the most effective methods of controlling fraud being adopted by insurance companies in Kenya. The finding indicated a moderate effectiveness in evaluating performance and compensation program while carrying out exit interview was noted as the least effective approach in controlling fraud with a mean of 2.39 and standard deviation of 1.138. Most respondents argued out that exit interviews are carried out in the light of controlling employee’s turnover and little does it emphasize on controlling fraud.

Table 4.7: Controlling Fraud

How to control fraud	Mean	Std. Deviation
Conducting antifraud training	4.39	.676
Evaluating performance and compensation program	3.32	.640
Background investigation	4.08	.926
Exit interviews	2.39	1.138

Source: Research findings

4.4.5 Effects of CBR on Performance of Insurance companies

The study sought to find out the effect of banking (amendment) act 2016, regulating interest rate charged by commercial banks at 4% above the central bank rate (CBR) on the performance of insurance companies. 86.7% of the respondents unanimously agreed that it had negatively affected the performance of their businesses, with only 13.3% giving contrary responses. The findings indicated that 100% of the respondents from life insurance business notated that amendment had affected their businesses while 81% and 85% of respondents from general and composite insurance business respectively were in agreement that CBR had affected their business. The respondents were also asked to state how they were coping with the consequences of this challenge, they unanimously stated that their companies had involved in diversifying their investments into areas such as treasury bonds and real estate market.

4.5 Discussion of the Findings

The study confirmed the findings of Osinuga (2016) in Nigeria and Makau (2013) that inadequate skilled human resource is one of the major challenges affecting the performance of insurance companies. It revealed that inadequate skilled human resource i.e. underwriters, claim adjusters, actuaries and assessors greatly affected the operation of insurance companies in Kenya especially in life and composite insurance business. It also noted high staff turnover among the insurance companies. This was attributed to little number of colleges offering insurance training in the country.

Research and development was found to have little influence on the performance of insurance companies in Kenya. Most companies, especial life and general insurance companies had not established research and development department implying that little attention is given to this particular field. The study also revealed that cybersecurity is one of the major challenges affecting insurance companies as most of them have not developed mechanisms under which this risk can be insured as a result of scanty information surrounding this risk. It indicated that this challenge is more dominant in composite insurance companies as compared to life and general insurance business.

Kenyan insurance market is small in-terms of its size as compared to developed nation. However, it has a large number of insurance companies selling almost the same product; this had resulted to intensive competition whereby some companies were engaged in some malpractices such as undercutting to increase their customer base. Price undercutting or predatory pricing is a dubious strategy where a product or service price is set very low, with an intention to drive competitors out of the market, or create barriers for potential new competitors. This has the effect lowering premium rates which have negative effect to insurance business. Ignorance of the consumers was also noted among other challenges affecting the performance of insurance companies. 82% of the respondents noted ignorance of insured public among other challenges

Banking amendment act 2016 had largely affected the operation of insurance companies and most of insurance companies had opted to diversify their investment activities to other opportunities that seemed to be more lucrative as a way of dealing with the consequences of this challenge.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines the summary, conclusions and recommendations of this study grounded on the objective of the study. The objective of this study was to establish the perception of insurance employees on challenges affecting the performance of insurance companies in Kenya.

5.2 Summary of the Study

The study adopted descriptive survey design. The targeted population was all the 53 insurance companies operating in Kenya. It purposively sampled 30% of the total number of insurance companies in which 5 respondents were randomly selected. Questionnaires were used as a tool for collecting data. Analysis of the data was carried out through descriptive statistics where SPSS was used as a tool for analysis and with effect was presented using pie charts and tables.

This study found a moderate influence of human resource management on performance. It noted that HRM practices created value by attracting and retaining employees, reinforcing employee behaviors and developing employee skills through compensation, hiring and selection, staffing, training, work organization and employee involvement. These practices may have positive or negative influence on performance depending on their effectiveness. Research and development was found to have little influence on the performance of insurance companies in Kenya. Most companies, especial life and general insurance companies had not established research and development department implying that little attention is given to this particular field.

The study noted a positive impact of IRA on the performance of insurance companies in Kenya. Involvement of IRA in public education and regulating operations of insurance companies was found to have been effective in changing public perception towards insurance companies hence improving penetration of the industry. The study also confirmed the findings of Johnson (2008) that information strategies could have a deep influence on creating and destroying the capabilities of an organization and hence it's competitive advantage. It noted that IT had significantly transformed business processes of insurance companies in Kenya thereby making them more effective and customer focused.

Marketing was indicated to have a significant influence on the performance of insurance companies. The study noted that insurance companies in Kenya relied on the feedback of marketing in developing new products that suit the needs of their customers. Despite increasing sale's volume of insurance products, marketing had also played a role in changing the dented image of the insurance companies hence improving the market penetration. Claims management was also noted to have a substantial impact on the performance of insurance companies in Kenya. It noted that claims determines profit margin of the insurance companies.

The study confirmed the findings of Osinuga (2016) in Nigeria and Makau (2013) that inadequate skilled human resource is one of the major challenges affecting the performance of insurance companies. The findings of this study revealed that inadequate skilled human resource i.e. underwriters, claim adjusters, actuaries and assessors greatly affected the operation of insurance companies in Kenya especially in life and composite insurance business. It also noted high staff turnover among the

insurance companies. This was attributed to few number of colleges offering insurance training in the country. The study also revealed that cybersecurity is one of the major challenges affecting insurance companies as most of them have not developed mechanisms under which this risk can be insured as a result of scanty information surrounding this risk. The study indicated that this challenge is more dominant in composite insurance companies as compared to life and general insurance business.

The study revealed that most companies have been very proactive in developing new products especially in general insurance business. Lack of innovation and invention therefore posed very little challenge in general business as compared to both life and composite insurance business. Fraud was also revealed as one of the most dominant challenges cutting across all the three types of insurance business. However, fraud was more dominant in general insurance and composite insurance business as compared to life business in Kenya. Insurance fraud had the effects of increasing the cost of doing business, puts businesses at a risk and it's confirmed to be one of the major causes of insurance company insolvencies.

The findings of the study revealed that banking amendment act 2016 had largely affected the operation of insurance companies and that most of insurance companies had opted to diversify their investment activities to other opportunities that seemed to be more lucrative as a way of dealing with the consequences of this challenge. The study also found out that amendment had largely affected life insurance business more than general and composite insurance businesses. This was linked to the fact that most life insurance companies were engaged in long term business which involved long-term loans to specific sectors of the economy.

In a country where information technology appears to be ruling everything, many companies were confirmed to have not adopted "automated and/or integrated computer software system". This confirms the findings of Osinunga (2016) in Nigeria which noted poor system in which documents are managed as a result of inappropriate information technology or use of outdated technology. The study indicated a weak negative effect of inflation on the performance of insurance companies. High inflation fuels risk and unpredictability of returns on investments. It also causes uncertainty about future prices, interest rates, and exchange rates, and this increases the risks among potential trade partners, discouraging trade and investment among company. It's evidence from the findings of this study that the amount of life insurance you take today will not worth the same amount in five or ten years from now as a result of inflation.

The study also revealed that Kenyan insurance market is small in-terms of its size as compared to developed nation. However, it has a large number of insurance companies selling almost the same product, this had resulted to intensive competition whereby some companies were engaged in some malpractices such as undercutting to increase their customer base. Price undercutting or predatory pricing is a dubious strategy where a product or service price is set very low, with an intention to drive competitors out of the market, or create barriers for potential new competitors. This has the effect lowering premium rates which have negative effect to insurance business. Ignorance of the consumers was also noted among other challenges affecting the performance of insurance companies. 82% of the respondents noted ignorance of insured public among other challenges.

5.3 Conclusion

The study concluded that claims management, information technology strategy, marketing, insurance regulatory authority, invention and innovation have significant influence on the performance of insurance companies in Kenya while human resource management practices were found to have moderate influence since it doesn't affect performance directly . Research and development has very little influence on the performance since most insurance companies in Kenya have not established research and development department in their operations.

Fraud, inadequate skilled human resource, cybersecurity risk and inflation are the major challenges affecting performance of insurance companies in Kenya with fraud largely affect Composite and general insurance as compared to life insurance. This study also concluded that lack of innovation, inadequate access to information technology and ineffective marketing strategy moderately affect the performance of insurance companies in Kenya. Amendment of banking act regulating interest rate charged by commercial bank has largely affected the performance of life insurance companies as compared to composite and general insurance companies.

The study also recognized that the insurance companies continues to suffer negative public perception and image. This reputational risk has been partially attributed to the effects of fraud and other malpractices mentioned above. Insurance fraud remains a complex and most significant risk affecting operations of insurers. Its pervasive nature as white collar crime implies that its elimination is bound to be an odious and expensive undertaking. It is an externality to policyholders, insurance beneficiaries and the general public with its interconnectedness costing insurance consumers and the business

community in Kenya millions of shillings each year in direct and indirect costs. Conducting antifraud training and employee's background investigations were concluded to be the most effective approaches of controlling fraud being adopted by insurance companies in Kenya. Employee's exit interview was found to be less effective in controlling fraud since most of them focus on reducing employee's turnover.

5.4 Recommendation for policy and Practice

The study recommends that Insurance regulatory authority should formulate policies that aim at making the colleges offering insurance training accessible in all parts of the country to deal with shortage of trained human resource in this field. In addition, IRA should also collaborate with ministry of education especially the department of curriculum development to ensure that insurance studies is incorporate in high school syllabus. This will promote public understanding and more awareness of the benefits and operations of insurance in an economy hence enhancing positive perception towards insurance.

The management of insurance companies should develop strategies that are directed towards penetrating other regions in Africa. This will reduce intensive competition for the local market which in some cases amount to malpractices like undercutting, in addition it will also expand the market share of the local insurance companies beyond boarder. Besides this, the companies should also be involved in a vigorous product differentiation as a strategy to make them more competitive in the eyes of competitors.

Insurance regulatory authority in collaboration with insurance companies should carry out a thorough public campaign against fraud, this will promote public understanding on the demerits of fraud and how it can be avoided. Besides antifraud training by the insurance companies, there should be network that ensures a due diligence is carried out before one is hired to some sensitive areas of the companies such as audit, claims and risk management department. Human resource management should also develop some strategies that enhance staff retention such as continuous evaluation of performance and compensation program.

5.5 Limitations of the Study

The researcher encountered various challenges that made it difficult to access intended information in some areas. Some respondents were reluctant to accept the questionnaires fearing that it could require sensitive information of the company. Researcher had to assure them that the information gathered would be treated with a lot of confidentiality and that it was to be used purely for academic purposes. The research was also carried when there was political instability in the country and this made it difficult for movement especially whenever there was demonstration in central district business where most insurance companies have their head offices.

The time limit for this study was short. The researcher therefore concentrated on the insurance companies whose head offices are located in Nairobi. However, this may have very little effect on the findings since most of these companies have branches countrywide and the information gathered reflect the challenges faced in all their branches.

5.6 Recommendation for further study

The study investigated the challenges affecting the performance of insurance companies in Kenya. A study should therefore be carried out to find out how insurance companies cope with these challenges affecting their performance. The study has indicated inadequate skilled human resources as a major challenge affecting the performance of insurance companies in Kenya, a study should therefore be carried out to determine the extent in which this challenge affect the performance and professional competence required in insurance companies to enable the curriculum developers design insurance studies syllabus in line with the needs of the companies.

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APPENDICES

Appendix I: Letter of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 28/09/17

TO WHOM IT MAY CONCERN

The bearer of this letter Stephen Otedo

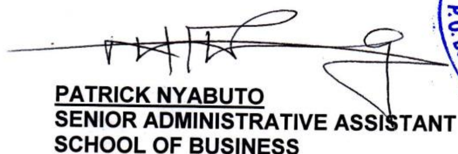
Registration No. D61/81037/2015

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

Appendix II: Questionnaire

This questionnaire is designed to help in gathering information on challenges affecting the performance of insurance companies in Kenya. Any information given here will be treated with a lot of confidentiality. Kindly feel free to answer this questionnaire as honest as possible.

SECTION A: DEMOGRAPHIC INFORMATION

1. What is your gender?

Male ( )   Female   ( )

2. Using the categories below, please Indicate the nature/category of the Company. (Tick one)

Life Business only ( )   General Business only ( )   Composite ( )

3 What is your designation?

Top management ( ) Lower level management ( )

4. For how long have you worked in the insurance industry? Below 5 years ( )

5 – 9 years ( ) 10 - 15 years ( ) 16 – 20 years ( ) 21 years and above ( )

5. For how long have you worked in the current insurance company?

Below 5 years ( ) 5 – 9 years ( ) 10 - 15 years ( ) 16 – 20 years ( )

21 years and above ( )

SECTION B: PERFORMANCE INDICATORS

1. (a) In the last 2 years has your company developed new products?

   Yes ( ) No ( )

   (b) If yes, how many? ( )

2. By use of a 5-point scale, comment on how the following factors influence the performance of your company.

1= No influence, 2= little influence, 3= Moderate influence, 4= High influence, 5= Very high influence

		5	4	3	2	1
	Information Technology					
	Innovation and Invention					
	Marketing					
	HRM practices					
	Research & Development					
	Claims management					
	Regulations (IRA)					

3. Is regulator (IRA) effective in improving the performance of insurance companies in Kenya? Please tick appropriate answer. No ( ) Yes ( )

a) Explain your answer as given above.

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

b) Suggest on how the regulator (IRA) can improve on its weaknesses (if any) towards improving the performance of insurance companies in Kenya.

…………………………………………………………………………………………

…………………………………………………………………………………………

SECTION C: PERCEPTION OF INSURANCE EMPLOYEES ON CHALLENGES AFFECTING PERFORMANCE

1. To what extend does Fraud affect the performance of your company? Tick one of the 5-points scale given below

(1)= No extent at all (2)= little extent(3)= Moderate extent(4)= Great extent(5)= Very great extent

(i)What measures have you put in place to control the extent of fraud?

……………………………………………………………………………………..

2. Using the rating given below indicate with tick, how effective are the following measures in controlling fraud

1= Not effective, 2= little effective, 3= Moderate, 4= highly effective, 5= Very high effective

		5	4	3	2	1
(i)	Conducting anti-fraud training					
(ii)	evaluating performance and compensation program					
(iii)	Carrying out exit interviews to determine management integrity					
(iv)	Performing background investigation on employees, suppliers, customers					

3. Does the banking (Amendment) act, 2016 regulating interest rates charged by banks at 4% above the central bank rate (CBR) negatively affect the performance of your business?

   Yes ( )   No ( )

If yes, how is your company dealing with the consequences

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

4. To what extend are the following challenges affecting the performance of your insurance company?

(1)= No extent at all (2) = little extent (3) = Moderate extent (4) = Great extent (5) = Very great extent

		5	4	3	2	1
i)	Cybersecurity Risk					
ii)	Inadequate skilled human resource					
iii)	Inflation					
iv)	Lack of innovation					
v)	Ineffective marketing strategies					
vi)	Inadequate access to Information Technology					

5. (i)What are other challenges affecting the performance of your insurance company apart from the ones mentioned above?

a) ……………………………………………………………………………………

b) ……………………………………………………………………………………

c) ……………………………………………………………………………………

d) ……………………………………………………………………………………

e) ……………………………………………………………………………………

(ii)What measures are you putting in place to control these challenges?

a) ……………………………………………………………………………………

b) ……………………………………………………………………………………

c) ……………………………………………………………………………………

d) ……………………………………………………………………………………

e) ……………………………………………………………………………………

f) ……………………………………………………………………………………

g) ……………………………………………………………………………………

Thank You for Your Inputs and Cooperation

Appendix III: Licensed Insurance Companies – 2016

1. AAR Insurance Kenya Limited
2. AIG Kenya Insurance Co Ltd
3. Africa Merchant Assurance Co. Ltd
4. Allianz Insurance Co of Kenya Ltd
5. APA Insurance Limited
6. APA Life Assurance Limited
7. Britam General Ins. Co. (K) Ltd.
8. British-American Insurance Co. Ltd.
9. Cannon Assurance Ltd
10. Capex Life Assurance Limited
11. CIC General Insurance Limited
12. CIC Life Assurance Ltd
13. Corporate Insurance Co. Ltd
14. Directline Assurance Co Ltd
15. Fidelity Shield Insurance Co Ltd
16. First Assurance Company Ltd
17. GA Insurance Limited
18. GA Life Assurance Ltd
19. Geminia Insurance Company Ltd
20. ICEA LION General Insurance Co Ltd
21. ICEA LION Life Assurance Co Ltd
22. Intra Africa Assurance Co Ltd
23. Invesco Assurance Company Ltd
24. Kenindia Assurance Co Ltd
25. Kenya Orient Insurance Ltd
26. Kenya Orient Life Assurance Ltd
27. Liberty Life Assurance Kenya Ltd
28. Madison Insurance Company Ltd
29. Mayfair Insurance Company
30. Metropolitan Cannon Life Ass Ltd
31. Occidental Insurance Co Ltd

32 Old Mutual Life Assurance Co Ltd

33. Pacis Insurance Company Ltd

34. Pioneer Life Assurance Company Ltd

35 Pioneer General Insurance Ltd

36. Phoenix of EA Assurance Co Ltd

37. Prudential Life Assurance K Ltd

38. Saham Assurance Company K Ltd

39. Sanlam General Insurance Ltd

40. Sanlam Life Assurance Ltd

41. Tausi Assurance Company Ltd

42. The Heritage Insurance Company Ltd

43. Trident Insurance Company Ltd

44 Resolution Insurance Company Ltd

45. UAP Life Assurance Limited

46. UAP Insurance Company Limited

47. Takaful Insurance of Africa Limited

48. The Jubilee Insurance Co. Ltd

49. The Monarch Insurance Co. Ltd.

50. The Kenyan Alliance Insurance Co Ltd

51.Xplico Insurance Limited

Sauce :www.ira.ac.ke