THE ASSESSMENT OF RISKS AS A COMPONENT OF CORPORATE STRATEGY IN SELECTED LIFE INSURANCE FIRMS IN KENYA

By

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DECLARATION

This management project is my original work and has not been presented for a degree in any other University.

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This management project has been submitted for examination with my approval as University supervisor.

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DEDICATION

To my wife

Ann Wangui Kinyua

Who encouraged me during the duration of the study

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My appreciation goes to all those managers in those insurance firms who participated in this study and to my supervisor, Dr. Zack Awino, PhD, for his guidance and any body else who assisted in any way.

God bless you all

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

Risk is a concept that denotes a potential negative impact to an asset or some characteristic of value that may arise from some present process or future event. Risk to strategy can be intentional and an essential part of the company's strategic execution or can be unintentional or by-products of the strategic planning or execution process. Risks to strategy can be viewed as the risks to earnings or capital arising from adverse business decisions or improper implementation of those decisions. Risks to strategy are present due to the dynamism of the business environment that keeps changing rendering strategy as designed obsolete. Given this, the purpose of this study was to assess risks as a component of corporate strategy in life insurance firms in Kenya. The literature review examines eight key risk categories that may impact insurance firms. These are market stagnation risk, industry economics risk, globalization risk, customer risk, regulation and deregulation risks, technology risk, new project risk and competitor risk. It also explores the world of risk and identifies certain risk mitigating measures. Under methodology, the research employed a descriptive survey design. The population of the study consisted of only 23 insurance firms involved in life insurance. Data was collected by means of a questionnaire, which consisted of open-ended questions, closed-ended questions and matrix-type questions. Data analysis was conducted using descriptive statistics, which included measures of central tendency, measures of variability and measures of frequency among others. The findings indicated that the top three risks faced by insurance firms were competitor risk, regulation and de-regulation risk and industry economics risk respectively. Competitor risk was characterized by companies competing for the restricted market which was not made any better by the worsening economic situation. Given the reality of risks to company strategy, this study recommended that insurance firms further enhance the deployment of strategic planning tools that give the firms an outside-in perspective of the strategic planning process.

Key words: Risk, Corporate Strategy, Life Insurance, Firms, Assessment.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Risk to strategy can be conceptualized as the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. This risk is a function of the compatibility between an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks and managerial capacities and capabilities. The definition of risk to strategy focuses on more than an analysis of the written strategic plan. Its focus is on how plans, systems and implementation affect the franchise value. It also incorporates how management analyzes external factors that impact the strategic direction of the company.

Examples of risks to strategy that may affect life insurers include industry risk such as capital intensiveness, overcapacity, commoditization, deregulation, and cycle volatility; technology risk such as patents or obsolescence; brand erosion or collapse, competition from global rivals, gainers, and unique competitors; shifts in customer priorities, power or concentration; and project failures such as value-destroying mergers and acquisitions entered into without contemplating integration costs. Others include stagnation risk in the form of flat or declining volumes, and price declines. This risk is highly correlated to cycle volatility management. Insurers have a difficult time redeploying their assets, since they are essentially intellectual assets with a large degree of task specificity and stickiness. Insurers also suffer from extensive reporting lags and potentially mismatched revenue and expense. These risks pose problems to the effective implementation of corporate strategy.

1.1.1 Assessment of Risk

Risk is a concept that denotes a potential negative impact to an asset or some characteristic of value that may arise from some present process or future event (Douglas and Wildavsky, 1982). In everyday usage, risk is often used synonymously with the probability of a known loss. Kimball (2000) defines risk management as the human activity which integrates recognition of risk, risk assessment, developing strategies to manage it and mitigation of risk using managerial resources. The strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk and accepting some or all of the consequences of a particular risk.

The risk equation has changed. Every large enterprise consists of a collection of businesses, each with a specific economic profile that includes both its upside potential and its downside risk. Many businesses entered the last decade with strong upside potential and moderate downside risk. But today, the reward/risk quotient for most firms has deteriorated for several reasons. On the upside, most companies have weaker growth potential than in the past. As products and markets have matured and international competition has intensified, many companies have seen average revenue growth rates decline from the 10-15% range to the 1-3% range. As a result of the decline in growth potential, companies have become less able to absorb risk than in the past (Slywotzky, 2004).

At the same time, the downside (the denominator of the equation) for most insurance companies is much larger than in the past. Greater risk can be seen in events such as the terrorist attacks of September 11 2001, and the collapse of numerous insurance firms amid charges of fraud and poor governance. There has thus arisen a need for firms to expand their view of risk. Instead of just defending against bad risk events, leading companies should define and anticipate the upside (reward generating) risks that, when well managed, can deliver the maximum rewards. The discipline of strategic risk management allows insurance firms to raise their growth potential in addition to reducing their economic volatility. This research will demonstrate to business executives how to avoid the biggest risk of all-not taking the right growth risks for the business.

1.1.2 Corporate Strategy

Chandler (1962) who describes strategy as "the determination of the basic goals and the objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals" is widely regarded as an example of a holistic definition of the concept of strategy. However, Porter (1987) observes that almost no consensus exists about what corporate strategy is, much less about how a company should develop it. This is due to a combination of factors that relate to strategy terms, concepts and principles, as well as their practical application.

Strategic management is the careful formulation, effective implementation, continuous evaluation and monitoring of strategy for the long-run direction and performance of organizations. Strategic planning is the process undertaken to develop a range of steps and activities that will contribute to achieving the organizational goals and objectives. Strategic planning is a management tool used to turn organizational dreams into reality. Strategic planning attempts to systematize the processes that enable an organization to attain its set goals and objectives. There are five general steps in the strategic planning process: goal/objective setting, situation analysis, alternative consideration, implementation and evaluation (Crittenden and Crittenden, 2000).

Corporate strategy focuses on the type of business that the firm intended to pursue, the plans and action to formulate and implement and how to share the scarce resources among various functional departments in achieving its mandates (Pitts and Lei, 2003). Andrew (1987) adds and says that the corporate strategy defines the "product and the market and determines the company's course into the almost indefinite future". Given today's highly dynamic business environment, there is a need for continuous risk assessment that ensures that the strategy being implemented is relevant to the changing economic context. This entails strategy content controls that realign strategy implementation with its changing context.

1.1.3 Insurance industry in Kenya

There are currently a total of 42 insurance firms in Kenya The bulk of insurance companies are local; the only multinational company represented is American International Group (AIG), which conducts general business. The market is dominated by a few key players. The top three companies control about one third of the total business. The top ten companies control 61 % of the market (First Reinsurance Brokers, 2006). In the recent past, poor economic growth resulted in cutthroat competition as insurance firms fought for a shrinking premium base resulting in undercutting to the extent that uneconomical premium rates were on offer, threatening the industry's stability. Insured firms badly hit by the economic downturn, sought ways to cut costs to remain in business and the insurance industry was a casualty. Some firms resorted to not insuring some of their properties, while others used their muscle to force insurers into taking low rates. Firms failed to pay their premiums resulting in a very high level of uncollected premiums.

Macroeconomic trends, such as regional integration, mergers and consumerism have influenced the insurance sector (Kerama, 2006) and have transformed economic models with an emphasis on earnings. Insurers are under continuous pressure to increase market share and share of disposable income; market forces such as the need to grow market share, provide services, expand distribution capabilities and improve operational efficiency have continuously pressured many insurance organizations locally to look for synergetic acquisitions and shed unprofitable or non-core business.

Kerama (2006) further argues that one way in which insurance firms have fought back against the unfavourable economic current is through the use of technology. Technology has helped reduce the insurance transaction cycle time (using standardized transaction processing systems); bypassed or eliminated elements of the value chain; automated internal processes; extended the virtual supply chain (through use of the Internet) and reduced costs of distribution, documentation and transactions. This in turn has helped improve shareholder value and has increased profitability.

1.1.4 Selected Life Insurance Firms in Kenya

The Life Insurance sector in Kenya is composed of 23 insurance firms (Raichura, 2007). This sector was selected because it is marked by many challenges including a low level of penetration of life insurance, a need to develop a high customer focus, a lack of extensive marketing and poor distribution strategies, the need for product innovation, low levels of trained man-power across the insurance value chain, rapidly changing Information Technology (IT) world and processes, occasionally ineffective operational, financial and risk management strategies, pricing wars and reserving requirements, lack of data and statistics, fierce competition and rate under-cutting, insolvencies and financial distress of insurers and Health Medical Organizations. The global emphasis on the need to move to fair value accounting and risk based capital and insurance company taxation policies also impact on their profitability. The sectors contribution to the national GDP is also very low as compared to other financial sectors like banking.

The low level of life insurance penetration is characteristic of developing countries such as Kenya. High poverty levels and low levels of awareness or lack of interest are factors that contribute to this state of affairs. This is in spite of these countries having high mortality rates owing to natural and man-made disasters. In formulating market penetration strategies, insurance firms need to factor in consumer apathy towards their life products owing to ignorance and complacency. There is a high risk of product failure owing to other more pressing priority areas that potential consumers may emphasize on. This is exacerbated by poor distribution channels and low levels of trained manpower.

Fierce competition among the life insurers for the small, largely stagnant market is another risk that must be managed. Industry risk is high, marked by price wars and rate-undercutting and the consumer base largely shrinking owing to the business down-turns. The implication for risk management is that the firms must embody holistic strategies that seek to counter both the short- and long-term risks of failure. Counter-measures must be put in place to handle the downsides that may lead to strategy failures. For instance, to counter the risk of new product failures, it is important to conduct market research and develop strategy in line with market preferences.

1.2 Statement of the Research Problem

Businesses today are exposed to greater risks across the board, ranging from political risks to product liability and environmental hazard risks. There are also a set of risks to strategy that have become increasingly disruptive. These include not just the obvious high probability risks that a new advertisement campaign or new product launch will fail, but other less obvious risks as well in areas such as technology and customer needs. Failure to anticipate and manage this spectrum of risks to strategy can expose a company to dramatic decreases in shareholder value and severe swings in stock prices. In today's highly competitive global environment, these failures in attaining key strategic objectives can prove fatal.

Slywotzky (2004) observes that in today's risk intense environment, firms must manage their economic and risk profiles more actively. The goal is not to eradicate risk, but to deliver the maximum reward for an acceptable level of risk. For most companies, traditional financial, property/casualty, and operating risks are unwanted by-products of the business. Risks to strategy are different in that companies need to assume and manage them in order to generate high returns. From a strategy viewpoint, risk and return, therefore, are two sides of the same coin. Given the nature and importance of strategy in firms, risks to strategy are therefore unavoidable consequences borne out of the firms' need to deliver on their vision and mission objectives.

Risks to strategy are further complicated by the complex nature of the global business environment. This complexity arises from contextual differences in the various markets that global firms may operate in espoused by their different value systems. Kenya as a country is not isolated from these complexities and indeed its unique social, political, economic and cultural landscape introduces perspectives that create a unique challenge in managing such paradox. Given the aforesaid, it is the purpose of this study was to establish how these risks to strategy have influenced the corporate strategy of life insurance firms in Kenya.

Various studies exist relating to strategy in the insurance industry and life insurance sector in Kenya (Guya, 1976; Abdullahi, 2000; Wanjohi, 2002; Lengopito, 2004; Wairegi, 2004; Mkamundul, 2005; Ogolla, 2005; Kerama, 2006; Kitur, 2006). None of these studies is an investigation of the influence of business risks on corporate strategy in life insurance firms in Kenya. This is the research gap that this study sought to address.

1.3 Research Objectives

To assess risks as a component of corporate strategy in selected life insurance firms in Kenya

1.4 Value of the Research

For the management of life insurance companies, a better understanding of the assessment of risks to corporate strategy will be a huge step in spurring effective development and implementation of company strategy. This will help reduce the risk to earnings or capital that may arise from either adverse business conditions or potentially improper implementation of business decisions. Also management will better be able to identify those risks that may pose the biggest threats in the local business environment and effectively manage these risks. They will be able to use the findings of the study to project potential pitfalls in strategy implementation and to develop counter strategies to manage such future hazards. This will be a useful tool in view of the dynamic business environment to which organizations are exposed. Consultants in the sector will also be able to use the study's findings to identify potential business opportunities in relation to assessment of risks and corporate strategy in the life insurance sector. They will be able to design solutions based on research studies such as this one to address problems to corporate strategy that the industry may face. The formal authorities whose duty is to conduct oversight in the sector will also derive value from the study. These include the Government of Kenya, the Insurance Regulatory Authority, and Association of Kenya insurers. They will be able to use the findings of the study to formulate viable policies that effectively address problems faced in the life insurance sector in relation to assessment of risks and corporate strategy. The study findings will add value to business and academic research with their contribution on the Kenyan scenario regarding how risks influence corporate strategy of life insurers.

The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks and managerial capacities and capabilities. Risks to strategy encompass more than an analysis of the written strategic plan. It focuses on how plans, systems and implementation affect the franchise value. It also incorporates how management analyzes external factors that impact the strategic direction of the company.

Unintentional risks are by-products of the strategy planning or execution process or cycle. For most companies, traditional financial, property/casualty, and operating risks are unwanted by-products of the business. Risks to strategy are different in that companies need to assume and manage them in order to generate high returns. Strategic risk and return, therefore, are two sides of the same coin. Some of the most important forms of strategic risk and the countermeasures that can be used to address them are as follows.

2.2.1 Market Stagnation Risk

Profitable firms have seen their shareholder value reach a plateau or gradually decline as a result of their inability to find new sources of growth in the face of market maturity. Market stagnation limits the upside potential part of the reward/risk ratio and sets up companies for value loss or stagnation. Stagnation is characterized by flat or declining volumes, price declines and a weak pipeline. The magnitude of risk from stagnation is characterized as high (Mango, 2007). This risk is highly correlated to cycle volatility management. Insurers have a difficult time redeploying their assets, since they are essentially intellectual assets with a large degree of task specificity and stickiness.

Insurers also suffer from extensive reporting lags and potentially mismatched revenue and expense. It could be argued that part of the impetus driving insurers to continue to underwrite business at inadequate prices is the need to fund current-year fixed costs ("plant" expenses). Stagnation may be aggravated by flawed organizational response plans to market price cycles, including maintaining premium volume and market share during price declines and improper performance incentives for underwriters.

Market stagnation risk has become extremely high for insurance as the world faces a global economic recession. Premiums have decreased as customers offload low-priority insurance burdens; life insurance in particular will suffer owing to the need for individuals to prioritize other more pressing needs like housing and mortgages. Underwriters too have become choosier in selecting their portfolios. This is occasioned by the high risk of business failures owing to inability to service debts and increased business risks.

2.2.2 Industry Economics Risk

Slywotzky (2004) observes that the nature of industry economics risk is characterized by capital intensiveness, overcapacity, commoditization, deregulation and cycle volatility. The magnitude of risk posed by these variables is very high and insurance markets suffer from all of these conditions. When an industry becomes mature and highly competitive, a series of changes tend to occur that can gradually destroy profit margins. Product and service offerings among various companies tend to grow similar and become commodities; customers get more and more access to competitive information; and customers grow more willing to switch suppliers based on a lower price. The risk that an entire industry will become a "no-profit zone" is one that every executive must always be cognizant of, but it's difficult to predict when and how it will materialize.

According to Rice (2001), first, there are the macroeconomic trends impacting all financial services organizations. There is a low inflation environment in all the key global economies. An integrated European marketplace has been created and there are trends towards economic unity in other regions. There has been consolidation and convergence throughout the financial services industry. There have been mergers within the insurance sector, mergers across financial services sectors and mergers with non-financial services institutions. The new economy has transformed economic models with an emphasis on earnings. Insurers are under continuous shareholder pressure to increase market share and wallet share, i.e. share of disposable income. The information model has also been reshaped, with the consumer as champion.

Financial services businesses that were once distinct are rapidly becoming one (Carr, 2007). Convergence has been steadily evolving. Disappearing regulatory barriers have paved the way for all segments of the financial services industry to sell similar products and services. Banks are well positioned to utilize their vast customer bases and distribution channels to cross-sell insurance products. They may also have more credibility than insurers to manage full service selling of financial products. Insurers have had to develop asset management and other long-term savings products. Many insurers are now players in retail banking, either directly or through major shareholdings.

As well as these global economic issues, the landscape of the insurance market has been significantly influenced by a host of market forces. The pace of consolidation in the financial services industry over the past few years is unprecedented and consolidation continues to be the dominant force reshaping the insurance industry around the globe. Driven by the need to grow market share, provide services, expand distribution capabilities and improve operational efficiency, many financial services organizations are continuously pressured to look for synergetic acquisitions and shed unprofitable or non-core business (Slywotzky, 2004).

Consolidation is the result of a variety of factors, including globalization of financial markets; homogenization of financial products; demands of customers who want to obtain a full range of financial services from a single institution; lack of opportunities for organic growth; existence of too many inefficient insurance companies; insurers seeking to acquire new distribution channels; access to better technology; and the need for entry into new markets through affiliations and acquisitions. (Rice, 2001).

2.2.3 Globalization Risk

Organizations operating in the global marketplace are forced to operate in a "high perceived uncertainty" quadrant: globalization has increased the complexity and the pace of "change" to which organizations must adapt and over which they have no control (Robbins, 1983). With "constant change" as the backdrop, organizations need to realize that their competitive strategy, which was successful domestically, will not be adequate to manage global competition. Apart from the resource-related factors, the risk factors (Tayeb, 1992) strongly tempt companies to go global. Investing in two or more nations enables companies to offset the economic troughs in one against the peaks in the others, thereby earning a net benefit.

It can be concluded that, while macro-level variables (organizational structure, and technology) tend to become more and more similar across nations, micro-level variables tend to maintain their cultural distinctiveness. Thus, *ceteris paribus*, the cultural dimension forms the backbone of organizations' strategies in their global balancing endeavors (Ronen, 1986). Therefore, organizations need to understand the cross-cultural issues which directly influence management practices. This necessitates maximizing peripheral vision and surpassing management biases which will facilitate continuous strategic redesign. It is important to note that globalization and regionalization (cultural literacy) are mutually reinforcing and complementary and help organizations improve their effectiveness.

The increase in the number of corporations becoming multinational (subsidiaries under the parent's control, independent national markets) and global (one single market, autonomous subsidiaries and pressures for cost competitiveness and local responsiveness) operating over wider geographical areas and under more diverse socioeconomic and cultural conditions has resulted in greater uncertainty for managers. Uncertainty means that decision-makers do not have information about environmental factors, which increases the risk of failure for organizational actions. Information gathering is the first step in the decision-making process (McLarney, Dastrala and Cowan, 2001).

Failure is often due to incomplete or superficial research by organizations, or delayed inflow of information. Based on this information, decision-makers make choices about goals, budget allocations, personnel, and the ways in which work is to be done to improve the effectiveness. This necessitates the allocation of weights, development of alternatives, evaluating the alternatives and selecting the best option. Decision failure, in most cases, is because of organizational myopia and the thrust for short-term monetary gains.

Global companies, in general, face challenges in three broad areas: the strategic planning aspects of their business, internal organization, and the interface between internal and external aspects of their activities (boundary management) (Tayeb, 1992). Interface activities require not only business competence and negotiating skills but also the ability to cope with the national and cultural diversities of the context.

Lachman (1983) argues that only those adaptations that are consistent with and legitimized by the core values will be more effective. Thus, if an organization engages in activities that oppose (or challenge) the local cultural values, culturally based resistance may impede the inflow of resources that are required for effective organizational functioning. Careful preliminary assessment of compatibility between local core values and those underlying organizational structures may prevent costly and sometimes irreversible mistakes of implementation of structures and practices that do not match the local environments. Cultural congruence is the adaptation of the corporate culture of the firm to the local culture of the host country and is imperative for global success.

2.2.4 Customer Risk

Another strategic risk is that customer' priorities will shift quickly, reducing demand for a firm's current product or service offerings. One powerful countermeasure for managing customer risk is the use of proprietary information to anticipate the next evolution of customers' priorities. This risk can be classified as moderate but can be a big issue for large commercial insurance businesses (Slywotzky, 2004). Customers are a driving force behind much of the change occurring throughout the financial services industry today and their changing needs easily renders innovations obsolete and unprofitable.

As technology has become more user friendly, consumers have become more self-sufficient. The share of financial services purchases made through affinity groups has increased. The role of traditional independent financial adviser (IFA) is being dramatically changed. IFAs now need to focus on greater value delivery in order to remain relevant in the industry. At the same time, access to a multiplicity of distribution channels (e.g. call centers, Internet) has raised consumer expectations for products and services. However, insurers have made little progress in moving from IFAs and brokers to alternative channels (Rice, 2001).

If there is over supply of goods, consumers may choose what and how much to buy from an insurance firm at will. If there are substitute products, the consumers of insurance products may use perfect market information and push for backward integration (Pearce and Robinson, 2005). Over time, consumers gain power when the numbers of suppliers of undifferentiated insurance products increase in a market. As a result they become price sensitive and can easily switch to a rival competitor in case of a substantial price increase by a given seller (Porter, 1980).

Thus, consumers can exert influence and control over an industry when there is little differentiation over the product (standardized products) and substitutes can be found easily; customers are sensitive to price; and switching to another product is not costly, there is a low concentration of customers-probably a few dominant consumers and many sellers in the industry, where customers are making big profits, differentiation of product and services quality encouraging a move towards those insurers offering high quality and ability of consumers to achieve backward and forward integration in the industry.

Price can be said to be the amount of money consumers are willing to pay for insurance services. The best competitive advantage in a market is the lowest price. In order for a product to command a reasonable price relative to the market, the value chain process must be well configured to generate efficiency and so as to contribute to the final selling price. Some sellers use various pricing policies such as cost based while others may use market based approach (Kotler, 2004). Consumers are highly price sensitive and almost always tend to switch to the lowest costs alternative.

2.2.5 Regulation and Deregulation Risks

The government is a major player in markets and marketing in the sense that it gives the legal rules of the game in a given political environment. Conducive political environments offer security for businesses to thrive. Stringent government regulations introduce checks, such as on substandard or unroadworthy goods entering the market, hence protecting citizens from exploitation; or it can be such that the rules are acting against industry players to facilitate ease of trading. The government must also be careful of retaliations between stakeholders and formulate policy on how to handle the consequences (Pierce and Robinson, 2005). Entrepreneurs in rigidly controlled environments tend to get demotivated and labour turn over might be experienced.

Regulatory changes are dismantling the protective barriers that once separated insurance companies and commercial and investment banks (Rice, 2001). Cross-border regulations are being standardized. Forced to compete with more nimble, lower cost, customer-focused providers, financial services institutions are reassessing their value and positioning in the marketplace. Access to capital is imperative, hence the focus on demutualization. Host government's role, in international business, is essentially that of a catalyst, to facilitate organizational goals by way of encouraging policies that would create more demand in the long run. Organizations sometimes ignore the legitimate role that governments play in shaping the context and the structure surrounding them that stimulate (or subdue) their competitive advantage. Host governments especially can quite easily nullify an insurance firm's source of competitive advantage.

Governments at all levels (local, state and national) affect the resource transactions of organizations in two general capacities (McLarney et al., 2001). First, as a source of authority specifying what types of negotiations and exchanges can legally occur among organizations. Second, as parties that directly engage in transactions with organizations, exacting resources from some and providing them to the others.

The misfit between the organization and the local government objectives causes a continuous power struggle which, obviously, involves a moral and social cost. Hence the organization should work for the transformation of those power relationships into mutual trust and cooperation; that means flexibility and inventiveness become a necessity. Thus, organizational models have to be continuously confronted with reality. Organizations should learn from observation and practice but have to admit their cognitive limitations because of the rapidly changing environmental dynamics (time and space).

2.2.6 Technology Risk

Slywotzky (2004) notes that when a new technology takes hold in the marketplace, specific product and service offerings may become obsolete in short order. For example, in recent years mobile telephony has stolen market share from fixed-line voice communications, and digital imaging has taken share from film-based photography. The use of e-business and the Internet for purchasing and servicing financial products is still relatively new, but is having a profound impact on the industry, in the areas of increasing revenues and reducing costs. New technology challenges the traditional insurer; it changes distribution channels, it can devalue brands, it can facilitate customer relationship management and it is an enabler of change. Technology can help companies to increase revenues by allowing them to enter new markets, attract and win new customers and develop customer and market insight.

Carr (2007) warns against implementing new technologies in a rush to gain competitive advantage. Carr describes information technology as a commodity. And he compares IT to electricity in the 1800s, which he says gave companies strategic advantage until everyone began using it. According to Carr (2007) any technology that can be protected and kept private, often through a patent or an exclusive license, is proprietary. Proprietary technologies can provide a strong source of competitive advantage, because they're hard for competitors to copy. The defining characteristic of an infrastructural technology, on the other hand, is that it provides its greatest value and its greatest productivity gains only when it's broadly shared by many companies and industries.

Most IT-based competitive advantages simply vanish too quickly to be meaningful. When information technology was in its early stages of adoption, it tended to be very expensive. At that time, it was hard to create new software, expertise hadn't yet diffused throughout the industry, and it was difficult for competitors to copy innovations. Since then, IT has matured as a technology. It's become cheaper, more standardized and homogenized, and best practices are shared widely (Pine, 1992). These things erode its ability to provide competitive advantage, because they make it easier for competitors to replicate any new innovation. A firm can still be an innovator with IT, but the advantages that those innovations create tend to vanish quickly as competitors and vendors copy what the firm has done and incorporate it into their own systems or their own products.

Software and hardware are both viewed as commodities as business IT hardware has become increasingly commoditized (Carr, 2007). As companies adopt different systems and as vendors compete to sell them to more and more customers, any valuable system tends to be copied throughout an industry. Most IT expenditures for insurers can be looked at as costs of doing business rather than as a way to gain a competitive advantage. The insurance industry can take advantage of this through looking for ways to standardize their systems, consolidate their systems and capitalize on the commoditization trend to push down the cost of computing within a company. Taking a more conservative approach toward IT can really pay off for insurers as we continue to move into this more commoditized IT world.

Commoditization and loss of competitive advantage arise because the great value of IT comes when it becomes standardized. When all companies own systems that can be integrated easily within their organization and with their suppliers' and customers' systems, there is great benefit. The need to standardize, in effect, promotes commoditization because it turns the technology into a shared infrastructure, just like the rail system or the electrical grid.

The great danger of expecting too much from information technology is it often leads firms toward customized software, which sometime is necessary, but shouldn't be the default position. For many companies today, the biggest IT risk is an integration challenge (MacDuffie and Helper, 2003). Making all the customized systems that they've invested in over the years work together in a seamless way is a challenge. The worst thing the firms can do at this point is to perpetuate those integration difficulties with innovative systems designed to bring competitive advantage.

In order to make IT more valuable to business, firms must find ways to capitalize on the commoditization trend in order to drive down the cost of computing while still getting all the capabilities and benefits they require. Second, it is important to be wary of trying to be an IT pioneer (Day. and Bens, 2005). If a firm is out on the cutting edge, it will pay a lot more and assume on a lot more risk. Therefore, in most cases, it makes sense to be a fast follower, wait for standards to emerge and costs to come down. Finally, if the firm is going to seek IT innovation, it should look to see if there are ways to push down the costs of being an innovator on to suppliers or other partners. And it should make sure the competition will face barriers to replicating the innovation. If there's no way to reduce the cost of being an early mover and there are only weak barriers to competitors copying what the firm is doing, then being an IT pioneer probably is foolhardy.

2.2.7 New Project Risk

Project risk is characterized by the failure of Research and Development (R&D), information technology, business development, value-destroying mergers and acquisitions. They are also notoriously small investors in R&D and IT, which is ironic given the nature of the intellectual capital franchise. This risk is categorized as high (Mango, 2007). Any new product or service venture involves various risks e.g. it will fail to attract profitable customers, competitors will quickly copy it and poach market share, and the venture's growth will be too slow or costly.

Many new products ultimately fail in the marketplace, resulting in massive financial losses (Urban and Hauser, 1993). Although in financial services it has been claimed that financial losses can be low, there are numerous hidden costs to be considered. These include the waste of managerial time and effort, the effect of failure on corporate image, and the loss and constraints implied from used resources. Furthermore, the product may not be withdrawn once launched, and resources have to be absorbed in maintaining and supporting it for existing users.

In services, co-ordination and co-operation are further relied on as service heterogeneity leads to greater interdependence between operations and marketing. Synergy appears to be an underlying requirement for success in the services industry. Synergy is not, as a number of researchers have misinterpreted, the extent to which a new service fits the competencies of the firm (Atuahene-Gima, 1996). The service must benefit from the strengths and facilities in such a way that the combined effort is greater than the performance would be if the new and established services were working apart. In prioritizing new service ideas, synergy emerges as a strong predictor of success in terms of the firm's ability to benefit from its existing delivery systems, human resources, sales and market research and managerial skills.

It is important to determine which of these factors induce a significantly different performance among services. The factors may well appear in both successful and failed services, but it is the intensity with which they were carried out that significantly discriminates between the two. Efficiency affects the success and failure of a new service. In the literature regarding goods, the quality of execution is strongly associated with project outcomes. For example, a strong market orientation, marketing proficiency, implementation of market research, and effective advertising, promotion and launch were found to be correlates of success (de Brentani, 1991).

Examples of well managed, efficient activities are defined as follows: formal as opposed to informal planning, well defined product concept screening, good market research, measurement of performance, clearly defined benefits and a well defined target market. Service development is not known for physical prototype testing, but there is a need for the testing of the service systems. Such improvements of technology and the adaptation of systems can improve the cost performance of financial institutions (Johne and Storey, 1998).

It is well-known that a strong marketing orientation, that is understanding and responding to customer needs, and involving the marketing function throughout the development process, is as important for developing successful services as it is for developing new physical products (de Brentani, 1993). This is achievable by acquiring knowledge through the results of efficiently conducted and detailed market research, although in financial service firms the use of classical test marketing is often considered limited .

Proficiency in launch effort necessitates clear and detailed documentation of the various activities. Details of activities associated with promotion may need to be specified regarding the correct use of advertising skills and promotion strategies. Expenditure on distribution is also important in launching a new service efficiently, or with quality. Atuahene-Gima (1996) found that, for financial and computer services in Australia, the proficiency of launch activities had a significant and positive impact. Launching at the wrong time increased the probability of failure.

The findings presented by Edgett (1993) and others tend to corroborate preliminary evidence which suggested that a formal approach to the development of products has not been applied by financial institutions, although, in Johne and Storey's (1998) review of the new service development literature, it was noted that top performing banks have more formalized and better structured development programmes than lesser performing banks. It has been noted that there are many reasons for success and failure. There has been notable insight from previous studies suggesting that both services and manufacturing firms need to give attention to similar factors, but with different degrees of emphasis to ensure higher innovation performance.

2.2.8 Competitor Risk

Competition is the normal equilibrium of business. Competitor risk refers to the possibility that a one-of-a-kind competitive threat will emerge to take aim at a market and perhaps drive established companies out of business. These competitors could be global rivals, or gainers who pose a moderate magnitude of risk (Mango, 2007). There are potential entrants in every market who want to penetrate through lines of weaknesses of the existing firms in the industry. If entry barriers are high and exit barriers low, such markets are attractive, as they are considered to have high profit potential. Markets with low barriers to entry but high barriers to exit trap firms in and such firms only compete for survival with low profits (Porter, 1980). An entrant may be having a heavy capital investment and this would give the firm an advantage in terms of mass production and ability to access distribution channels. The firm may be having a strong brand and unique product differentiation.

The threat of new competition is high when it is easy for new competitors to enter the industry i.e. entry barriers are low (Pearce and Robinson, 2005). New entrants will look at how loyal customers are to existing products, how quickly they can achieve economy of scales, whether they have access to suppliers and whether government legislation prevents or encourages them to enter the industry. The threat of new entrants is also high if the industry offers economies of scale, high capital/investment requirements, low customer switching costs, good access to industry distribution channels, easy access to technology, low brand loyalty encouraging switching, low likelihood of retaliation from existing industry players and favorable Government regulations such as subsidies and tax incentives.

The intense rivalry among the existing competitors would mean that firms might find it difficult to expand market share. Capital cost might be high and hence exit barriers will also be high. Therefore, in order to secure a large market, firms start advertising and price wars become common. Due to this, price reductions occur and by so doing, reduce the margins of the competing firms (Porter, 1980). If entry to an industry is easy, then competitive rivalry is likely to be high. If it is easy for customers to move to substitute products then again rivalry will be high.

Generally competitive rivalry will be high if there is little differentiation between the products sold between customers; competitors are approximately the same size; competitors all have similar strategies; and it is costly to leave the industry hence they fight to just stay in. This is basically true to the insurance industry in Kenya where the market is constricted and the products are basically homogenous leading to a lot of undercutting between the insurance firms. A firm carrying huge fixed costs might find it difficult to leave the insurance sector in the event of increased competition. It must struggle to analyze the complex information in the market so as to outsmart its rivals in terms of business. If the firm has highly differentiated products and strong brands, it can survive (Pearce and Robinson, 2005).

Thus, industry rivalry is determined by the structure of competition - rivalry will be more intense if there are lots of small or equally sized competitors and will be less if an industry has a clear market leader; the structure of industry costs-industries with high fixed costs encourage competitors to operate at full capacity by cutting prices if needed; degree of product differentiation-industries where products are commodities (e.g. steel and coal) typically have greater rivalry since the is low product differentiation; switching costs-rivalry is reduced when buyers have high switching costs; strategic objectives-if competitors pursue aggressive growth strategies, rivalry will be more intense. If competitors are merely "milking" profits in a mature industry, the degree of rivalry is typically low; and exit barriers-when barriers to leaving an industry are high, competitors tend to exhibit greater rivalry.

Typically, discussions of the benefits of competition and regulatory reform focus on price and quantity effects in the market under consideration. However, improvements in certain infrastructure services also can stimulate entry and competition in downstream user industries, allowing new firms to enter, incumbent users to offer new products, and rivalry to intensify (Porter, 1980). To the extent that reform spurs innovations in infrastructure services and these innovations in turn generate substantial new downstream activities, the economy wide benefits of regulatory reform are likely to be substantially greater.

Predatory pricing is a significant risk, since market share can be grabbed fairly easily by carriers willing to write the coverage at a discount to incumbent carriers. Such carriers normally charge lower underwriting costs compared to the incumbent. There is also the risk of entrance into new (or significant growth in existing) lines or territories with inadequate underwriting expertise, pricing systems, price monitoring capabilities, policy servicing capabilities, understanding of regulatory requirements, claims handling staff, etc. Destructive competition from multiple competitors simultaneously targeting the same market segment (unilateral planning, failure to anticipate strategic changes of competitors) is an added risk (Mango, 2007).

2.3 Risk Mitigating Measures

Companies exploring the frontier of management of risks to strategy don't hide from risk. Instead, by actively defining and preparing for risk, they make themselves less vulnerable to risk events than other companies. This allows them to be both aggressive and prudent in pursuing new growth and to avoid possibly one of the biggest business mistakes-not taking the right growth risks for the business. Furthermore, they use their insights into the nature of risk to raise their value to customers.

Applying proprietary information and unique know-how to the risk challenges their customers face, they ally themselves more closely with customers, establishing long-term planning connections, multiple points of contact, and more powerful, longer-term relationships. This reduces customer turnover, which in turn diminishes long-term strategic risks for both customer and supplier. By definition, a higher-risk environment makes it harder for businesses to protect and grow shareholder value. The right mindset and an arsenal of countermeasures can help companies improve their risk/reward profile in these volatile times (Rice, 2001).

The best countermeasure to hedge against market stagnation risk is innovation, which involves redefining your customer offerings so as to broaden your market, expand the value you can offer your customers, and strengthen your relationship with them (Rice, 2001). The increase in context turbulence and the constant nature of discontinuous change in today's economic and competitive environments make it crucial for firms to learn to govern contradictions (Nonaka and Toyama, 2002). The consequences of the environmental changes that have occurred in the recent past have, in fact, made it essential for firms to be capable to innovate more rapidly in order to keep up with the shortening of product/industry life cycles and with the general increase in global competition.

Market research provides a means for understanding the consumer purchase decision and anticipating consumer behavior. In the product development process, use of market research focuses on identifying opportunities for product innovation and understanding the evaluative criteria used by the consumer in reaching a purchase decision (May-Plumlee and Trevor, 2006). Product development methods and models used by firms include focus groups, limited rollout, concept tests, show tests and clinics, attitude and usage studies, conjoint analysis, Delphi technique, quality function deployment, home usage tests, product life cycle methods and synectics (Mahajan and Wind, 1992).

The most effective proven countermeasure to industry economics risk is to shift the compete/collaborate ratio among the relevant firms. Collaboration can take many forms including sharing of back-office functions, asset sharing or co-production agreements, repair or maintenance collaboration, purchasing and supply chain coordination, joint research and development, and collaborative marketing. Most companies begin collaborating five to ten years too late. When the industry is new and growing and margins are fat, the industry can afford to support a compete/collaborate ratio close to 100/0. The ratio begins to shift only when margins have eroded, as has happened with airlines, utilities, steel, computing, and memory chips. The challenge is to anticipate the threat and prepare by laying the groundwork for collaboration in advance (Rice, 2001).

ERM modeling can be used to manage industry economic risk through simulation based testing in asset risk management. Asset strategies are tested by simulating the returns of portfolios selected by different strategies. Each strategy is represented as a set of asset selection rules. These rules are repeatedly applied to "rebalance" the portfolio in response to the environment changes as the simulated scenario progresses. Examples of rebalancing activities might include selling bonds that have matured, reducing allocation to an asset class that has appreciated in value relative to other classes or buying more taxable or tax-exempt investments in response to portfolio tax position.

This process is repeated for each strategy, for each scenario. The "best" portfolio is the one whose distribution of total returns is valued most highly (Mango, 2007). The evaluation can be based on both reward goals and risk constraints. The first step in strategy testing is the capture and encoding of essential environmental variables necessary to determine the "state of the world" and, therefore, ultimately used to select the course of action. Users must also define performance quality in terms of desirable goals (net income, economic value) and undesirable downside constraints.

The trend to commoditization can be contained through patenting. Patents granted by a country generally prevent people other than the inventor from making, using, offering for sale, selling the invention, or importing the invention into the country concerned for a period of time, usually 20 years. Besides patents, there are other forms of intellectual property protection afforded by international agreements and national laws including copyrights, trademarks, geographical indications, industrial designs, layout designs of integrated circuits and trade secrets. Nevertheless, of these, patents provide the strongest form of intellectual property protection (Hicks and Holbein, 1997). The common characteristic found in all these various forms of intellectual property protection is the exclusive right to exclude others from certain activities.

Underlying responses to global competition/risk has been the recognition of the role of product and process improvement in business strategy. Throughout the 1990s, firms examined and, in many cases, changed their quality focus. Instead of relying on inspecting quality into products, they emphasized improving product and process design, implementing process control, and continually improving processes. Total quality management became a major element in corporate strategy. Indeed significant numbers of large firms adopted quality programs during the 1990s (Hiam, 1993) though with mixed results.

Top management's strategic priorities are defined as management's strategic orientation towards achieving competitive advantage and how their organization competes in the market place. Five priorities frequently cited in the literature were identified: flexibility, quality-based differentiation, low-cost production, innovation, and time-based competition. As described earlier, quality management has played an increasingly prominent role in strategic planning in recent years. While a plethora of approaches to quality management have been used, little agreement exists on how to deploy them, what programs work, and how specific initiatives relate to broader strategic objectives (Greene, 1993).

One powerful countermeasure for managing customer risk is the use of proprietary information to anticipate the next evolution of customers' priorities (Rice, 2001). In both business and consumer markets, there are ample opportunities to take on the challenge of helping customers reduce their own risks. By doing so, suppliers can expand their revenue and profit streams, strengthen their customer relationships, and further improve their ability to plan.

On the consumer side, risk is more commonly perceived in terms of time, hassle, and security. For instance, coping with a car accident is the most time-consuming and hassle-filled experience associated with car ownership.

When considering regulation/de-regulation risks, it is imperative to realize that organizations, as open systems suggest, are never in complete equilibrium with their environment. Any view of absolute stability or full compatibility is just a mirage. Depending on the organization's pace of adaptability, it may be in a state that is close to or far from equilibrium (McLarney et al., 2001). Essentially, the external environment comprises socio-cultural, economic, legal, political and technological variables, of which the socio-cultural and the political are the controlling parameters. The factors in the social environment like structure, social values and expectations, often influence the social matrix.

Similarly, governments at both national and local levels can affect companies, not only on a day-to-day basis through laws, policies and its authority, but also at a strategic level by creating opportunities and threats (Porter, 1980). Often political analysis is necessary in managing change: finding who is antagonistic, who is supportive, and what avenues need to be pursued for implementation. For firms to be to be truly effective they must understand and adapt to the core cultural values of the host country. By ignoring these values, they risk not being able to secure the necessary resources for their organization. Thereby they put the organization at risk of failure in the foreign venture.

Smart managers "insure" against technology risk by double betting, i.e. investing in two or more versions of a technology simultaneously. That puts them in a position to survive and thrive no matter which version emerges as the winner. The winning firms are those that will add value, the losers will not. Insurers must redefine themselves as "sense and respond" organizations. They must listen to their customers and change quickly to address these needs.

The winners will be those insurers who know what business they want to be in; focus on long-term revenue growth; are cost-effective; organize around the needs of the customer; attract and retain the right people; develop alternative distribution channels; and who invest appropriately in technology (Rice, 2001).

The two crucial countermeasures that companies should use to manage competitor risk include an early warning system and, when appropriate, a shift in business design to respond to the threat when it appears. An early warning system means continually scanning the competitive horizon, mapping the moves of major companies in and around the marketplace (Rice, 2001).

Foreseeing the onslaught of an extraordinary competitor isn't enough by itself; the firm must be ready to shift its business design (changing customer selection or value proposition or both) as needed to establish a survivable niche. This could entail cost leadership, differentiation or focus strategies (Porter, 1980).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter introduces the research procedures deployed in conducting the study. These include the research design, data collection and data analysis methods.

3.2 Research Design

The research employed an descriptive survey design. Kotler and Armstrong (2001) observe that this method is the best suited for gathering descriptive information; where the researcher wants to know about people's feelings, attitudes or preferences concerning one or more variables through direct query.

3.3 Population of the Study

The population of the study consisted of only those insurance firms involved in life insurance. These are a total of 23 firms (Appendix 3). Since the population is small, the study adopted a census design.

3.4 Data Collection Method

Data was collected by means of a questionnaire, which consisted of open-ended questions, closed-ended questions and matrix-type questions (see Appendix 2). These were administered to the respondents using hard copies sent by hand or soft copies sent via electronic mail. For those sent by hand, the "drop and pick later" method was used. The questionnaire was divided into Part A, which attempted to capture general information about the respondent organization, and Part B, which addressed the objectives of the research. The respondents were senior managers whose functional role included company strategy affairs. One questionnaire was submitted per respondent organization. SPSS software was used to analyze the data.

3.5 Data Analysis Method

Data analysis was conducted using descriptive statistics, which included measures of central tendency, measures of variability and measures of frequency among others. According to Mugenda and Mugenda (1999) descriptive statistics enable meaningful description of a distribution of scores or measurements using a few indices or statistics. Measures of central tendency (the mean values) gave us the expected score or measure from a group of scores in a study. Measures of variability, such as standard deviation, informed the analyst about the distribution of scores around the mean of the distribution. Frequency distribution showed a record of the number of times a score or record appeared.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter discussed the findings of the research in relation to the research objective. Just to recap, the research had one objective. This was to assess risks as a component of corporate strategy in selected life insurance firms in Kenya. In order to attain this objective, a descriptive survey study was conducted. The research instrument used was a questionnaire administered by the researcher. The questionnaires were mostly well filled albeit some had blanks left. The response rate was 57%, which was considered satisfactory in line with Mugenda and Mugenda's (1999) observation that a response rate of 50% is sufficient for purposes of statistical analysis.

4.2. Analysis of Company Bio-Data

Table 4.1: Company Bio Data

		Count	Col %
The answer that best represent the ownership composition of your company	Local	9	69.20%
	Part local/ part foreign	4	30.80%
Group Total		13	100.00%
Kindly indicate whether your company is	Private owned	10	76.90%
	Part private/ part public	1	7.70%
	Public owned	2	15.40%
Group Total		13	100.00%
Is your company listed on the Nairobi stock Exchange	Yes	2	15.4%
	No	11	84.60%
Group Total		13	100.00%
Indicate below the best representation of your company's size in terms of number of staff	10-50	2	15.40%
	50-250	8	61.50%
	Above 250	3	23.10%
Group Total		13	100.00%

This section presented the findings of the first part of the questionnaire appertaining to respondent bio-data. The findings are presented in Table 4.1 and Figures 4.1 through to 4.4. Of the firms that responded, 69.2% were local while 30.8% were part local-part foreign owned (Figure 4.1).

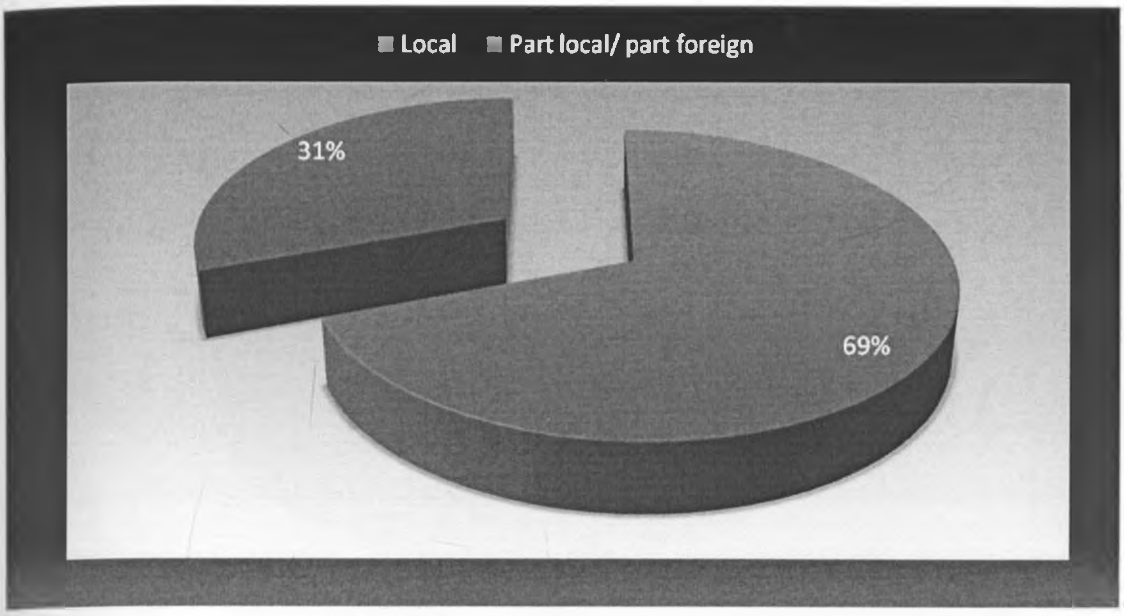

Figure 4.1: Proportion of Firms that were Locally Owned to Part Local/Part Foreign

Again, 76.9% of these were private, 15.4% were public firms while 7.7% were part private/part public companies (Figure 4.2).

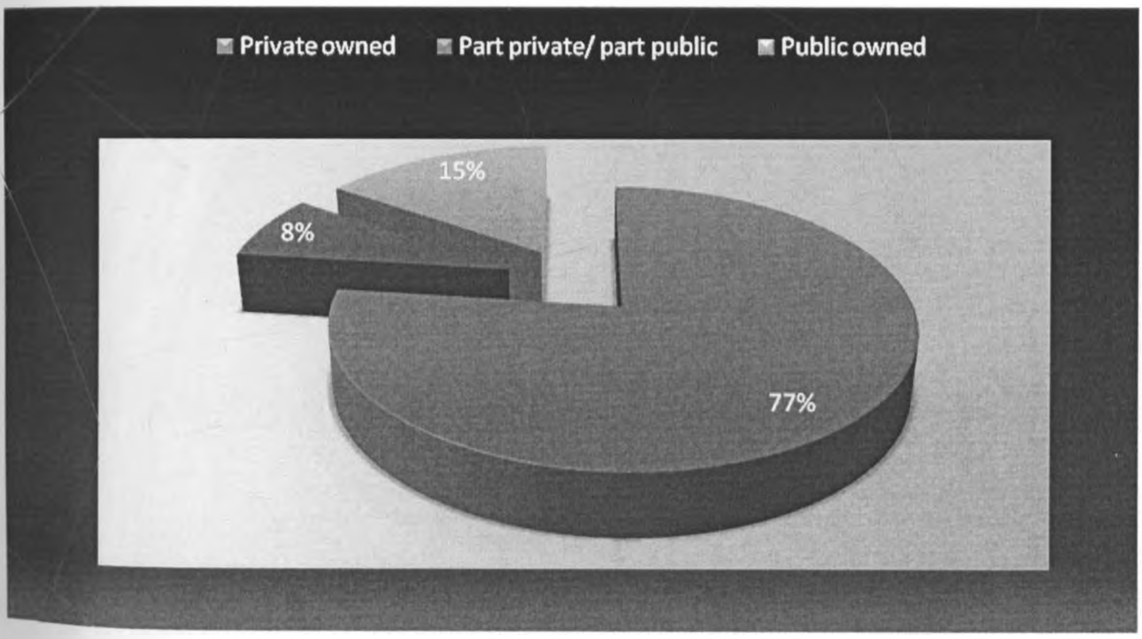

Figure 4.2: Private versus Public Ownership

With regard to listing in the stock exchange, 15.4% were listed while the majority 84.6% were not listed (Figure 4.3).

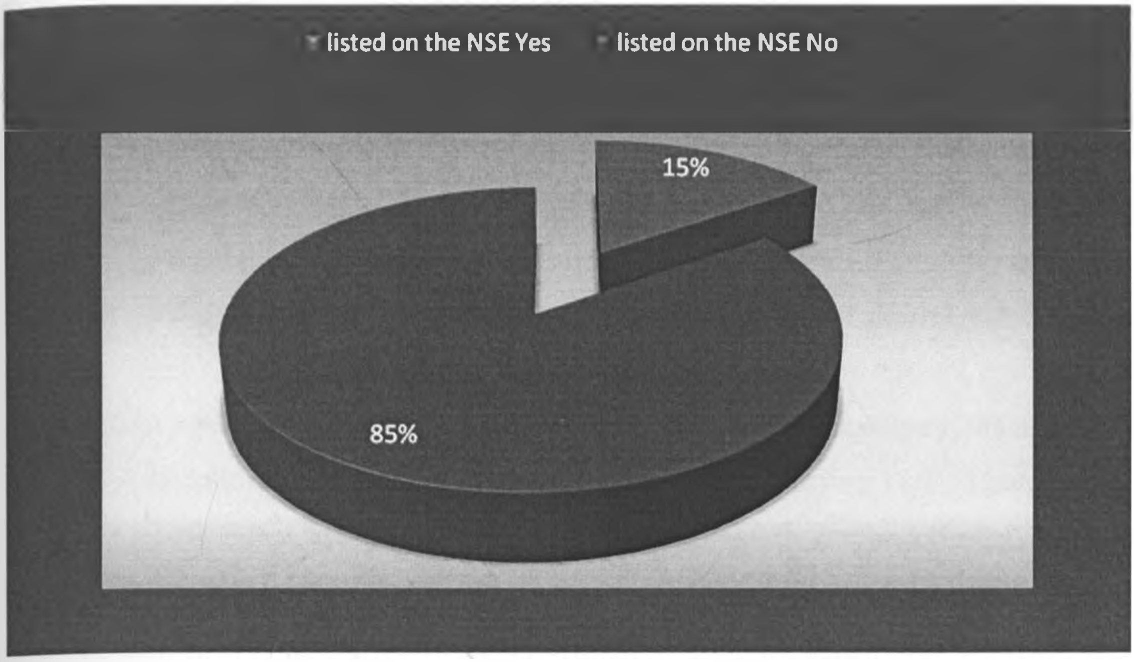

Figure 4.3: Listed versus non-Listed Firms

Finally, of the firms interviewed, 15.4% had 10-50 staff members, 61.5% had 50-250 staff members while 23.1% had above 250 staff members (Figure 4.4).

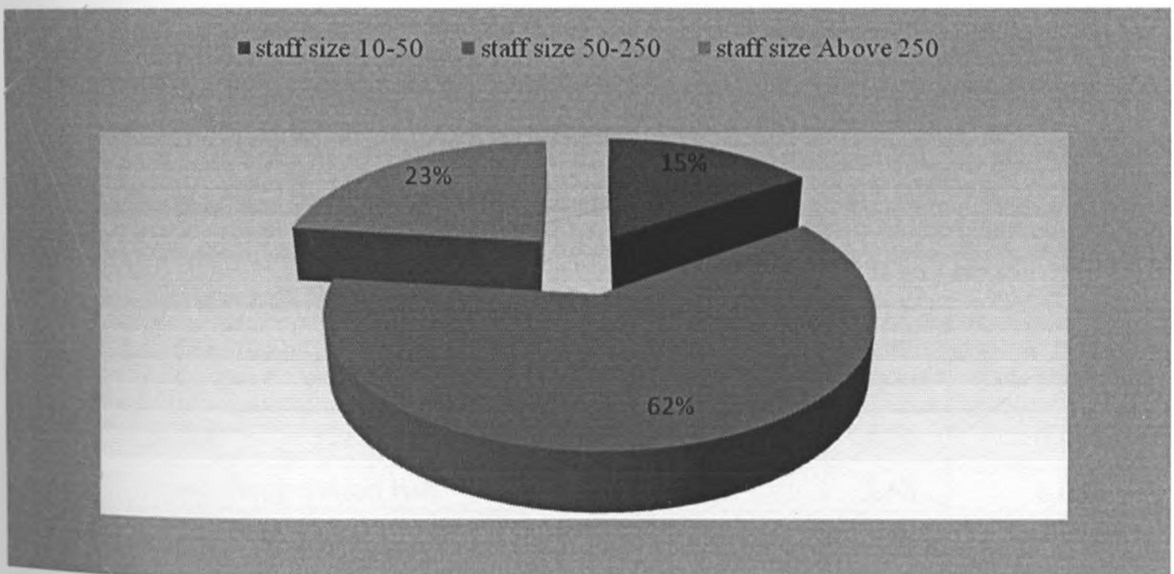

Figure 4.4: Best Representation of Staff Size

4.3 Analysis of Responses in Relation to the Research Objective

This section analyzes the results of primary data collected addressing the research objective. This data relates to eight major risk categories that were identified in the literature review as affecting the insurance industry. The data is presented in graphical and tabular form for ease of interpretation and inference. Relevant literature was weaved in to support key observations of the major findings. Findings were discussed in relation to the five point Likert-type scales with the rankings '1 = no extent' to '5 = greatest extent', to rank the various risks according to the extent to which they affected the industry. For each response category, the mean values and standard deviations were computed using SPSS software (version 11.2). Mean values are an indicator of the extent of the influence of each risk parameter on the industry. High mean values for a given risk variable indicates that that variable had a large effect and vice versa.

The observed mean values were notionally rounded off to two decimal places and assigned a meaning derived from the nearest corresponding point on the Likert scale, e.g. 1 = no extent, 2 = small extent and so on. The standard deviation values are an indicator of the extent to which respondents were in agreement over the extent of the effect of any given risk parameter on the industry. For purposes of this study, standard deviations greater than 1.00 indicated a high dispersion about the mean (high levels of disagreement) while those below 1.00 indicated a relatively high clustering about the mean (close agreement). The former implies that the respondents differed widely in how they rated the given risk aspect while the latter implies that they gave largely similar ratings.

Table 4.2: Means and Standard Deviations for the Variables

Risk Type	Mean	Std. Deviation
Competitor risk	4.00	0.953
Regulation and deregulation risk	3.58	1.084
Industry economics risk	3.55	0.934
Customer risk	3.42	0.793
Market stagnation risk	3.36	1.206
Technology risk	3.17	1.030
New project risk	3.00	1.044
Globalization risk	2.55	0.522

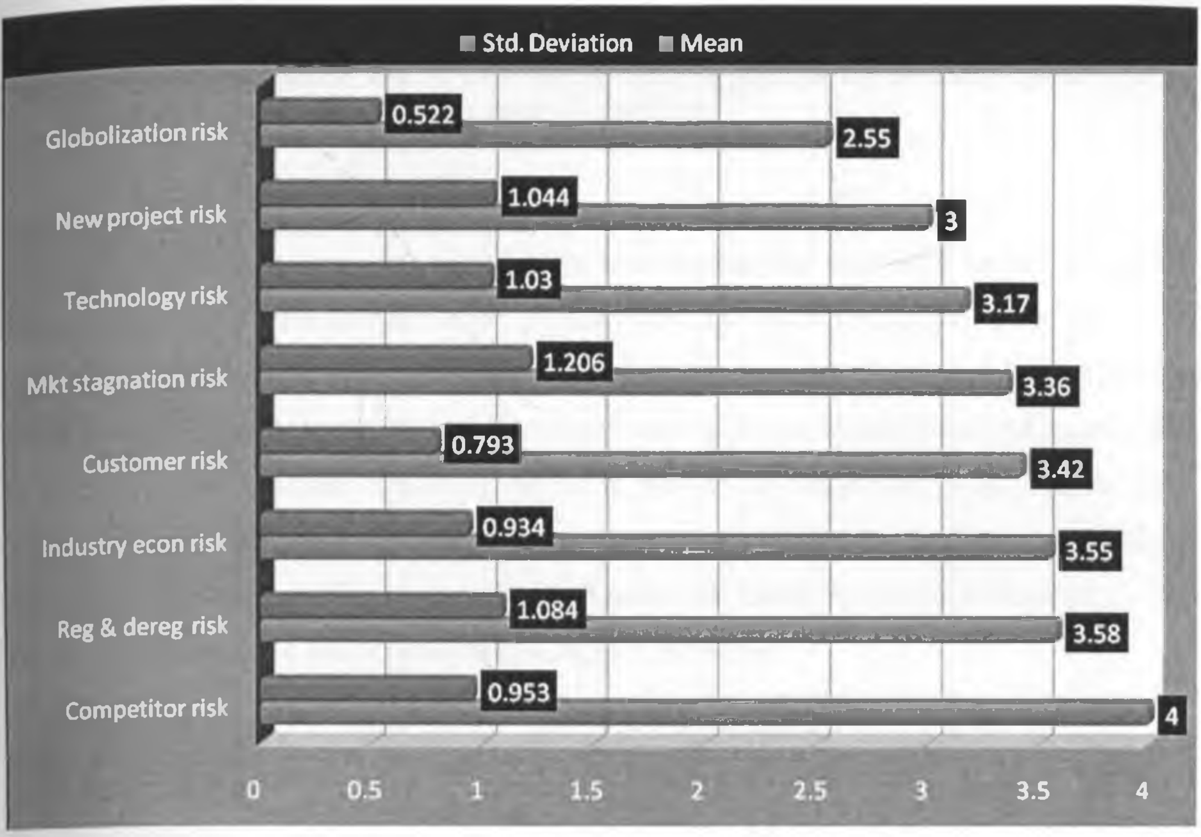

Figure 4.5 Means and Standard Deviations Illustrated

4.3.1 Competitor Risk Attributes

This risk attribute had the highest mean value of 4.00 (a high extent) and a standard deviation of 0.953, that indicated relatively close agreement among the respondents regarding its threat level to industry strategy. Other attributes from the unstructured responses are indicated in Table 4.3 below.

Table 4.3 Competitor Risk Attributes

Risk Categories	Attributes
Competitor Risk	Companies compete for the restricted market which is not made any better by the worsening economic situations
	Fund managers targeting large guaranteed retirement funds to invest on segregated basis
	Low fee levied to retain clients while providing no guarantees

The feature of low fees levied to retain clients while providing no guarantees reflects the observation by Mango (2007) of destructive competition from multiple competitors simultaneously targeting the same market segment. There are no guaranteed returns despite the tactic used. Competitor risk is also seen in the competition for as static market and for mutual funds.

4.3.2 Regulation and De-regulation Risk

This risk aspect had a mean value of 3.58 (a high extent) and was rated second among the risk classes. A high standard deviation greater than 1.000 indicated lack of close agreement among the respondents as to its effect. Rice (2001) observes the removal of protection barriers that characterized the financial services industry. From Table 4.4, raised share capital is one such instance where regulation moves to protect the consumer, rather than the firm. There is also the insistence by Government on separating business lines (life and non-life) to allow increased development as well as an insistence that firms be run professionally.

Table 4.4: Regulation and De-regulation Risk Attributes

Risk Category	Attributes
Regulation and Deregulation Risk	Some firms struggle to comply with the raised share capital for life insurance
	Firms to be run professionally
	Firms which are composite to separate the business to allow each line of business to develop
	Introduction of various service providers to manage pension business in transparent manner
	Increased operation cost

4.3.3 Industry Economics Risk

Industry economics risk had a mean value of 3.55 (high extent) and a standard deviation of 0.934. Slywotzky (2004) observes that the nature of industry economics risk is characterized by among others, overcapacity, commoditization, and deregulation. In the Kenyan scenario, overcapacity, commoditization and deregulation are prominent. Low levels of market penetration are indicators of excess capacity; lack of product innovation indicates a tendency towards similar global financial offerings, which is an indicator of commoditization.

Table 4.1: Industry Economics Risk Attributes

Risk Category	Attributes
Industry economics risk	Price fixing through cartels
	A lot of undercutting especially in regards to group life business as the industry competes for constricted market
	Low level of market penetration worsened by excessive poverty and high level of income disparity
	Lack of awareness and knowledge
	No new products being developed in the market

4.3.4 Customer Risk Attributes

This attribute had a mean value of 3.42 (fairly high extent) and a standard deviation of below 1.000 indicating a close agreement among the respondents. Shift in customers' needs and wants resulting in reduction of expected premiums, quick shifts in customer priority and companies not well equipped to deal with customers demand are factors highlighted by Slywotzky (2004) (where the author observes rapidly changing customer priorities) as contributing to a high level of customer risk. Earlier responses point to a lack of producer innovation, and an attendant trend towards commoditization-this implies an increase in consumer bargaining power as per Porters (1980) observation that consumer power increases with an increase in the number o suppliers of undifferentiated goods in the market.

Table 4.2: Customer Risk Attributes

Risk Category	Attributes
Customer risk	Shift in customers' needs and wants resulting in reduction of expected premiums
	Most Kenyans are not educated on the role of the life insurance industry
	New products developed includes Unit trust and Unit linked products
	Quick shifts in customer priority
	Companies not well equipped to deal with customers demand
	Change in reinsurance arrangement affects prevailing business relationships

4.3.5 Market Stagnation Risk

From Table 7 below, there is evidence of price wars and reduction of shareholder contributions contributing the stagnation in the market. Mango (2007) observes that this risk is real and high and is characterized by flat or declining volumes, price declines and weak pipeline. The Kenyan industry is witnessing a plateau in share holder value owing to lack of new sources of growth. Responses indicate that market stagnation does exists in the Kenyan industry. In this state, Mango (2007) observes that profitable firms have witness their shareholder value reach a plateau or gradually decline as a result of their inability to find new sources of growth in the face of market maturity. Market stagnation limits the upside potential part of the reward/risk ratio and sets up companies for value loss or stagnation. The magnitude of risk from stagnation is characterized as high.

Table 4.3: Market Stagnation Risk Attributes

Risk Category	Attributes
Market stagnation risk	Undercutting through price wars
	Reduction in the input of funds by shareholders resulting in payment delays
	Low productivity hence declining profits for the company
	Market has not fully matured
	Regulators may freeze new licenses

4.3.6 Technology Risk Attributes

Technology risk had a mean of 3.17 (a fairly high extent) and a standard deviation greater than 1.000 that indicated a wide dispersion about the mean. Slywotzky (2004) notes that in recent years mobile telephony has stolen market share traditional means of transacting business. In our study, a prime example of technological innovation at its best in re-engineering business is the use of M-PESA, a mobile money transfer system, to pay insurance premiums. The attendant technological risk is increased by the nature of the innovation. Day and Bens (2005) also emphasize the importance of reducing the cost of technology and raising barriers to replication in order to secure a fast mover advantage.

Table 4.4: Technology Risk Attributes

Risk Category	Attributes
Technology risk	Payment of premiums through the use of M-PESA, direct debit and updating customer through their mobile phones
	Redundancy in IT system
	Increase expenses / cost of updates

4.3.7 New Project Risk Attributes

New project risk had a flat mean value of 3.00 (a fairly high extent) and a standard deviation greater than 1.000 that indicated a lack of close agreement among the respondents. Mango (2007) observes the existence of value-destroying mergers and acquisitions, also noted in this study (Table 9). Also noted is the fact that products don't do well due to changing economic situation, a fact that Urban and Hauser (1993) observe is responsible for massive financial losses. They propose a comparative study between factors that affect new product successes and failures in order to isolate the discriminatory variables and influence them to ensure success.

Table 4.5: New Project Risk Attributes

Risk Category	Attributes
New project risk	Products don't do well due to changing economic situation
	Companies merging expecting increase in their market shares and failing later
	Increased uncertainty in business

4.3.8 Globalization Risk Attributes

Globalization risk had the lowest mean value (2.55) (and was thus the lowest rated attribute) and also had the lowest standard deviation (0.522) indicating the highest level of agreement among the respondents as to its impact on the industry. Influx of foreign underwriter into the local market and coming in of new companies especially from South Africa with a lot of capital at their disposal are attributes that are particularly relevant here. McLarney, Dastrala and Cowan, 2001 observe that globalization has created uncertainty owing to the number of

Table 4.6 Globalization Risk Attributes

Risk Category	Attributes
Globalization risk	Influx of foreign underwriter into the local market
	Coming in of new companies especially from South Africa with a lot of capital at their disposal
	Investment returns have reduced following the global credit crunch
	Increased competition
	Fluctuations in rates of exchange
	Downward trends in investment in the stock exchange

firms becoming multinational and global. Uncertainty means that decision-makers do not have information about environmental factors, which increases the risk of failure for organizational actions. This factor has also affected the new project risk attribute above. Increased com petition can also be viewed in the light of the increased globalization and the market entry of new firms. Pearce and Robinson (2005) also note that the threat of new competition is high when it is easy for new competitors to enter the industry i.e. entry barriers are low. New entrants will look at how quickly they can achieve economy of scales, whether they have access to suppliers, high capital/investment requirements, low customer switching costs, good access to industry distribution channels, easy access to technology, low brand loyalty encouraging switching, low likelihood of retaliation from existing industry players and favorable Government regulations such as subsidies and tax incentives.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings, draws conclusions relevant to the research, and makes recommendations on the same.

5.2 Summary of Findings

The research objective was to assess risks as a component of corporate strategy in selected life insurance firms in Kenya. The top three risk attributes were competitor risk, regulation and de-regulation risk and industry economics risk respectively. Competitor risk was characterized by companies competing for the restricted market which was not made any better by the worsening economic situation, fund managers targeting large guaranteed retirement funds to invest on a segregated basis and low fees levied to retain clients while providing no guarantees.

Competitive risk is high owing to the fact that life insurance has a low penetration in the Kenyan market. The 23 insurance firms are reduced to competing for a small and stagnant market share. Entry barriers are high owing to regulatory requirements that impose capital and other requirements in order to safeguard policy holders against company failures and therefore the threat of new competition is low. It is plausible that customer switching costs are low owing to the fact that premiums are pegged on a certain level of customer loyalty to the insurer if at all the policy holder is to receive the benefits expected from premium payments. Regulation and de-regulation risk attributes were characterized by the fact that some firms struggled to comply with the raised share capital for life insurance, the insistence that firms be run professionally, the requirement that firms which were composite be required to separate the business to allow each line of business to develop, the introduction of various service providers to manage pension business in a transparent manner and increased operation costs. Government is a key player in that it offers the legal rules of the game and creates the enabling environment or business to thrive.

In the insurance industry, one key manifestation was the raising of share capital. This aspect of regulation has far reaching consequences as it may force insurers to merge or acquire other firms in order to satisfy the capital requirements. It will also influence the competitive risk element in the industry. Certain aspects of regulation may increase the cost of doing business owing to higher compliance costs in the industry. Requiring composite firms to separate their business will entail having separate resources for each business line adding on the costs.

Industry economics risk was characterized by price fixing through cartels, a lot of undercutting especially in regards to group life business as the industry competed for a constricted market, a low level of market penetration worsened by excessive poverty and a high level of income disparity, a lack of awareness and knowledge and no new products being developed in the market. Although there is a low level of overall market penetration, the current insurance market is saturated.

There is a trend towards commoditization, current policy holders have increased access to competitive information, and there is a greater willingness to switch suppliers based on price considerations only. Banks locally also may pose a threat to insurers as they have greater credibility and ability-given their vast networks and capital bases-to cross-sell insurance products; despite the fact that they are not allowed to underwrite risk, they are very effective as agents. Other aspects from the literature that may impact on industry economics is the trend towards regional integration, with the formation of economic blocs such as the East African Community (EAC).

Customer risk attributes were characterized by a shift in customers' needs and wants resulting in reduction of expected premiums, unawareness of the role of the life insurance industry, new products development, quick shifts in customer priority, companies ill-equipped to deal with customers demand and changes in reinsurance arrangement affecting prevailing business relationships. Shifts in consumer priorities is one of the key strategic risks mentioned in the literature that may be faced by insurance firms locally, and has been widely noted in the literature as being a big risk. Customer changing needs are significant and can easily render innovations obsolete and unprofitable.

Technology has impact on customer risk attributes through increasing information availability increasing customer awareness and facilitating increased transaction levels through innovative distribution channels. Consumer's main influence in the local insurance industry comes from the offering by insurers of standardized products and price sensitivity. Price can be said to be a competitive tool and consumers will almost always opt for the lowest market price of a product. In order to attain price efficiency, insurers have responded by creating efficiency within their value chains to support a low cost structure, thus delivering maximum price efficiency.

Market stagnation risk attributes was marked by undercutting through price wars, reduction in the input of funds by shareholders resulting in payment delays, low productivity hence declining profits for the company, a market that was not fully matured and the likelihood that regulators may freeze new licenses. Owing to decreases in returns and inability to find new sources of growth, shareholders have responded by withholding investments. Global recession will also locally increase stagnation risk, as policy holders offload low priority items such as life insurance, to focus on more pressing needs such as mortgages.

Technology risk attribute was marked by payment of premiums through the use of M-PESA, direct debits and updating of customer premiums through their mobile phones, redundancy in IT system and increased expenses/cost of updates. Use of M-PESA is an example of how innovative technology can be used to facilitate insurance transactions, supporting the observation that technology is changing the manner in which the insurance value chain is delivering products and services to its consumers. One respondent observes 'redundancy in IT system and increased expenses/cost of updates'-this is a pointer of the commoditization of IT systems owing to rapid innovation capabilities.

Most IT-based competitive advantages simply vanish too quickly to be meaningful. Increased cost of updates may be a consequence of the difficulties of integration emanating from high levels of customization of software. Making so many customized items work together in a seamless manner is increasingly impossible, a situation aggravated when insurers try of secure innovative IT systems for delivering strategic value (competitive advantage).

New project risk attributes were situations where products did not do well due to changing economic situation, companies merging expecting increases in their market shares and failing later and increased uncertainty in business. These risks relate to business development and value-destroying mergers and acquisitions. Product failure to deliver can result in massive financial losses especially arising from hidden costs involving the new product development process. Value destroying mergers and acquisitions may arise out of a lack of synergy in the different business strategies. The literature observes that firms should be able to leverage existing capabilities with new ones such that the combined effort is greater than the performance would be if the new and established services were working apart.

Globalization risk attributes were marked by an influx of foreign underwriters into the local market, coming in of new companies especially from South Africa with a lot of capital at their disposal, reduced investment returns following the global credit crunch, increased competition, fluctuations in rates of exchange and in downward trends in investment in the stock exchange. These factors point out one of the key aspects that affect globalization as 'constant change'. The literature cautions against local companies emphasizing adhering to their localized strategies in a globalized environment, stressing the need to change tact to cope with global challenges.

One of this is going global themselves, as investing in two or more nations enables companies to offset the economic troughs in one against the peaks in the others. Additionally, it is important to observe those success factors that encourage growth in globalized markets, key among these, being cross-cultural issues. Uncertainty is also another strategic risk in a globalized environment. This calls for efficient and effective information gathering systems that facilitate the decision making process. In addition to this, there is also the need for a complete and in-depth research function that supports the decision making processes.

5.3 Conclusion

All the eight risks to strategy were witnessed in the Kenyan insurance sector to various extents. The most important thing was awareness that these risks are real and an appreciation of how they manifested themselves in practice. Competitor risk had the highest profile and this was not entirely unexpected given that there are 23 life insurance companies all competing for the same, largely static market quadrant. In addition, there is the threat posed by foreign companies seeking a foothold in the local market. Life insurance penetration in Kenya is very low and this offers a vast opportunity for growth. It may be that a reluctance to take up life insurance has rendered the market unattractive and hence intense competition.

5.4 Limitations of the Study

Not all insurance forms responded to the study. In some cases, respondents gave incomprehensible or incomplete answers to questions and certain questions were left unanswered. The need to maintain confidentiality may have resulted in insurers withholding crucial information. The results of the study were specific to life insurance only and may not be generalizable across the entire insurance sector.

5.5 Recommendations

Given the reality of risks to company strategy, this study recommends that insurance firms further enhance the deployment of strategic planning tools that give the firms an outside-in perspective of the strategic planning process. An example of these tools could be the balanced score card or the performance prism approaches respectively. Other tools that may be useful will include conducting situation (or SWOT-Strength/Weakness, Opportunity/Threat) analysis as well as external (or STEPEL-Social, Technological, Economic, Political, Environmental and Legal) analysis. These various strategic planning tools inform the organization of the viability of its strategy and how both the strategic context and content are subject to disruption by the dynamism of the business environment. At the implementation phase, it will be important to have strong strategic controls with viable feedback mechanisms to enable the constant modification of strategy to suit the changing business need.

5.6 Areas for further Research

A suitable study would dwell on how the life insurance firms are managing to their strategy. Another could provide insight into the challenges these firms face in attempting to manage this risks. In particular, both would probably try to provide knowledge of how the strategic planning process and associated tools are applied in the process of strategy risk management in these firms.

5.7 Implications for Policy and Practice

The two crucial countermeasures against competitor risk is include an early warning system and, when appropriate, a shift in business design to respond to the threat when it appears. An early warning system means continually monitoring the competitive horizon, mapping the moves of major companies in and around your marketplace. Foreseeing the onslaught of an extraordinary competitor isn't enough by itself; you must be ready to shift your business design (changing customer selection or value proposition or both) as needed to establish a survivable niche. Regulation and de-regulation risk is best managed by best compliance practices and continual re-invention of the organizational strategy to ensure optimal readjustments when laws change. Such readjustments may entail mergers or recapitalization programmes.

The most effective proven countermeasure to industry economics risk is to shift the compete/collaborate ratio among the relevant firms. Collaboration can take many forms including sharing of back-office functions, asset sharing or co-production agreements, repair or maintenance collaboration, purchasing and supply chain coordination, joint research and development, and collaborative marketing. Another strategic risk is that customer priorities will shift quickly, reducing demand for a firm's current product or service offerings. One powerful countermeasure for managing customer risk is the use of proprietary information to anticipate the next evolution of customers' priorities and respond quickly to their manifestations.

The best countermeasure against market stagnation risk is demand innovation, which involves redefining your customer offerings so as to broaden your market, expand the value you can offer your customers, and strengthen your relationship with them. Regarding technology risk, when a new technology takes hold in the marketplace, specific product and service offerings may become obsolete in short order. In most cases, it's impossible to predict exactly how and when a technology will win acceptance in the marketplace. Smart managers "insure" against technology risk by double betting, i.e. investing in two or more versions of a technology simultaneously. That puts them in a position to survive and thrive no matter which version emerges as the winner.

Any new product or service venture involves various risks (new project risk)—e.g. it will fail to attract profitable customers, competitors will quickly copy it and poach market share, and the venture's growth will be too slow or costly. Companies that have mastered new-growth initiatives reduce this risk through carefully planning and staging growth initiatives so as to maximize the rewards while minimizing the risk of failure at every stage of the development process. Globalization risk will entail a wider view of the worlds on the part of the firm, and may require intergovernmental involvement to lower the risks of entry into foreign markets. Insurers that had foreign franchises have the advantage of better knowledge of foreign market risks.

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APPENDIX 1

Complementary Letter to the Respondents

University of Nairobi *Towards World Class Excellence* School of Business

P.O. Box 30197
Nairobi, Kenya

Date: 11 November 2010

Telephone: +254 (020) 732160
Telex: 22095 Varsity

Dear Sir/Madam,

To Whom It May Concern

The bearer of this letter: ______________________________

Registration Number: ________________ Telephone: ________________

is a Master of Business Administration (MBA) student at the University of Nairobi.

The student is required to submit, as part of the coursework assessment, a research project report on a given management problem. We would like the students to do their projects on real problems affecting firms in Kenya today. We would therefore appreciate if you assist the student collect data in your organization to this end. The results of the report will be used solely for purpose of the research and in no way will your organization be implicated in the research findings. A copy of the report can be availed to the interviewed organization(s) on request.

Yours respectfully,

The Coordinator,

MBA Programme

APPENDIX 2: QUESTIONNAIRE

Part 1:

1. Name of company ________________________________

2. Indicate the answer that best represents the ownership composition of your company.

   [ ] Local; [ ] Foreign;

   [ ] Part Local/Part Foreign; [ ] Government

3. Kindly indicate whether your company is:

   [ ] Private owned; [ ] Part private/part public

   [ ] Public owned; [ ] Parastatal

4. Is your company listed on the Nairobi Stock Exchange?

   [ ] Yes ; [ ] No

5. Indicate below the best representation of your company's size in terms of number of staff.

   [ ] Below 10; [ ] 10-50; [ ] 50-250; [ ] Above 250

Part 2:

6. Briefly explain how the below sources of risk have affected your company in recent times

i. **Market stagnation risk** (*shareholder value reaching a plateau or gradual decline due to inability to find new sources of growth in the face of market maturity*)

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ii. **Industry economics risk** (*characterized by capital intensiveness, overcapacity, commoditization, deregulation and cycle volatility*)

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iii. **Globalization risks**

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iv. **Customer risk** (*that customer' priorities will shift quickly, reducing demand for a firm's current product or service offerings*)

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v. **Regulation and deregulation risks** (*occasioned by changes in Government policy*)

vi. **Technology risk** (*rapid changes in technology*)

vii. **New project risk** (*risk of failure of new projects e.g. mergers, acquisitions, R&D etc*)

viii. **Competitor risk** (*threat posed by the competition*)

7. Using the scale below, please indicate the extent to which the below mentioned types of risk affect your company

1=no extent; 2=little extent; 3=moderate extent;

4=high extent; 5=very high extent

Extent

Risk Type	**1**	**2**	**3**	**4**	**5**
Competitor risk					
Customer risk					
Globalization risks					
Industry economics risk					
Market stagnation risk					
New project risk					
Regulation and deregulation risks					
Technology risk					

Thank you for filling the Questionnaire

APPENDIX 3

LIST OF LIFE INSURANCE COMPANIES IN KENYA

1	Jubilee Insurance Company Ltd	13	Kenindia Assurance Company Ltd
2	Insurance Company of E. A. Limited (ICEA)	14	Kenya Alliance Insurance Co Ltd
3	Heritage Insurance Company Ltd	15	UAP Provincial Ins Company Ltd
4	Apollo Insurance Company Ltd	16	Trinity assurance company
5	Blue Shield Insurance Company Ltd	17	Madison Insurance Company Ltd
6	British American Insurance Company Ltd	18	The Monarch Insurance Co Ltd
7	Cannon Assurance Company Ltd	19	Metropolitan Insurance Company
8	CFC Life Limited	20	Mercantile Life & General Assurance
9	Geminia Insurance Company Ltd	21	Old Mutual Life Assurance
10	Co-operative Insurance Company of Kenya Ltd	22	Pioneer Assurance Co Ltd
11	Corporate Insurance Company Ltd	23	First Assurance Company Ltd
12	Pan Africa Life Insurance Co Ltd		

Source: Insurance industry annual report (2008) [AKI],